#### Presentation to University of Florida Masters In Finance Program

A Brief Overview of Public Finance Investment Banking

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September 21, 2007

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#### Section I: Public Finance Investment Banking Overview



#### Scope of Public Finance Investment Banking



# What Types of Entities Issue Tax-Exempt Bonds?

- States
- Cities
- Counties
- Special Service Districts/TIF's
- 501-c-3 Healthcare Institutions (Acute Care and Senior Living)
- Higher Educational Institutions (Public and Private Universities)
- K-12 School Districts (Public and Private)
- Utility Systems
- Transportation Authorities (Local and Regional)
- Housing Authorities (State and Local)

#### What Types of Revenues are Pledged?

- Project Finance
  - Water and Sewer Utility
  - Toll Roads
  - Airports
  - Mass Transit
  - Arena Finance
- Securitization/Asset Backed
  - Personal Income Tax
  - Sales Tax
  - Gas Tax
  - Tobacco Settlement

- HAS "Corporate Finance Aspects"
  - Hospitals
  - Utilities

- Special Situations
  - Strategic Business Advisors
  - Mergers and Acquisitions
  - Asset Liability Management
  - Real Estate Financing
  - ...Numerous Others



#### **Municipal Market Characteristics**

- Over the last 10 years the volume of negotiated deals has increased with many predicting this year to be a record year
- Variable rate volume has also increased significantly
- Derivatives utilization greatly increased



Negotiated vs Competitive Volume



**Over-the-Counter Interest Rate Derivatives Outstanding** 





#### Who are the Buyers of Municipal Bonds?

- In addition to the High-Net worth investors who benefit from the tax-exempt status of municipal bonds, the investor universe is dynamic and has changed immensely in recent years
  - Property & Casualty Companies
  - Mutual Funds
  - Trust Companies
  - Arbitrage Accounts
  - Foreign Investors
  - "Cross-over" Buyers
  - Retail



### Measuring Inefficiency in the Municipal Market

- The chart to the right indicates that the market places very little value on tax-exemption given that the ratio of the tax-exempt yield to the taxable yield exceeds 90% during years 15 to 30.
  - The market places the value of tax-exemption at less than 10% in those years.
- The "expected value" of a municipal bond equals 100% less the tax rate.
  - An investor in the 35% tax bracket would view a municipal bond efficiently priced at 65% of the same maturity Treasury (1.00 0.35 = 0.65)
- As each investor has a specific tax bracket, a single bond price may be considered efficient for certain tax brackets while inefficient for other tax brackets.
- This implies that yields on municipal bonds are perhaps higher than warranted given expectations of future marginal tax rates.
- Inefficiency in the fixed rate bond market enables the Muni Swap Market to potentially generate a lower all-in cost of borrowing.





Value of Tax Exemption w/35% Tax Rate vs Implied Value of Tax Exemption



Market Rates as of 9/14/2007



#### Taxable & Tax-exempt Long-term Rates Since 1/1/2007

**RAYMOND JAMES** 

# Section II: How Does Raymond James Participate in The Public Finance Marketplace?





#### Public Finance Offices





#### Public Finance Expertise





### Decade of Growth

•Over the last 10 years, Raymond James has participated in over 1,800 transactions for total par amount in excess of \$299 billion.

#### **Public Finance Transactional Experience**

	<u>Senior Mana</u>	iged Deals	Co-Managed Deals			
Year	# of Issues	Total Par Amount	# of Issues	Total Par Amount		
1997	40	\$1,452.60	104	\$7,371.90		
1998	25	\$550.80	172	\$20,726.80		
1999	39	\$2,232.20	130	\$12,907.80		
2000	16	\$162.60	109	\$16,085.60		
2001	33	\$1,430.10	145	\$17,741.10		
2002	26	\$584.50	177	\$42,492.60		
2003	25	\$1,353.90	182	\$45,630.60		
2004	30	\$1,546.70	189	\$50,894.00		
2005	37	\$1,817.80	158	\$39,146.50		
2006	38	\$1,437.30	197	\$34,746.70		
Total	309	\$12,568.50	1563	\$287,743.60		



