

OMAC MuniNews

Volume 4, Issue 2

News & Views About the Ohio Municipal Finance Industry

July 2002

This newsletter is available on our website: www.ohiomac.com

From the Director

As more and more Ohio counties, municipalities and school districts are being required to file continuing disclosure documents with the national repositories and with OMAC, as the designated State Information Depository, we are finding an increasing number of finance officers of these issuers of municipal debt as being unaware of what has to be filed and by what date it has to be filed.

In order to assist the Ohio issuers of tax-exempt debt with these questions OMAC has created a site on the Internet (www.ohiosid.com) where Ohio finance officers can review what we feel is required to be filed, the date we feel it has to be filed by and see what has already been filed. OMAC believes the availability of this information is a key element for Ohio subdivisions' continued compliance with the Security and Exchange Commission's continuing disclosure requirements. To access this site, simply click on 'Issuers' from the SID home page and enter your user name and password. The passwords required for this site are the same as for access to the OMAC *ofin* database, but is available only to finance officers. If you do not yet have access, contact OMAC.

While this portion of the database is only available to finance officers, OMAC has opened another section to anyone desiring to view what material events, annual information and annual financial reports have been filed by subdivisions of the State of Ohio. Access to this area does not require a password and is designed for underwriters, traders, investors and other interested parties and can be accessed by clicking on 'Available Filings' from the SID homepage.

The Role of Financial Advisors in the Ohio Municipal Marketplace

Stephen Szanto

*Public Financial Management
Senior Managing Consultant*

As a result of changes to the Ohio Revised Code in 1988, municipal debt issuers have more frequently added Financial Advisors as prominent members to their finance team of professionals. There are several independent financial advisory firms in Ohio, including Public Financial Management ("PFM"), located in Cleveland. Though many different vendors, including underwriting, accounting and auditing, and some law firms have historically provided Financial Advisor ("FA") services, such services have been narrow in scope and almost exclusively related to the issuance of debt. Firms that **only** provide FA services, furnish a more complete scope of services to supply all of their clients financial management needs. These comprehensive financial services integrate the client's financial planning, debt management and asset management needs. Financial Advisory Firms can also be distinguished by their independence. Unlike firms that provide FA services, but also underwrite bonds, independent FA firms do not buy, sell or trade bonds. Consequently, independent FA firms do not have a vested interest in the completion or size of a bond sale. Independent FA firms serve in a fiduciary capacity to their clients, giving unbiased, knowledgeable advice.

Why Use a Financial Advisor

Public agencies use Financial Advisors to provide various services including: reviewing capital plans, helping establish debt and investment policies, evaluating financing options, selecting other finance team members through a Request for Proposals process, arbitrage rebate compliance and investment strategies, as well as services directly related to debt issuance.

In Ohio, issuers primarily hire FA firms in preparation for the issuance of debt. Financial advisors guide these entities through the issuance process for competitive and/or negotiated bond sales. The FA coordinates every aspect of the process to help clients meet their financing objectives while obtaining the lowest overall cost of capital.

Financial Advisor Scope of Services

Even before an issuer has determined to sell bonds, FA's help issuers to establish an acceptable framework for a successful bond sale and effective debt management in the future. Financial Advisors can help establish debt and investment policies and develop financial models and projections, evaluating additional capital funding sources and debt repayment sources, among other variables.

Once the issuer decides to issue debt, FA's work with other finance team

Continued on page 2

The Role of Financial Advisors, cont.

members to develop the necessary documentation for the bonds, including the Official Statement and/or the Notice of Sale. The FA is also integrally involved in developing the optimal structure for the upcoming debt issuance. The FA analyzes the feasibility of all structuring options, given the client's policies and objectives, including fixed rate vs. variable rate debt, bond term, credit enhancement and redemption provisions.

Financial advisors also play an integral role in every aspect of an issuer's credit rating strategy. First, the FA works with the issuer to determine the feasibility of acquiring a rating, by reviewing the client's historic experience with the agencies, and its previous ratings. FA's, given their market presence and knowledge, can help the issuer determine its rating strategy in consideration of potential investors' perspectives in the current marketplace. If and when the issuer determines to request a rating, FA's work with the client to establish rating goals and objectives, prepare the ratings presentation, rehearse and make the presentation.

Once the bonds have been properly structured and ratings received, the FA helps coordinate the sale of the bonds in both a negotiated and a competitive sale.

