

The Bond Sale Debate: Competitive and Negotiated Sales

20th Annual Development Finance Summit
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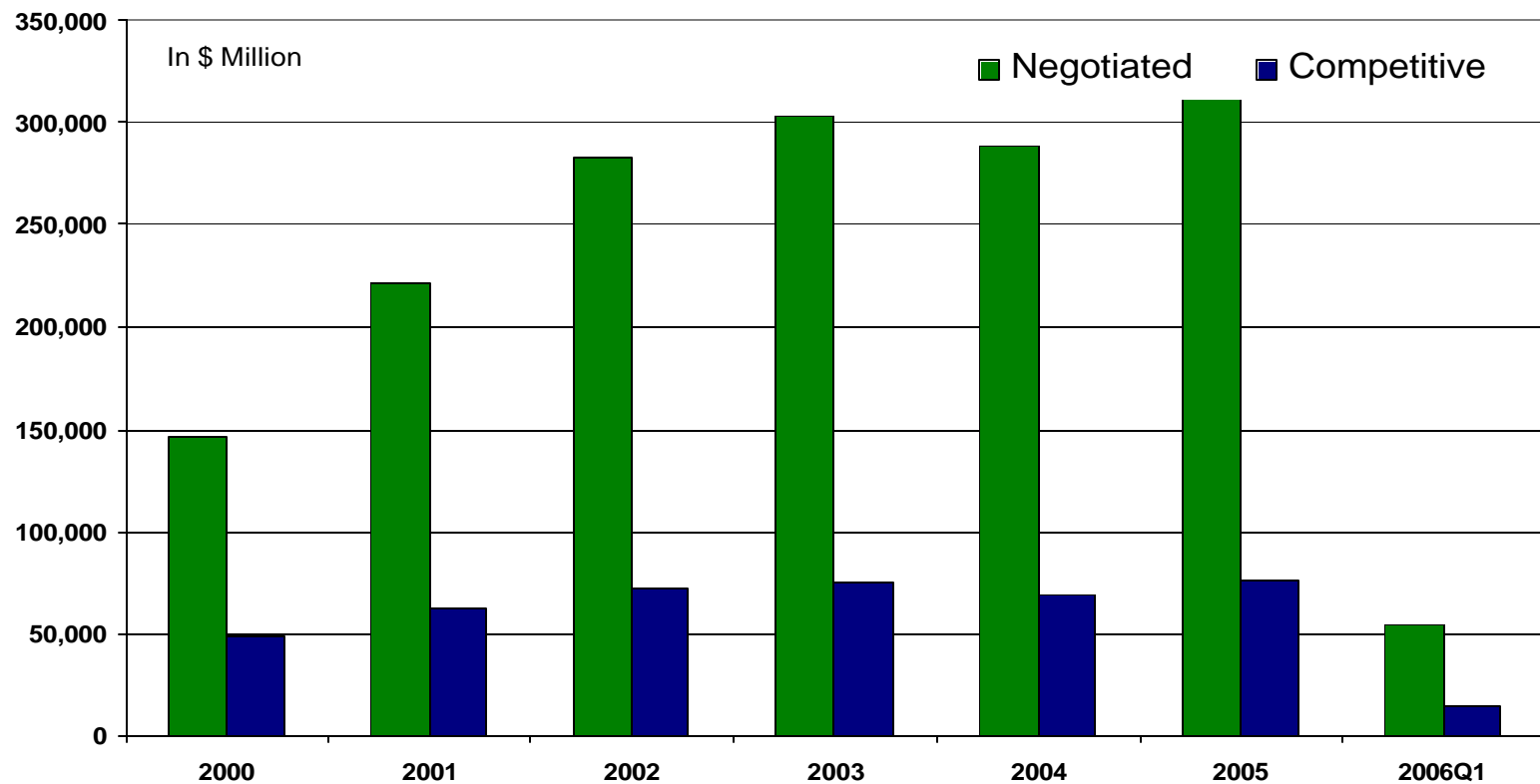
The Bond Market Association

- The Bond Market Association (“TBMA”), with offices in New York, Washington, D.C. and London, represents securities firms, banks and asset managers that underwrite, invest, trade and sell debt securities and other financial products in the U.S. and globally.
- The Association’s Municipal Division is governed by committees consisting of market participants.