### **Distribution Capabilities**





#### Total Market Access and Coverage

Providing
complete market
coverage to ensure
the lowest possible
interest cost

#### **National Distribution**

- Ranked 3<sup>rd</sup> nationally by number of offices
- 5,200 sales representatives nationwide
- 10<sup>th</sup> largest municipal institutional sales force

#### **Broad Investor Base**

- Not limited to certain investor types
- Coverage of entire spectrum of retail investors
- Exclusive coverage of many mid-size institutions not covered by other firms

#### **Taxable Distribution**

- Full-time dedicated taxable municipal bond trader
  - 106 taxable sales professionals
    - Web site devoted solely to taxable municipal bonds
  - (www.rjtaxablemunis.com)



#### Scope of Public Finance Investment Banking



### Structure of a Typical Group Within Public Finance





# Quantitative Services Group

- Highly analytical group that works with each Public Finance Group and with the Derivatives Desk on a day-to-day basis
- How do we add value?
  - Primarily through working with Senior Bankers to tailor solutions for their clients in which structured products may provide either a lower cost of capital or greater amount of financial flexibility.
  - Secondary goal is to bring forth ideas that will add value and set us apart from the competition
- We can be brought in anywhere from start to finish
  - Examples:
    - Pre-issuance Forward Starting Swaps & Rate Locks
    - Refunding BMA & % of LIBOR Swaptions, Forward Bond Options, swap termination
    - Structuring Swaps BMA, % of LIBOR, CMS, Basis, Total Return
    - Post Issuance GICs, REPOs, Laddered Portfolios
- Our job requires the ability to enter into a project in many phases and be able to get "caught up" very quickly; Generally the PF "Answer Guys"
- Additional duties include working on generally complicated deals, pricing & parallel pricing live deals that are entering the market, tracking refunding candidates, and generally modeling everything that could possibly need to be modeled!!!!



#### Highlighted Swap/Investment Transactions





#### Section III: Case Study: Parking Authority



#### Background

- Midwest Group Banker tells us about an Authority that has outstanding bonds that could be refunded. In addition, the Authority is open to using structured products as a potential solution.
- Banker's Duties:
  - The Banker knows that the Mayor of the City is a minority and is also leaving office soon.
  - Given the lame duck status of the Mayor, he could enhance his legacy by saving the Authority millions of dollars at the tail-end of his administration. Ideally, the client is highly incentivized.
  - It is also well-known that the Mayor is an advocate of working with Minority-run firms
  - The Banker reaches out to a Prestigious Minority-owned firm to align ourselves with in our pitch
- Quant Group Duties:
  - Mine the debt of the Issuer, find the candidates that would provide the highest savings
  - ASK QUESTIONS!!!!
    - Issuer-related Variable vs. Fixed, are they allowed to do swaps, do they want to do swaps (Many Issuers have staunch views against structured products), do they need cash upfront or over time, what is their tolerance for risk, etc.
    - Market-related Do traditional fixed-rate bonds make more sense or synthetic, what structured products are we seeing getting done in the market, YIELD CURVE ANALYSIS



#### Floating to Fixed Rate Swaps: Overview

<u>Definition</u>: An Issuer enters into a contract with a swap dealer (Counterparty) in which the Issuer exchanges a variable rate obligation for a fixed rate obligation



Results:	Cash-flow Result
Step 1:	Issuer pays the Counter-party a Fixed Rate (-)
Step 2:	Issuer receives a Variable Rate from the Counterparty (+)
Step 3:	Issuer pays the variable rate debt service to bondholder (-)

#### **Applications:**

- Adjust variable/fixed rate mix as part of overall debt management strategy
- \* Lock in refinancing rates for debt that cannot be refunded at the time of the swap
- Lock in financing rates for new money debt that is expected to be issued in the near future
- Belief that interest rates are going to increase during the period the swap is in place

#### Debt Outstanding

• The Authority has Series 1999 Bonds outstanding of Parking Revenue Bonds that could produce savings:

The highlighted areas in green indicate callable bonds.

