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JOE MYSAK

HANDBOOK FOR MUNI-BOND ISSUERS

FOREWORD BY MICHAEL R. BLOOMBERG

Bloomberg

HANDBOOK FOR MUNI-BOND ISSUERS

IN TODAY'S HIGHLY STRATIFIED and heavily regulated municipal bond market, nothing can be left to chance. It is imperative that issuers have a working knowledge of the bond market and a solid understanding of all of its rules.

The *Handbook for Muni-Bond Issuers* provides professionals with succinct guidance on what issuers need to know before beginning the issuance process—choosing a method of sale, getting the right financial advice, disclosure and legal guidelines, and lowering the cost of financing. It includes a detailed discussion of what happens prior to a sale through what to expect after the close.

Author Joe Mysak takes issuers through the process, step-by-step, with smart answers and pragmatic strategies for success in today's muni-bond market.

This book provides an insider's perspective on:

- Choosing a method of sale
- Finding the right financial advisers
- What to expect from regulators
- Earning a high credit rating

Fresh and clearly written, this excellent primer on issuing municipal bonds, from an industry insider, is a key to the market that no participant should be without.

Praise for
Handbook for Muni-Bond Issuers
by Joe Mysak

"Joe Mysak has written **the new bible for municipal bond issuers**. The search is over; this book **provides clear guidance and smart answers** for everyone in the field."

JAMES B. G. HEARTY
Managing Director of Marketing and Client Services
Relational Investors LLC

"**Joe Mysak explains even the most complex subjects with a refreshing simplicity**. He maintains his ever-present skepticism about much of what usually turns out to be flimflam in the guise of new products and financial engineering. **This is a book for anyone**, even investors without specialized financial backgrounds, **who needs to understand what all the noise is about in a bond sale**."

FRANK R. HOADLEY
Capital Finance Director
State of Wisconsin

"Joe Mysak has prepared a "pocket-sized financial adviser" for both large and small municipal bond issuers. The book provides **a good mix of timeless as well as currently topical subjects**. All recently elected **public finance officials should read this book**."

CHRISTIAN McCARTHY
Former Managing Director, Municipal Markets
Merrill Lynch & Co.

"The *Handbook for Muni-Bond Issuers* is what public finance professionals want to have on their shelves, both **a good read and a useful reference**. Joe Mysak treats the fundamentals—and the foibles—of the municipal bond market in **clear, concise language** and takes time to tour some frequently bypassed, but very practical subjects, like winning bond elections and investing bond proceeds."

JOHN PETERSEN
Senior Consultant
Government Finance Group

"Joe Mysak has once again proven that he's **the conscience of the public finance business**."

F. JOHN WHITE
Chief Executive Officer
Public Financial Management

"Joe Mysak's book will guide any municipal finance professional through the labyrinth of bond issuance. His **user-friendly style** bypasses the usual esoteric and technical jargon. **Finally, a book of practical solutions for any muni-bond issuer**."

ED ALTER
Utah State Treasurer

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For Jim Grant,

and no wonder.

—J.M.

CONTENTS

Acknowledgments

THE WRITER THOMAS WOLFE once wrote a story called *Only the Dead Know Brooklyn.* The title was an allusion to the sheer size of the borough, which before its inclusion into the City of New York at the turn of the century was once one of the biggest cities in America.

In similar fashion, we have the municipal bond market, which is vast, and which is particular and specific to a remarkable degree. No one can know the entire municipal market. This book is an attempt to distill 16 years of experience in covering this most fascinating of all credit markets into a brief and readable format. I have had a lot of help along the way.

First, I wish to thank James Grant and Jay Diamond at *Grant's,* who in 1994 welcomed me into their publishing family. *Grant's Municipal Bond Observer,* a fortnightly magazine aimed at the trade, was born. In 1997, they further endorsed the idea of launching a special magazine aimed at municipal bond issuers: *Grant's Municipal Bond Issuer.* It was not until I put together a fortnightly magazine that I really became a student of the market. Jim and Jay are thorough professionals dedicated to putting out first-rate products, and are also good guys.

There are not many municipal bond journalists, but I have had a chance to work with the best ones, including John Allan, Bill Ryan, Craig Ferris, and John McCorry. These were my teachers.

And then there are my colleagues, the former merry band who comprised the staff of what we then termed the Greatest, Most Elite Newsgathering Organization in the History of the World, now sadly dispersed. These include Jack Doran, Steve Dickson, Dennis Walters, Lynn Stevens Hume, Vicky Stamas, Karen Pierog, April Hattori, Keith DuBay, Sean Monsarrat, Patrick Fitzgibbons, Jim Murphy, Ted Hampton, Aarons Pressman and Task, Kathie O'Donnell, David Gillen, Sharon King, Suzanne Montanaro, Susan Kelly, Christina Pretto, Rob Taylor, Maggie Soares, and Joan Pryde. These people made it a lot of fun to come to work in the morning.

This book would not have been possible without the active assistance of professionals in the field: Jim Hearty, Gary Killian, and Spencer Wright of Lehman Brothers; Christian McCarthy of Merrill Lynch; Jim Lebenthal; Doug Watson and Fran Laserson of Moody's; Vlad Stadnyk of Standard & Poor's; Byron Klapper and Frank Rizzo of Fitch Investors Service; Austin Tobin of Delphis Hanover; Mike Ballinger of MBIA; J.B. Kurish of the Municipal Issuers Research and Analysis Center; Sylvan Feldstein; and Jack Kraft of the American College of Bond Counsel.

