

Public Resources Advisory Group ("PRAG")

Heritage Oak Park Community Development District

June 21, 2018

Presentation

- What is a municipal financial advisor?
- Who is PRAG?
- How does PRAG add value?
- PRAG's services to Heritage Oak Park.

What is a Municipal Financial Advisor?

- An MSRB (Municipal Securities Rulemaking Board) and SEC-registered financial professional representing the interests of a municipal bond issuer in a municipal securities transaction
- **Has a fiduciary duty to the issuer**
- PRAG's Role:
 - Protects the interests of the issuer particularly regarding legal covenants, disclosure and pricing
 - Evaluates the appropriateness of a financing including structure, terms and refunding savings, if any
 - Coordinates the parties involved and the tasks required
 - For bank loans, solicits bank term sheets for a bank loan
 - Determines need for and value of credit ratings and credit enhancement
 - Reviews all legal and disclosure documentation
 - For bond issues, reviews the underwriter's marketing plan
 - Assists in negotiation of the debt pricing and structure
 - Coordinates closing process and transfer of funds

Who is PRAG?

- Independent municipal financial advisor established in 1985, headquartered in NYC
- Sole business focus is municipal financial advise – not engaged in underwriting, trading, marketing, or investment management
- Ranked among the top three municipal advisors in the country for over 20 years
 - Ranked #1 nationally for first quarter of 2018 according to Thomson Reuters
- Local governmental clients include State of Florida, Hillsborough County, City of Tampa, Manatee County and Pinellas County. CDD experience includes:
 - *Bobcat Trails (Sarasota)*
 - *Concord Station (Pasco)*
 - *Heritage Bay (Collier)*
 - *Heritage Harbor (Hillsborough)*
 - *Lexington Oaks (Hillsborough)*
 - *Poinciana (Osceola)*
 - *Riverwood (Charlotte)*
- Wendell Gaertner – Senior Managing Director, Public Resources Advisory Group
 - Over 30 years experience in commercial banking and municipal finance
 - Extensive General Government and CDD Experience
 - Licensed Municipal Advisor Representative (Series 50)
 - Supported by full service office in St. Petersburg

How does PRAG add value?

- Support during the process
 - Reports to Board and Residents as an independent fiduciary
- Identifying opportunities
 - Review of refunding/restructuring opportunities
 - Appropriate use of credit enhancement maturity by maturity
- Identifying risks and non-market terms
 - Disclosure
 - Bank Loan Terms
 - Additional Bond Provisions
 - Reserve Requirements
 - Senior/Subordinate Sizing
- Bond Pricing/Structuring
 - Mix of Serial versus Term Bonds
 - Discount versus Premium Bonds and option values
 - Proposed Couponing, Pricing and Call Dates

How does PRAG add value? – CDD Case Studies

- Structuring:
 - While structuring a new loan for a CDD client, PRAG realized the client was facing a large principal payment on an outstanding bond. Annual payments on the outstanding debt was \$1.2 million with an \$8 million principal payment due in 2029. PRAG negotiated with the bondholder to allow a refinancing of the outstanding debt along with the new issue into a single bond issue, extending debt and eliminating the “balloon” payment.
- Credit Enhancement:
 - PRAG obtained a credit enhancement policy for one CDD client, bringing its rating from “A-” to “AA”. The credit enhancer wanted to insure all the bonds, but PRAG determined that the cost of the credit enhancement insurance policy did not offset the improved rating for the first four years. PRAG recommended against credit enhancement for the first four years, saving approximately \$22,000 in the credit enhancement premium.
- Call Provisions:
 - Municipal bonds typically cannot be “called” for ten years and under the new tax law, municipal bonds cannot be refunded prior to their call date. On one recent CDD issue, PRAG negotiated with the underwriter to offer the bonds with a shorter seven year call without changing pricing. This allows enhanced future refinancing opportunities.

How does PRAG add value? – CDD Case Studies

- Pricing:
 - One CDD client obtained a loan term sheet from a bank in November for a \$7.5 million bank loan. With the decrease in corporate tax rates in January from 35% to 21% the value of tax-exemption to banks decreased and banks started increasing their rates on tax-exempt loans. Although the November term sheet expired in February and the issuer was not able to close until March, PRAG negotiated with bank to hold their original pricing in spite of the corporate tax rate changes.
 - For one issue, PRAG recommended reducing the offering yield of three term bonds by five basis points (0.05%) before the bonds were offered to investors. The bonds sold at the lower yield, saving the issuer over \$98,000 in net present value interest costs.
 - For another \$20 million CDD bond pricing, after the order period the bonds were approximately 5 times oversubscribed with order from 23 institutional investors along with approximately \$9 million in retail orders from individuals. PRAG negotiated reductions in yields of up to seven basis points (0.07%) with the underwriter. The final result was a pricing with interest rate spreads that were on average approximately 12 basis points (0.12%) lower than the most recent CDD comparable, representing \$229,000 in net present value interest cost savings in comparison to the most recent comparable.

PRAG's Services to Heritage Oak Park

PRAG's services for a bank loan, as indicated in the attached Engagement Letter, include:

- 1) Develop a plan of finance for the new improvements.
- 2) Develop a saving analysis and recommendation in regards to the existing debt.
- 3) Develop a Costs of Issuance estimate for the financing.
- 4) Develop a financing structure that incorporates the new improvements and the refunding.
- 5) Develop a Request for Proposals for a bank loan.
- 6) Circulate the Request for Proposals to banks active in the tax-exempt CDD bank loan market.
- 7) Review responses and provide a summary of responses to the Board to aid in the Board's selection process.
- 8) Assist in the development of the bank loan documents.
- 9) Review all aspects of the proposed debt as the District's fiduciary representative, including coordinating the financing tasks and team as appropriate.
- 10) Make presentations as requested to the Board and residents.
- 11) Confirm all balances and payment requirements with the Trustee.
- 12) Assist in development and review of all debt documents with a particular focus on the credit, financial and regulatory implications for the District.
- 13) Review all Special Assessment Allocation Reports prepared in connection with the financing.
- 14) Assist in the preparation and review all necessary legal opinions and closing documents including review of all funding and wire transfer instructions.
- 15) Provide the closing statement and final cash flows to the District and the financing team.