	Series 19	99	Cu	rrent Yield Curv	es
			Traditional Fixed -	<u>BMA - Muni</u>	<u>70% of LIBOR</u>
<u>Date</u>	Principal Amount	<u>Coupon</u>	MMD	Swap Curve	
9/1/2008	\$3,360,000	4.800%	3.67%	3.81%	3.88%
9/1/2009	\$3,525,000	4.875%	3.69%	3.70%	3.77%
9/1/2010	\$3,715,000	5.500%	3.72%	3.74%	3.78%
9/1/2011	\$3,925,000	5.500%	3.74%	3.81%	3.82%
9/1/2012	\$4,150,000	5.625%	3.80%	3.87%	3.86%
9/1/2013	\$4,390,000	5.625%	3.89%	3.94%	3.91%
9/1/2014	\$4,645,000	5.625%	3.97%	4.00%	3.95%
9/1/2015	\$4,910,000	5.625%	4.05%	4.06%	3.98%
9/1/2016	\$5,195,000	5.625%	4.13%	4.11%	4.02%
9/1/2017	\$5,495,000	5.625%	4.22%	4.17%	4.05%
9/1/2018	\$5,815,000	5.625%	4.31%	4.21%	4.07%
9/1/2019	\$6,150,000	5.625%	4.39%	4.25%	4.10%
9/1/2020	\$6,495,000	5.250%	4.46%	4.29%	4.11%
9/1/2021	\$6,845,000	5.250%	4.51%	4.33%	4.13%
9/1/2022	\$7,215,000	5.250%	4.56%	4.37%	4.15%
9/1/2023	\$7,605,000	5.250%	4.59%	4.40%	4.16%
9/1/2024	\$8,010,000	5.250%	4.62%	4.42%	4.17%
9/1/2025	\$8,445,000	5.250%	4.65%	4.44%	4.18%
9/1/2026	\$8,900,000	5.250%	4.68%	4.46%	4.19%
9/1/2027	\$9,380,000	5.250%	4.71%	4.48%	4.20%
9/1/2028	\$9,885,000	5.250%	4.74%	4.49%	4.20%
9/1/2029	\$10,420,000	5.250%	4.79%	4.50%	4.21%
Total	\$138,475,000				

- The Yield Curves represent the current yields offered in the market today.
- The structure that offers the lowest cost of capital varies by maturity across the maturity spectrum.

#### Yield Curve Illustration

Below is a graphic depiction of the yield curves.







#### Overview of the Municipal Market (Bond and Swap)

- Borrowers today have the ability to utilize different markets to generate the lowest cost of borrowing.
- Tax-exempt organizations can execute the funding of their capital needs through either:
  - Traditional fixed rate tax-exempt bond market (the "Muni Cash Market" or "MCM"); or,
  - Tax exempt swap market (the "Muni Swap Market" or "MSM")
- The two markets are distinctly separate, each with their own market fundamentals and short-term supply/demand considerations.
- The Muni Swap Market will change yields much faster than the Muni Cash Market as described herein.
- Both the Muni Cash and Muni Swap markets have certain characteristics and these markets can also be contrasted to the benchmark U.S. Treasury and LIBOR swap markets which, as described later, play an integral role in determining available funding levels in the two municipal marketplaces.



#### Overview of the Municipal Market (Bond and Swap), cont.

#### Municipal ("Tax-Exempt") Cash Market

- **Fewer Buyers:** The municipal market has more limited demand compared to the Treasury market due to fewer investors seeking tax-exempt income than the "safety" of Treasury securities.
- Lagging Price Movement: Municipal yields tend to "lag" the instantaneous yield/price changes in the Treasury market
  - The Treasury market is the price leader, the Muni market is the follower.
- **Distinctive Credits:** The Municipal market literally has thousands of individual credits while U.S. Treasuries are homogeneously rated "AAA" due to the full faith and credit of the U.S. Government's principal and interest payment pledge.
- **Visible/Invisible Supply:** Only a portion of the Municipal market forward supply (future bond issues) are publicly known, or "visible." Many issuers wait until the day bonds are to be sold to announce it.
  - Thus, supply may be understated which subsequently impacts the yield levels at which a borrower can sell bonds.
  - In the Treasury market, auction times and amounts are announced in advance.
- **Demand:** Demand is partly a function of how many previously refunded bonds will be redeemed thereby freeing up cash for investors to re-invest typically highest levels of cash become available in January and July.