What We Will Talk About

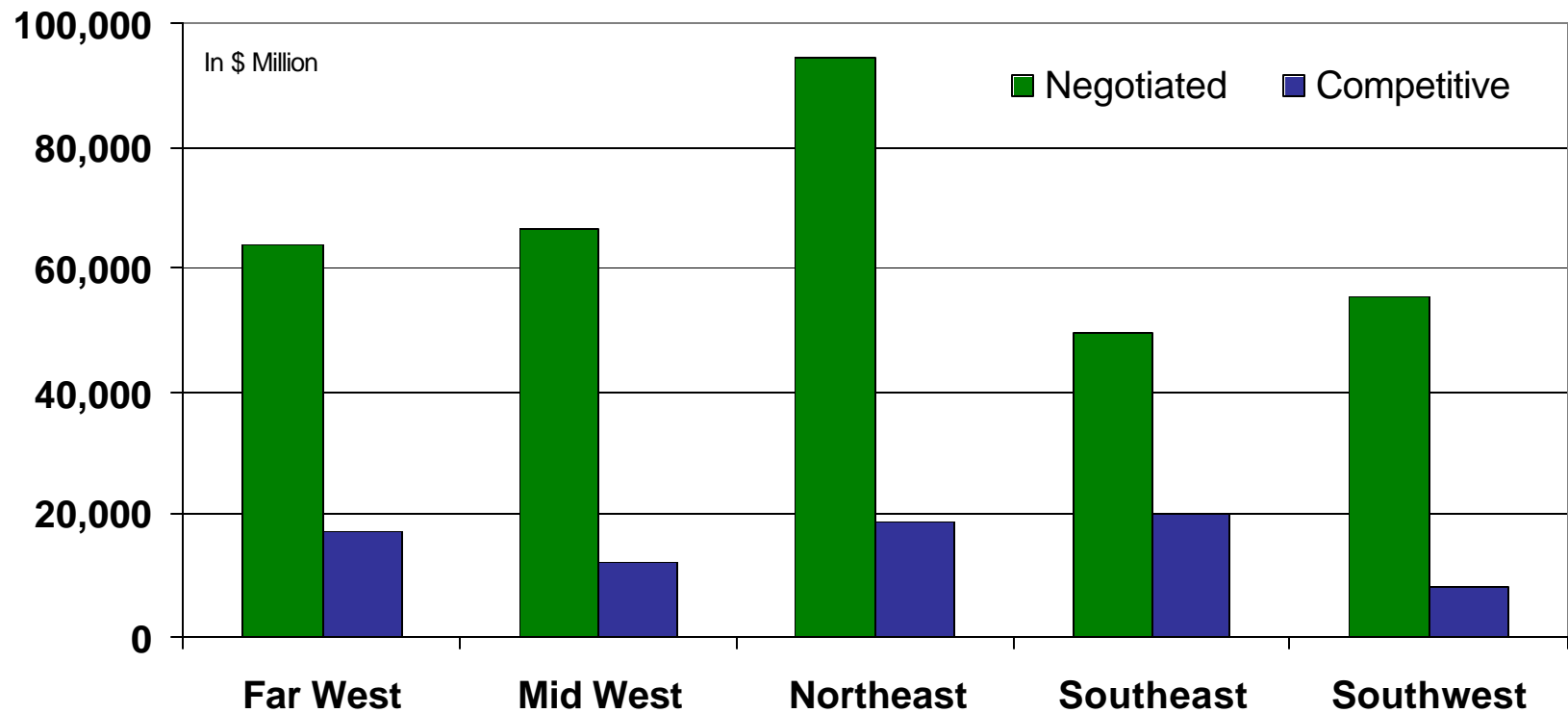
- Sizing the Market: The Competitive and Negotiated Issuance Trends
- Choosing a Competitive or Negotiated Bond Sale Strategy
- Ideas About Improving the Bond Issuance Process