Not a few issuers have helped me over the course of the years, including Utah's Ed Alter, Frank Hoadley of Wisconsin, Jan Rzewnicki of Delaware, Bob Lenna of Maine, and Joe Lhota and Mike Geffrard of the City of New York. Three former bankers, Mike Lissack, Steve Strauss, and Bill Wood, helped me on the reinvestment of proceeds and yield-burning sections.

Special thanks, too, to Steve Gittelson of Bloomberg Press—who during a party at Janet Sullivan's asked, "Do you want to write a book for us?"—and to my editor at Bloomberg, Jacqueline Murphy.

The glossary is largely drawn from the book I wrote with George J. Marlin in 1992, *The Guidebook to Municipal Bonds,* which was published by *The Bond Buyer.* The book is not only out of print, but also out of date, which goes to show how fast things have changed in the municipal market.

Finally, I would like to thank some friends for their support over the years, including the aforementioned Marlin, Patrick Foye, Mike Crofton, Mark Reed, Parker Bagley, and Steve Gustavson. And finally I would like to thank my wife, Susan Merett, who is also my best friend.

FOREWORD

BY MICHAEL R. BLOOMBERG

SOME YEARS BACK, *The Bonfire of the Vanities* author Tom Wolfe suggested to Joe Mysak that he write a book about the municipal bond market. Call it *The Dark Continent,* Wolfe suggested. You hold in your hands the result.

The municipal market is a vast place, and not a little scary for those not privy to its mysteries. Despite its intimate connections with all of us—look no further than the sewers and the sidewalks beneath your feet for examples of things financed through the sale of municipal bonds—the municipal market has never really become a part of our financial culture.

The consequence is that most people probably know more about how to sell an initial public offering in the stock market than they do about selling municipal bonds. How do you choose a financial adviser, an underwriter, a bond counsel? How are bonds priced? How do underwriting syndicates work? Why do we need a credit rating? How do we pay all these people? This book takes you through the whole process, step by step.

The municipal market is, by any measure, big. It has been estimated that more than 80,000 entities have the authority to issue municipal debt. And every year, more than 7,000 of them do so, selling some 10,000 separate bond issues. As Joe Mysak points out, the municipal market is particular and specific to a remarkable degree. But there is a basic framework to all municipal bond transactions, and it is explained here.

That basic framework now includes heightened regulatory scrutiny. The Securities and Exchange Commission Office of Municipal Securities's advice to issuers is simple and direct: You are responsible for your bond issues. You can rely upon the professionals you hire, but only up to a point. You have to understand exactly what is going on and why. Before you can do this, you have to know what questions to ask.

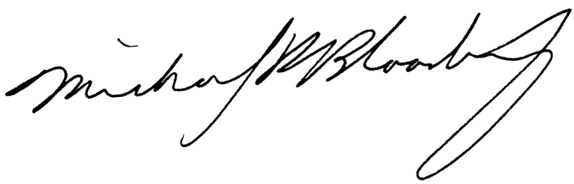
I believe Joe Mysak delivers solid advice on how to tap a market that has become a wonder of the (increasingly decentralized) world. I think you will find this book a reliable source of guidance and good practice.

A Few Notes on the Format

◆ This book packs a lot of information. It is designed to be functional as well as factual, trim enough to be carried in a coat pocket and taken on the road, and read easily on train, ship, or plane.

◆ The book's organization accommodates your hectic schedule. The material flows logically and offers real-world applications at every turn.

◆ Graphics are designed with the busy reader in mind, highlighting important concepts from the experts in color throughout.



INTRODUCTION

HANDBOOK FOR MUNI-BOND ISSUERS

ALL MUNICIPAL FINANCE officers have the same goal when they determine that the time has come to tap the municipal bond market—borrow money at the lowest cost, legally. Most officials seldom use the municipal market and find it unfamiliar turf when they do venture onto it.

This book will help municipal bond

issuers realize their goal, by providing an understanding of how the process of public finance works, who the cast of characters attendant to a sale are, how the regulators see the market, how others have used innovations in their bond sales, how to measure bond performance using simple benchmarks, and how to work with underwriters should they choose negotiated sale.

The easiest way to understand municipal bond sales is to look at some successes and failures.

◆ The City of Richmond, Virginia designed a variable-rate, short-term note program that allows it to borrow for temporary capital and operating needs. "This program will enable the city to sell bonds more infrequently and in larger amounts, which is expected to lower debt issuance and debt service costs," Moody's Investors Service noted approvingly.

Lesson: *Concentrate on lower debt service costs (see Chapter 2).*

◆ Utah, one of only six states rated triple-A by all three of the major rating agencies, instituted a program that allows the state's 40 school districts to use the state's rating as a guarantee on their own debt, thus giving them the chance to save millions of dollars on their borrowings.

Lesson: *Only half the states have these kinds of guarantee programs. If your state does, it can dramatically lower yields on your borrowings (see Chapter 12).*

◆ San Francisco, mindful of one rating agency's dictum that it "is more expensive to lure a new franchise than to retain an existing one," used bond insurance to get voters to approve $100 million in bonds for a new stadium for the city's 49ers National Football League (NFL) franchise. The agreement with the insurance company provided that the insurer, not the city, would make up any shortfalls in the special tax revenues that pay debt service. Usually