#### Overview of the Municipal Market (Bond and Swap), cont.

#### Municipal ("Tax-Exempt") Swap Market

- Value Derivation: The municipal swap market derives its value from the U.S. Treasury, LIBOR swap and Ratio markets.
- **Market Participants:** The Muni Swap Market has fewer market participants than the LIBOR swap market, similar to the Muni Cash Market having fewer participants than the U.S. Treasury Market.
- **Price Movement:** Unlike the Muni Cash Market, the Muni Swap Market changes prices instantaneously and in approximately the same magnitude as both the U.S. Treasury and LIBOR Swap Markets.
- **Homogeneity of Credits:** Muni Swap Market credits are non-homogeneous, a function of each issuer's specific credit while the credits in the LIBOR swap market typically are large financial institutions with credit ratings ranging from the high "A" category to the low "AA" category. The homogeneity of the LIBOR swap market credits provides for a more constant credit environment.
- **Visibility of Supply:** The LIBOR swap market is a very broad and deep marketplace, consisting of financial institutions such as insurance companies, large banks, broker/dealers, etc. The LIBOR yield curve is easily accessible through financial subscription services such as Bloomberg or Reuters and is monitored on a minute to minute basis by market participants.
  - The Muni Swap Market, conversely, has fewer market participants and its yield curve is implied from a combination of the U.S. Treasury curve, the LIBOR swap curve and the ratio market.
- **Demand:** The Muni Swap Market is based upon issuers accessing capital and investors conducting hedging strategies.



#### **Borrowing Cost Determination Flowchart**





#### Determination of Municipal Fixed Rate Yields and Efficiency

- Understanding how yields are derived is important in determining which structure will price most efficiently.
- Municipal fixed rate bond yields are based upon the tax-exempt fixed rate bond market's own supply and demand conditions.
- The level of efficiency decreases further out on the yield curve as investors' views of tax-exemption vary widely (potentially impacted by such events as a flat tax or a change in marginal tax rates)
  - Views of tax-exemption are exceptionally divergent at the 20 to 25-year maturities.
- The table on the following page highlights the 5 steps which derive the Municipal Swap Curve:
  - Step 1: Identify the U.S. Treasury Curve
  - Step 2: Identify the "LIBOR Swap Spread"
  - Step 3: Derive the LIBOR Swap curve
  - Step 4: Identify the Actual ratio applicable to a given maturity
  - Step 5: multiply the LIBOR swap curve by the ratio
- The Muni Swap Curve is the base swap rate to which all other costs need to be added in order to arrive at the Issuers al-in borrowing cost (Variable Rate Expenses)
- Again, a swap structure involves the Issuer selling either variable rate or auction rate bonds and simultaneously entering into a fixed rate swap