Long-Term Municipal Bond Negotiated and Competitive Issuance Growth: 2000 – 2006Q1



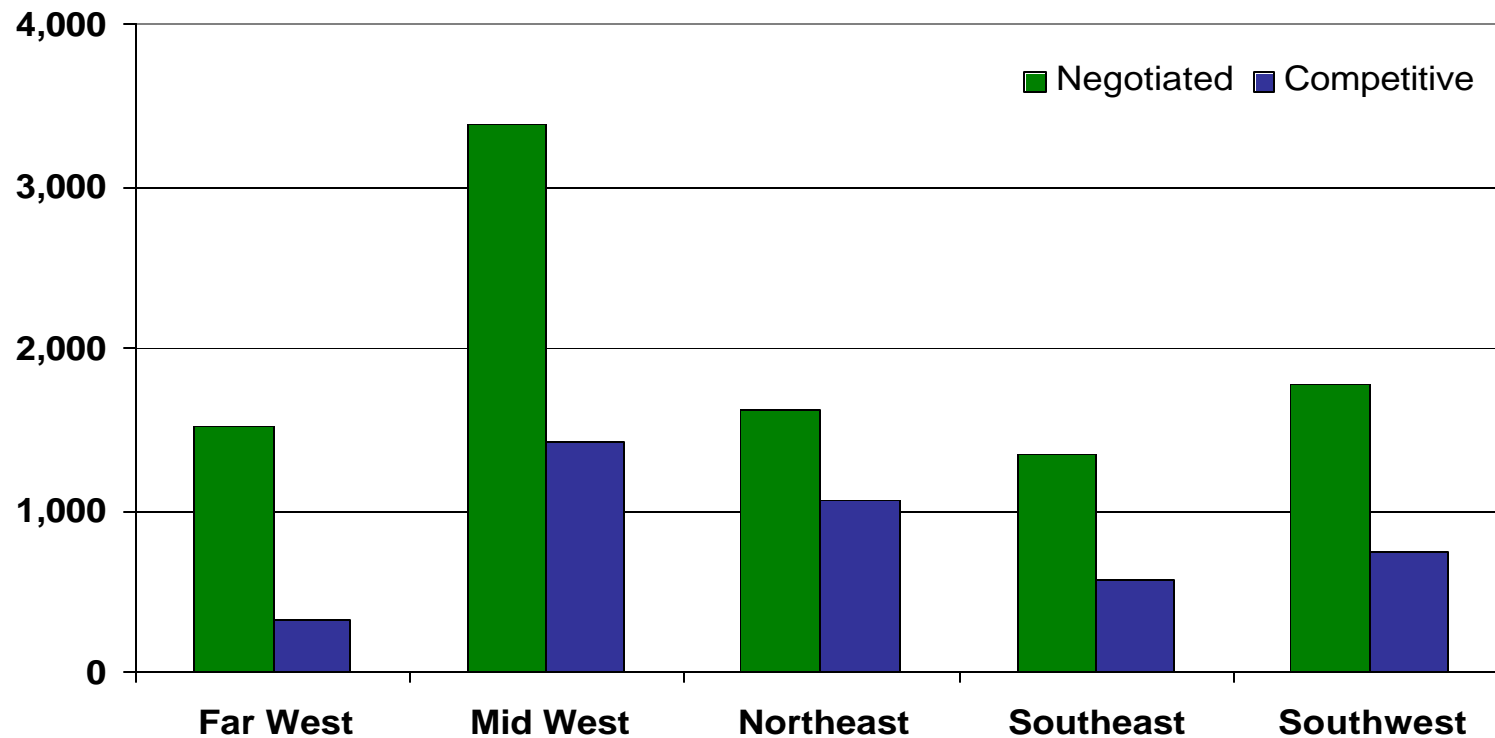
Source: Thomson Financial Securities Data