Negotiated Bond Sale

In a negotiated bond sale FA's work closely with other finance team members, especially the senior managing underwriter, to market the bonds and determine how the bonds should price in the current market. Prior to a negotiated sale, Financial Advisors, provide a pre-pricing analysis which evaluates market benchmarks, key economic indicators and comparable bond sales to determine how the municipal issuers bonds should price. Once the client, FA and underwriter agree upon an acceptable price for the bonds, given current market conditions, the bonds are sold to investors. Throughout the period in which the underwriter is receiving bond orders from investors, the FA keeps track of market conditions to ensure the client is receiving a fair price for their bonds on the date of sale. After the bond sale is completed the FA develops a post-pricing analysis, or Financial Advisor's Memorandum, comparing market benchmarks, and comparable deals (both competitive and negotiated) sold on the same day as the client's bonds. This analysis demonstrates the relative pricing performance of the issuer's bonds, given market trends on the day of sale.

Competitive Bond Sale

In a competitive transaction, the financial advisor coordinates the events leading up to the bond sale. In preparation for a competitive bond sale, Financial Advisors market issuer's bonds and distribute Preliminary Official Statements (POS) or Notices of Sale to the underwriting community through conventional or electronic distribution. Immediately preceding a competitive bond sale, FA's perform a pre-pricing analy-

sis, similar to a negotiated sale, to determine how the client's bonds should price relative to market benchmarks and comparable deals in the marketplace. On the date of sale, once bids are received, the FA mathematically verifies the bids and informs bidding firms and bond counsel of the bidding process outcome. After the sale, Financial Advisors perform a post pricing analysis as described above.

Electronic Bidding

Most FA's can provide the services mentioned above for both traditional and electronic competitive bond sales—Electronic Bidding. Electronic competitive sales take place on the issuers' and bidders' computers, via the Internet and/or dedicated wire services. Electronic Bidding increases the number of potential bidders by eliminating geographical restrictions hindering non-regional firms from bidding. The result of an increased number of bidders is a lower cost of capital.

Several Ohio municipal issuers have implemented electronic bond sales with the help of financial advisory firms, including Public Financial Management. These sales have been noted by the increase in overall number of bidders and the increase in bidders who do not traditionally purchase Ohio municipal securities. These electronic bond sales have been aggressively priced considering market benchmarks and comparable bond sales during the time of sale.

Conclusion

Financial Advisors can help issuers in every stage and aspect of financial management, including financial planning, asset and debt management. Independent Financial Advisors can provide unbiased advice because they do not have a vested interest in whether or how many bonds are sold. Financial advisors have a significant and growing presence in the Ohio marketplace. Larger FA firms, like PFM, have a market knowledge and presence that rivals major investment banking firms. This knowledge is for the benefit of our municipal clients—the only clients we have, for all of their comprehensive financial planning needs.

Mr. Szanto joined PFM in 2000 as Senior Managing Consultant in the Ohio Office. Mr. Szanto's clients are located throughout the State of Ohio where he has been involved with local government and public finance for nearly 30 years.

His clients include cities, counties, townships, port-authorities, school districts, water, sewer and storm water utilities, health care issuers, and other tax-exempt issuing authorities in Ohio. Mr. Szanto's area of expertise include credit analysis, rating agency preparation and presentation, originating, analyzing and structuring debt issues, competitive and negotiated transaction management for all types of debt issues, and debt management plan implementation.

Mr. Szanto received a Bachelor of Arts Degree from Bowling Green State University, a Master of Science Degree in Urban Studies from Cleveland State University, and a Master of Business Administration Degree in Finance from Cleveland State University.



More On ofin Website...

This is the final article in a series that has provided descriptions of information that is available on the Ohio Municipal Advisory Council's *ofin* database. In this article, I will be describing the data that can be found in the menu options entitled: Income Tax/Sales Tax Information, School District Composition and Finance Officer Listing.

Income Tax/Sales Tax Information – In this menu selection we display the income/sales tax rate and the collection amount by year. This information is available for the years 1986 to present. This data is collected from either the entities annual financial report or from a tax data series report distributed by the State of Ohio.

School District Composition – This menu option provides a listing of all subdivisions that overlap a school district's boundaries. It shows the subdivision name, subdivision type and the primary county that the subdivision is located in. It then shows the percentage that each listed subdivision makes up of the school district and the assessed valuation

of the school district that is attributable to that particular subdivision. Also displayed is the total assessed valuation for the school district. This data is displayed by year starting with 1984-1985 thru present (2000 – 2001).

Finance Officer Listing – This selection shows the name and title of the financial person for the subdivision as well as the address and telephone number. We also include the Employer Identification Number and if available the fax number and e-mail address for the finance officer.