#### Determination of Municipal Fixed Rate Yields and Efficiency

Year	U.S. Treasury Curve	Swap Spread	LIBOR	Ratios	SIFMA	70% of LIBOR	MMD	Optimal Structure	Par amount of Bonds (\$)
Column	А	В	С	D	Е	F	G		
Equation			= A + B		= C * D	= C * 70%			
Costs					+ 37 bps	+ 37 bps			
2008	4.55%	0.47%	5.02%	75.82%	3.81%	3.88%	3.67%	MMD	\$210,000
2009	4.55%	0.31%	4.86%	76.20%	3.70%	3.77%	3.69%	MMD	\$200,000
2010	4.54%	0.33%	4.87%	76.68%	3.74%	3.78%	3.72%	MMD	\$3,925,000
2011	4.57%	0.35%	4.92%	77.34%	3.81%	3.82%	3.74%	MMD	\$4,125,000
2012	4.60%	0.39%	4.99%	77.60%	3.87%	3.86%	3.80%	MMD	\$4,340,000
2013	4.64%	0.42%	5.05%	77.97%	3.94%	3.91%	3.89%	MMD	\$4,565,000
2014	4.67%	0.44%	5.11%	78.35%	4.00%	3.95%	3.97%	70% of LIBOR	\$4,800,000
2015	<b>4.</b> 70%	0.46%	5.16%	78.65%	4.06%	3.98%	4.05%	70% of LIBOR	\$5,045,000
2016	4.74%	0.47%	5.21%	78.96%	4.11%	4.02%	4.13%	70% of LIBOR	\$5,305,000
2017	4.77%	0.48%	5.26%	79.26%	4.17%	4.05%	4.22%	70% of LIBOR	\$5,580,000
2018	4.77%	0.52%	5.29%	79.58%	4.21%	4.07%	4.31%	70% of LIBOR	\$5,865,000
2019	4.77%	0.55%	5.32%	79.91%	4.25%	4.10%	4.39%	70% of LIBOR	\$6,170,000
2020	4.78%	0.57%	5.35%	80.26%	4.29%	4.11%	4.46%	70% of LIBOR	\$6,475,000
2021	4.80%	0.58%	5.38%	80.62%	4.33%	4.13%	4.51%	70% of LIBOR	\$6,810,000
2022	4.81%	0.59%	5.40%	80.98%	4.37%	4.15%	4.56%	70% of LIBOR	\$7,160,000
2023	4.82%	0.60%	5.42%	81.16%	4.40%	4.16%	4.59%	70% of LIBOR	\$7,530,000
2024	4.82%	0.61%	5.43%	81.34%	4.42%	4.17%	4.62%	70% of LIBOR	\$7,910,000
2025	4.83%	0.61%	5.44%	81.52%	4.44%	4.18%	4.65%	70% of LIBOR	\$8,320,000
2026	4.84%	0.62%	5.46%	81.70%	4.46%	4.19%	4.68%	70% of LIBOR	\$8,750,000
2027	4.85%	0.63%	5.47%	81.88%	4.48%	4.20%	4.71%	70% of LIBOR	\$9,200,000
2028	4.85%	0.62%	5.48%	81.99%	4.49%	4.20%	4.74%	70% of LIBOR	\$9,670,000
2029	4.86%	0.62%	5.48%	82.11%	4.50%	4.21%	4.79%	70% of LIBOR	\$10,170,000

#### Determination of Municipal Swap Rates

- The yield difference between the U.S. Treasury curve and the LIBOR swap curve is known as the LIBOR "Swap Spread." This market-driven number of basis points is added to each maturity on the U.S. Treasury curve to reflect the average additional credit charge on a loan/swap that an average market participant will charge another.
  - Major players in the LIBOR swap market are banks, insurance companies, broker/dealers, and other financial institutions.
  - The Swap Spread reflects a generic credit spread these institutions typically charge one another for a loan of a given maturity based upon the fact that most market participants' credit ratings are in the "AA" or "A" category.
- Unlike the Municipal Cash Market, the "ratio" market is an actual market with its own bid-ask spread (also known as the "basis swap" market):
  - Participants in this market include issuers, investors running Tender Option Bond programs, and hedge funds (i.e. investors and speculators). Participants utilize this market to place directional trades which anticipate changes in the future value of tax-exemption.
  - To the extent participants believe fixed rate municipals are price inefficiently (i.e. exceptionally high ratios or yields--little value placed on tax-exemption relative to its worth), they will desire to "buy" ratios (receive a fixed percentage of LIBOR and pay BMA) in the hope that the market adjusts and ratios fall.
    - Should this occur, participants are now receiving a ratio (percentage of LIBOR) higher than available in the market and has therefore profited from the trade.
  - Given that fixed rate municipal bonds, particularly those with longer maturities can be very inefficient, this type of trade is rather popular among buyers of issuer's bonds.