2005 Municipal Bond Issuance: \$ Volume By Region



Source: Thomson Financial Securities Data

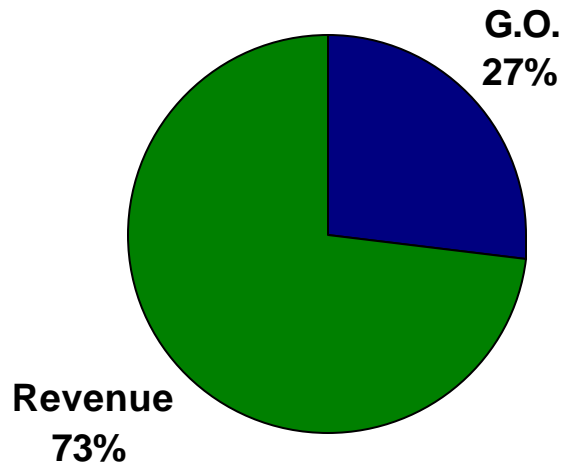
2005 Municipal Bond Issuance: Number of Issues by Region



Source: Thomson Financial Securities Data

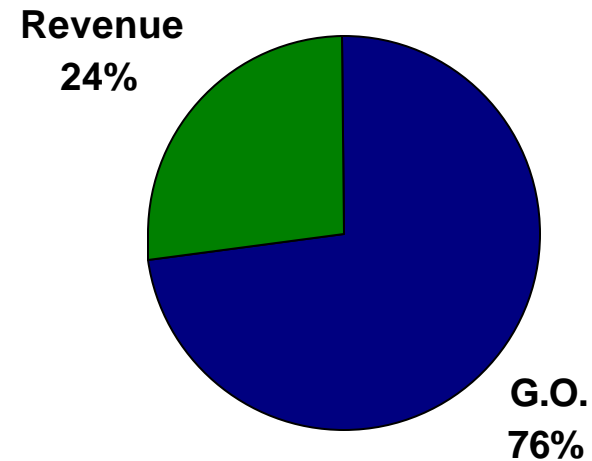
2005 Revenue & General Obligation Bond Issuance