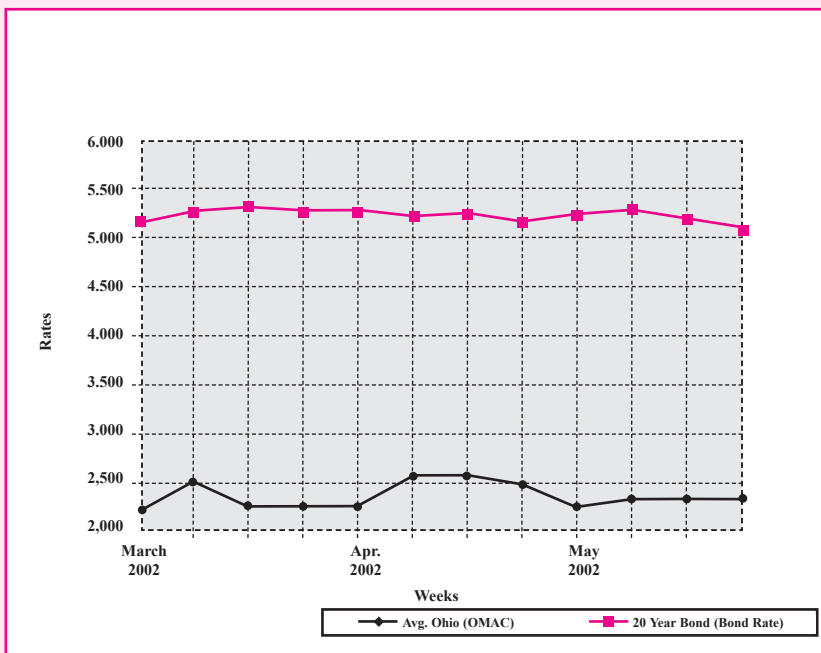
We hope that this series of articles has been informative as to the wide variety of data that can be found on our *ofin* database, located on the Internet at www.Ohiomac.com. If you would like access to this type of data, and you are either a member of the OMAC or a finance person for an Ohio governmental entity; please contact OMAC at (800) 969-6622.

MARKET UPDATE

GENERAL OBLIGATION

Note and Bond Interest Rates for March thru May

The following graph compares Ohio short-term note rates with the Bond Buyer's 20 year bond index. The short-term rates represent actual rates reported to OMAC by Ohio purchasers and reported on OMAC's weekly calendar.





Ohio Municipal Advisory Council
 9321 Ravenna Rd, Unit K
 Twinsburg, OH 44087-2445

PRSRT STD
 US POSTAGE
PAID
 CLEVELAND OHIO
 PERMIT 4584

CALENDAR

Calendar of Issuer Conferences & Outings for 2002

NAME	EVENT	DATE	LOCATION
GFOA	Ohio Annual Fall Confer.	September 11 - 13	Cleveland Marriott Downtown, Cleveland, Ohio
MFOA	Annual Conference	October 2 – 4	Hyatt Regency Hotel - Columbus, Ohio
(OML)	Northeast Golf Outing	August 1	Ridgewood Golf Club – Parma, Ohio
	North-Central Golf Outing	August 28	Woussicket Golf Course – Sandusky, Ohio
CCAO	Winter Conference	December 1 – 4	Hyatt Regency – Columbus, Ohio
	Annual Golf Outing	August 14	Wooldridge Golf & Swim Club – Mansfield, Ohio
OSBA	Conference	November 10 - 13	Hyatt Regency - Columbus Convention Center
NACO	National Conference	July 12 – 16	New Orleans, Louisiana
OPFOTP	Ohio Public Finance		
	Officers Training Program	June 24 – 28	Holiday Inn – Hudson, Ohio
	CMFA Maintenance Program	June 27 – 28	Holiday Inn – Hudson, Ohio
	Golf Outing	June 26	Boston Hills Golf Course – Hudson, Ohio
OMTA	National Conference	August 11 – 14	Vancouver, Canada
	Annual State Conference	October 9 – 11	Maumee Bay State Park – Toledo, Ohio
CAAO	Winter Conference	December 3 - 5	Holiday Inn - Worthington, Ohio
OPEC	Annual Meeting	TBD	Columbus, Ohio

CCAO – County Commissioners Association of Ohio – (614) 221-5627 **OSBA** – Ohio School Boards Association – (614) 540-4000
GFOA – Government Finance Officers Association – (614) 221-1900 **OMTA** – Ohio Municipal Treasurers Association – (440) 885-8812
MFOA – Municipal Finance Officers Association of Ohio – (614) 221-4349 **CAAO** – County Auditor’s Association of Ohio – (614) 228-2226
NACO – National Association of Counties – (614) 221-5627 **OPFOTP** – Ohio Public Finance Officers Training Program – (330) 672-7148
OASBO – Ohio Association of School Business Officials – (614) 431-9116 **BMA** – Bond Market Association – (212) 440- 9429
OMCA – Ohio Municipal Clerks Association – (614) 221-4349 **OPEC** – Ohio Public Expenditure Council – (614) 221-7738

If you would like your event highlighted, contact Chris Scott at 1-800-969-6622, or by email at Chris@ohiomac.com