#### Series 1999 Refunding Analysis

Type of Issuance	Fixed Rate Bonds <sup>1</sup>	Synthetic Fixed Rate Bonds <sup>2</sup>	Synthetic Fixed Rate Bonds <sup>2</sup>
Swap	N/A	70% of LIBOR <sup>4</sup>	BMA <sup>4</sup>
Bond Par Amount	132,850,000	138,070,000	137,590,000
Average Coupon/Swap Rate	5.00%	3.83%	4.05%
Average Life	14.10	13.62	13.71
Arbitrage Yield	4.61%	3.90%	4.13%
Escrow Yield	4.10%	3.90%	4.10%
Average Annual Debt Service	10,209,660	9,781,990	9,958,850
Maximum Annual Debt Service	10,652,250	10,191,785	10,365,384
Refunded Bonds Data			
Par Amount of Refunded Bonds	\$131,590,000	\$131,590,000	\$131,590,000
Call Date	9/1/2009	9/1/2009	9/1/2009
Call Price	101%	101%	101%
Savings Results			
PV Savings (%)	3.31%	8.04%	5.93%
PV Savings (\$)	\$4,361,373	\$10,584,238	\$7,806,494

Assumptions:

Market Conditions as of 8/29/2007

1 Fixed rate scenarios include Underwriter's Discount of \$5,00/Bond; Insurance of 50 bps; Cost of Issuance of \$150,000

2 Scenarios include Underwriter's Discount of \$2.50/bond; Cost of Issuance of \$150,000; Insurance at 50 bps; Remarketing Fees of 25 bps and Auction Agent Fees of 2 bps



#### Series 1999 Hybrid Refunding Analysis

Type of Issuance	Traditional/Synthetic Structure	Traditional/Synthetic Structure			
Swap	70% of LIBOR <sup>4</sup>	$BMA^4$			
Bond Par Amount	135,950,000	135,625,000			
Average Coupon/Swap Rate	4.01%	4.24%			
Average Life	14.24	14.25			
Arbitrage Yield	3.97%	4.19%			
Escrow Yield	3.97%	4.10%			
Average Annual Debt Service	9,916,910	10,098,681			
Maximum Annual Debt Service	10,765,717	10,899,700			
Refunded Bonds Data					
Par Amount of Refunded Bonds	\$131,590,000	\$131,590,000			
Call Date	9/1/2009	9/1/2009			
Call Price	101%	101%			
Savings Results					
PV Savings (%)	7.77%	5.56%			
PV Savings (\$)	\$10,227,394	\$7,321,836			
Assumptions:					
Market Conditions as of 8/29/2007					
1 Fixed rate Bonds include Underwriter's	Discount of \$5.00/Bond				
2 Synthetic fixed rate Bonds include Underwriter's Discount of \$2.50/bond; Remarketing Fees of 25 bp.					
and Auction Agent Fees of 2 bps					

3 Structure includes Cost of Issuance of \$150,000 and Insurance of 50 bps



#### Section IV: Case Study Large Authority in Northeast



#### Background

- In April 2007, the Authority sold \$1.5 Billion of Dedicated Sales Tax Revenue Bonds to raise funds to make grants to Cities and Schools Districts throughout the Commonwealth of Massachusetts for the purpose of funding capital projects such as the building/renovation of middle, elementary, and high schools;
- The Authority had made a 4 week investment of the funds on the April closing date and hired Raymond James to secure longer-term investments for the Project Fund (\$1.135B) and Debt Service Reserve Funds(\$129M)
- The Authority's objective was to maximize its return on its investment plus capital preservation



# Background (cont.)

- \$450M of the Project fund had to be spent first with a primary objective of yield maximization
- The \$685M balance was then to be spent over the remaining 1.5 years with a primary objective of yield maximization and a secondary one of capital preservation
- The Authority imposed the following constraints upon the investment situation:
  - It did NOT want to purchase U.S. Treasuries or Agencies in a laddered portfolio
  - Any potential investment vehicle or counterparty had to be rated at least AA or higher.
- The challenge was given to us to structure the investment and meet the objectives while meeting the Authority's dual objectives



#### How to Tackle the Situation?

- How should the investment be structured?
- Should GIC's or REPO's be used?
- Will there be a yield difference between the two?
- What should be the minimum rating requirement of any potential counterparty?
- Are there structural approaches to the GIC's or REPO's that can make a yield difference to the client?
- How will different combination of structure and rating requirements potentially impact the results?
- How should the bid be structured given all these considerations?

