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Illinois Financial Forecast Forum

Future Trends in Financial Governance: TIF and Taxing Bodies; Alternative Financing Tools/Instruments; the Impact of the Evolving Municipal Advisor Rules on Practices

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What We Will Discuss

1. Who do the regulations affect most?
2. How much change is really expected in the General Market?
3. What about loans?
4. Credit
5. The Point

Why are we discussing this?

You'll likely here a lot of new things in relation to financing in the coming months and years.

You may see a change in your interactions with market participants.

Who do the regulations affect most?

Who	How	Why
Underwriters	Impact how we can talk to issuers.	Issuers may have been unclear who's side we were on.
Municipal Advisors	Defines relationships, roles and standards.	Previously unregulated.
Issuer	Disclosure…kind of	Municipal market disclosure was previously viewed as weak.

Who remains exempt? (select examples)		
Public Officials	Accountants	Registered Investment Advisors
Attorneys	Engineers	Other Professionals
Banks		Source: SEC Release No. 34-70462

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How much change is really expected in the General Market?

Issuers Seem to Like

1. Predictability
2. Reliability
3. Process

This may point to a continued healthy bond market

Bond Investors Like

1. Predictability
2. Reliability
3. Liquidity
4. Credit quality

Muni Bond Volume ($B)	
2010	433.1
2011	294.7
2012	378.9
2013	334.9
2014	337.5
2015	403.1
2016	445.8

Source: SIFMA

What about loans?

Issuer appeal

1. Speed
2. Easier documentation
3. The rates work now
4. No rating

Banks like

1. No mark to market
2. Good relationship
3. Good credit

A few of many reasons

1. Substantial reduction in letter of credit market
2. Aggressive pricing
3. Bond market regulations

Why do we keep highlighting credit?

Lenders want to know exactly how they're getting paid…	
Revenue obligations	Formally pledged and likely to survive bankruptcy?
General obligation	Where's the money really budgeted to pay debt service? Dedicated levy? Abatement rules?

Really a different market relationship with risk.

How does this tie back to…

… TIF and Alternative Financing Tools/Instruments?

My observations have been:

Higher credit situations remain driven by rate and convenience.

Lower credit situations/emerging projects focus more on risk transfer.

What risks weren't previously "priced"?

Approaches include(d):

Issuing general obligation debt with the expectation that development would repay somehow.

Long dated revenue debt based on development tenants letters of intent.

Special Service Area pay down bonds

Performance Risk

Political Risk

Headline Risk

Completion Risk

Market Risk

Capital Market Access Risk

How do I think this will change?

We can expect greater use of these tools

Tool	
Developer Notes	Shifting a lot of the risk
Revenue Bonds	Clearly defining repayment source
Re-thinking development agreements	Services provided may change. Partner profit center may change.

Change is still scary, but you don't have do it alone.

Loss of control – real or perceived
Planned development/zoning challenges
Change in assumptions about core governmental services

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