Negotiated Issuance



Total: \$330.4 B
Source: Thomson Financial Securities Data

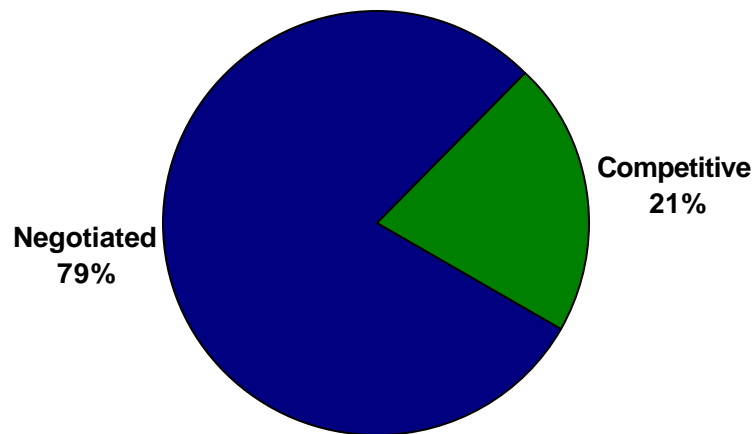
Competitive Issuance



Total: \$76.1 B
Source: Thomson Financial Securities Data

2005 New Capital & Refunding Bond Issuance

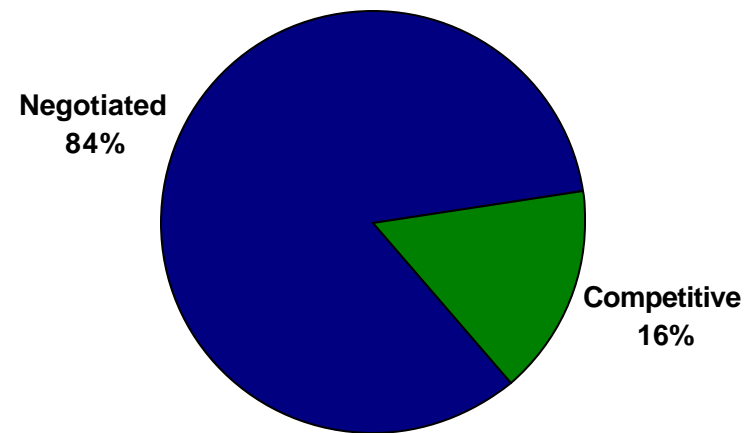
New Capital Issuance



Total: \$221.2 B

Source: Thomson Financial Securities Data

Refunding Issuance

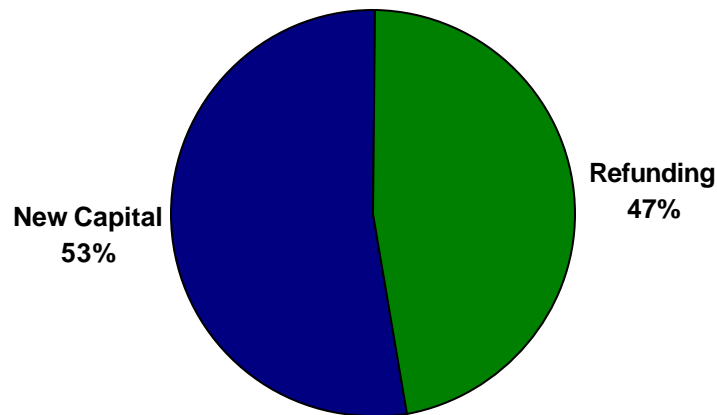


Total: \$231.3 B

Source: Thomson Financial Securities Data

2005 New Capital & Refunding Bond Issuance, continued

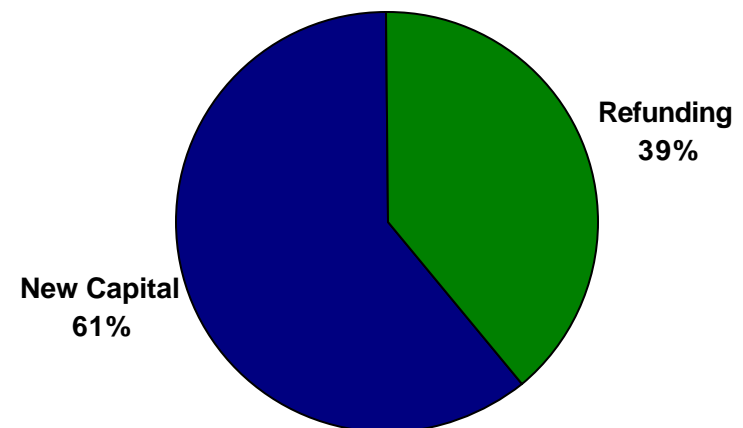
Negotiated Issuance



Total: \$330.4 B

Source: Thomson Financial Securities Data

Competitive Issuance

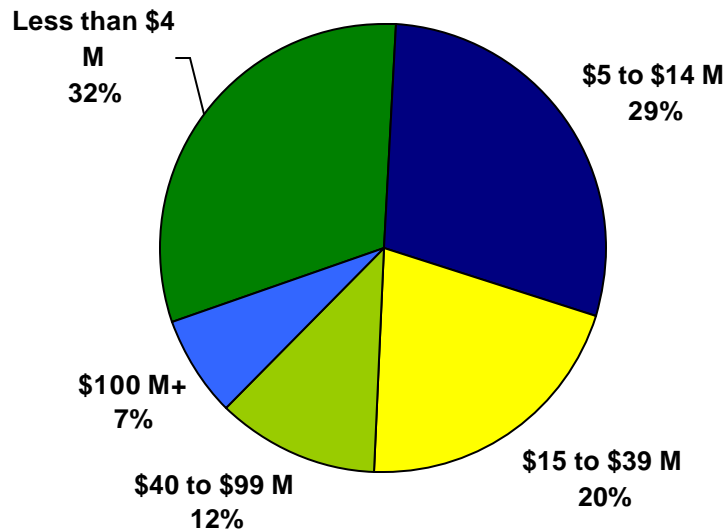


Total: \$76.1 B

Source: Thomson Financial Securities Data

2005 Municipal Bond Issue Size Distribution: Based on Number of Issues

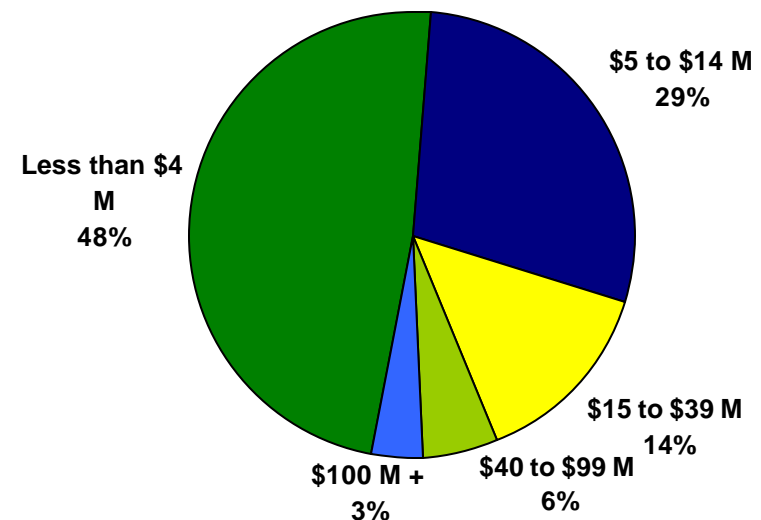
Negotiated Issuance



Total # Issues: 9,638
Total Issuance: \$330.2 B

Source: Thomson Financial Securities Data

Competitive Issuance

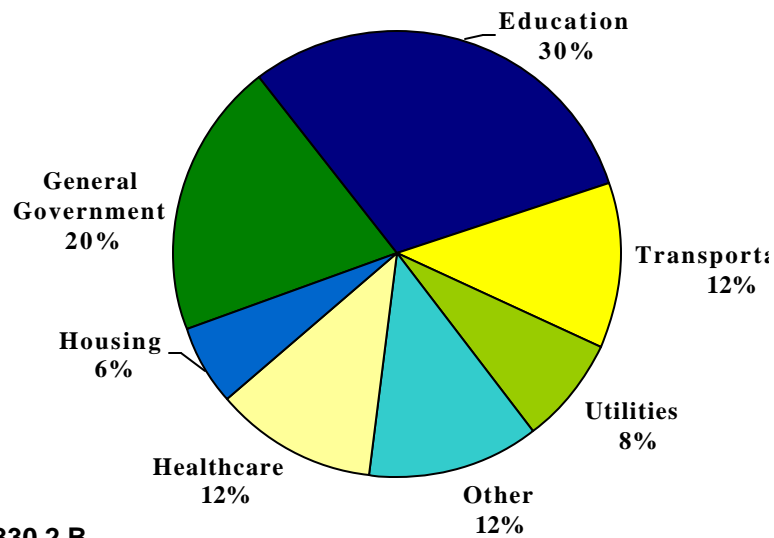


Total # Issues: 4,120
Total Issuance: \$76.1 B

Source: Thomson Financial Securities Data

2005 Municipal Bond Issuance: General Use of Proceeds

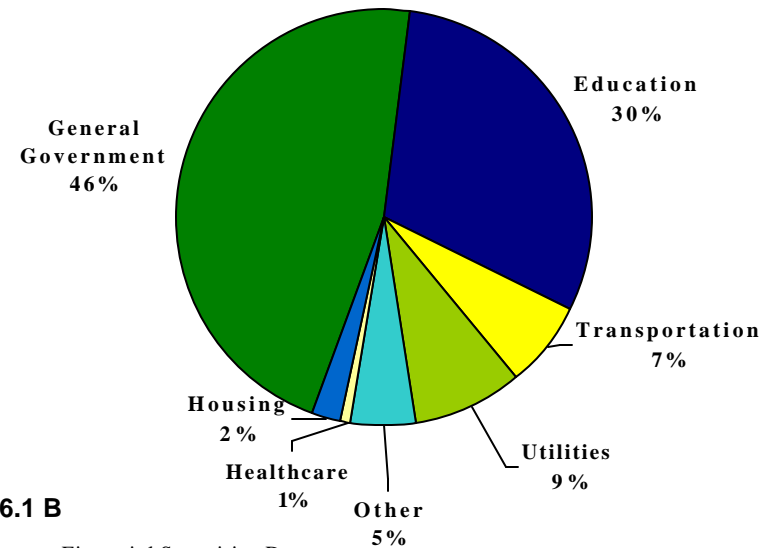
Negotiated Issuance



Total: \$330.2 B

Source: Thomson Financial Securities Data

Competitive Issuance



Total: \$ 76.1 B

Source: Thomson Financial Securities Data

Steps to Bond Issuance

- Origination: Structure, official statement prepared, rating and schedule