# What are GIC's?

- A GIC is a guaranteed investment contract where a deposit is placed with a highly rated counterparty who agrees to pay an agreed upon rate over the term of the investment (can be fixed or variable)
- GIC's are an unsecured investment and initially have no collateral supporting the principal on deposit
- If there is a downgrade in the credit rating of the counterparty below a pre-defined threshold, then the counterparty must take action such as collateralizing with treasuries, agencies, or alternatively, assigning the contract to another entity who has a rating equal to the minimum rating requirement (typically AA)
- Insurance companies and large banks are the primary participants in the GIC market
- Yields on GIC's tend to be somewhat higher than REPO's because of their unsecured nature
- Market participants have different motivations



### What are REPO's?

- A REPO is a repurchase agreement where a deposit is placed with a highly rated counterparty who agrees to pay an agreed upon rate over the term of the investment (can be fixed or variable)
- REPO's are a secured investment and have collateral supporting the principal on deposit at the outset of the investment. As funds are drawn down out of the investment over time, the collateral is released back to the REPO provider.
- In a REPO there is little concern over the credit rating of the counterparty below a pre-defined threshold because the investment is already collateralized. Some clients and some credit enhancers will nonetheless desire a minimum credit rating to decrease the probability of default over the term of their investment. Typical rating thresholds for REPO's are in the A category.
- Broker dealers and large banks are the primary participants in the REPO market
- Yields on REPO's tend to be somewhat less than GIC's because of their secured nature
- Market participants have different motivations



#### Investment Structure Considerations

- Was there value in structuring the \$450M to be drawn first in front of the \$685M, and then have the \$685M split and also drawn "sequentially"?
- Was the Authority better off having the funds divided into 3 contracts all spent down at the same rate ("Prorata") or some combination thereof?
- Deposit constraints of specific potential bidders
- "Flex risk" concerns of some bidders vs. others



#### Recommended Approach

**Pro-Rata Structure** 

Below are alternative approaches that were proposed. Each approach diversifies the Authority's exposure to counterparty risk.



#### Sequential & Pro-Rata Structure

**RAYMOND JAMES** 

#### Chosen Structure

- \$450M to be spent first
- This \$450M contract had a 6 week "lock-out" period where no withdrawals could take place---contract terminates on 12/31/07
- \$685M is split into 2 contracts, one of \$411M(60%) and one of \$274M(40%) with a termination of 2/1/09
- The 2 contracts associated with the longer funds totaling the \$685M will be drawn pro-rata



#### Reasoning for Structure

- The yield curve was slightly inverted in the front end and the Authority wanted to maximize its yield on the unrestricted \$450M
- The 6 week lock-out period was designed to let other funds of the Authority be drawn down AND to add a higher degree of certainty to the projected draws given to the bidders which firms up their pricing
- Pro-rata was chosen for the \$685M because of the concern over weaker bids if it was broken into 2 contracts and drawn sequentially; bidders had expressed some reservations over managing the flex risk on a deal that large
- One contract was sized at less than \$300M to allow a couple of potential bidders participate just under their institutional limits



#### Bid Results

		GIC			Reputchase Agreemer	nt		Rating	
Potential Bidder	PF I	PF II	PF III	PF I	PF II	PF III	Moody's	S&P	Fitch
AIG	5.26	5.116	5.112	Pass	Pass	Pass	Aa2	AA	AA
Calyon	5.255	5.083	5.08	Pass	Pass	Pass	Aa2	AA-	AA
Citigroup	5.326	5.107	5.105	5.204	4.985	4.983	Aa1	AA	AA+
JP Morgan	Pass	Pass	Pass	5.247	5.095	5.0625	Aaa	AAA	AA-
NATIXIS	5.297	5.174	5.167	Pass	Pass	Pass	Aa2	AA	АА
Rabobank	5.237	5.167	5.187	Pass	Pass	Pass	Aaa	AAA	AAA
XL Capital	Pass	5.132	5.207	Pass	Pass	Pass	Aaa	AAA	AAA
DEPFA	5.342	5.1525	5.005	5.17	5.005	5.005	Aa3	AA-	AA-
Merril Lynch Bear Stearns	Pass Pass			<u>~</u>		,			