- Putting the Team Together
 - Competitive
 - Negotiated
- Underwriting
- Distribution
- Terms of bond issuance: Spread and planned reoffering yields

Competitive Sale

- Initiate process through Notice of Sale
- Forming a syndicate to bid
- Lowest cost bid selected
- Competitive sale process increasingly electronic

Negotiated Sale

- Issuer flexibility, role in composition of the underwriting syndicate.
- Selection typically involves a Request for Proposal from multiple underwriter groups.
- Managing underwriter can perform some pre-deal functions.
- Selection of underwriting syndicate manager: expertise, relationship, financial resources and experience.
- Syndicate formation.
- Marketing and pricing of bonds.



Ongoing Underwriter Services Through Negotiated Sale Relationship

- Idea generation
- Continuing advisory services

Negotiated or Competitive

- No universal rule where one strategy is favored over the other.
- Negotiated sale favored:
 - Unstable markets
 - Specific and unique structure required
 - “Story” bonds
 - Few bidders
 - Timing matters.
- Competitive favored:
 - Stable market
 - Strong, well known credit
 - Generally less complex
 - A number of bidders
 - Competitive sale experience of issuer.

Academic Research

- Diverse results
- Studies range from state-specific to national in scope
- Quantitative or econometric/statistical approach
- Need for refined research that fully takes into account institutional market framework



Improving The Bond Issuance Process

- Record Issuance last year suggests the bond issuance process works well.
- The Bond Market Association with input from the issuer community studied ways to build on an already effective marketplace a few years ago.
- Resulted in Sales Parameter Memorandum.



Sale Parameters Memorandum

- Objective: Educate and inform issuers.
- Conclusion: Issuers should periodically review existing bond sale procedures.
- Removing unnecessary restrictions may result in:
 - Less administrative and servicing burden
 - Financial savings
 - Broader access to institutional and retail investor segments.

The Findings

- Movement from physical to electronic submission
 - Greater marketplace efficiencies
 - Underwriters able to be more responsive
 - May lead to additional bids for issuance of bonds
- Uniform continuing disclosure language may be advantageous
 - Reduced need for interpretation
 - Consistent disclosure across documents
 - Enhanced issuer reputation in the marketplace
- Physical delivery of good faith deposit
 - Burdensome
 - Expense to underwriter
 - Cost-effective alternatives provide security to the issuer and reduce burden/capital commitment to the underwriter

Three “Take Aways”

- Issuers have been well served by both competitive and negotiated sale strategies
- The municipal bond marketplace is taking advantage of information technology innovation
- Administrative enhancements offer great opportunities for efficient and effective bond sale programs

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