Bear Stearns
Lehman Brothers
Wachovia
Bank of America
GE
AMBAC
MBIA
Societe Generale
RBC



Pass Pass

Pass

Pass Pass Pass

Pass

Pass

#### Aftermath

- Did we achieve our objective?
- DEPFA was downgraded from AA- to A1 in July
- Client continues to drawn down funds within the \$450M contract "One"

#### Appendix A: Analyst Role and Responsibilities



# Application and Background

- Application:
  - Application of much of Finance, Accounting, and Economics course work
  - Utilization of excel modeling and programming capabilities
  - Opportunity to rapidly take on as much responsibility as one can handle, thus playing a more integral role on transactions from start to finish
- Candidate Characteristics:
  - People with passion for what they do
  - People who take pride in their work
  - People who enjoy the "what if" aspects of finance and accounting
  - People who are self-starters and motivated
  - People with great communication and social skills



### The Analyst Role & Responsibilities

- Financial analysts in the Public Finance Investment Banking Group play an integral role in the department's activities, and are given a high level of responsibility as a key member of an analytical team. Some of the responsibilities include:
  - Analyze municipal issuer financial statements and outstanding debt
  - Formulate new transaction proposals
  - Develop the financial structure and document preparation related to the public issuance of taxable and tax-exempt municipal bonds
  - Analysts will gain exposure to a variety of derivative products related to municipal finance
- As analysts gain experience, they are expected to increase their capacity to process a larger portion of a given transaction
- Analysts will work closely with senior investment bankers, often in a deadline driven team-work environment



#### What Can You Expect in the First 1-2 Years?

- Mix of formal and on-the-job training
  - Learning industry specific software immediately
  - Excel used for revenue modeling and interest calculations
- Typically go through 3 month learning curve cycles
- Lots and lots of situational analyses
- Diverse work environment where one situation may involve a large deal team of 5+ and others much smaller (2-3)

#### How Can a Typical Day be Described?

- Mornings and late evenings are when you will be able to get the most undisturbed quiet time to think and run numbers/work on proposals, etc.
- Middle of the day interaction with trading desks, bankers and other team members on various projects to get info, re-work and turn the next draft/version around
- Amazingly, senior bankers "seem to wake up" at 3-4 PM which tends to bring late afternoon requests that need to be addressed immediately
- A lot of interaction with other analysts to get help in answering questions or to figure out something you have not come across before so there tends to be a strong sense of comraderie in the analyst group

How is the Role Different in Regional Vs. Bulge Bracket Firms?

- Question: Is it different?
- Answer: Definitely.

- Bulge bracket firms tend to have a higher volume of deals, however, what an analyst is exposed to over the first 2 years will vary widely;
- The regional experience tends to offer more breadth of experience on a given transaction, as well as greater exposure to senior bankers;
- Greater breadth can translate into a more full understanding of all aspects of a transaction



#### Appendix B: Raymond James Information



### Raymond James Overview

With over 5,200

**Raymond James** 

is positioned among the top

securities firms

in the country

financial advisors and over 440 capital

markets professionals,

- □ Full-service securities firm founded in 1962 and public since 1983
- □ Listed on the New York Stock Exchange under the symbol "RJF"
- □ Major presence in North America and Europe
  - Currently over 5,200 financial advisors, with offices in all 50 states; approximately 1.5 million accounts\*
  - Member of the Fortune 1,000. Ranked 11<sup>th</sup> among securities firms and 9<sup>th</sup> among retail brokers.
  - 26 North American investment banking and institutional sales offices\*
  - European operations in London, Paris, Geneva, Brussels, and Düsseldorf\*
- Over 440 capital markets professionals organized along industry and product lines, providing a full spectrum of investment banking and capital markets services\*
  - Powerful retail and institutional distribution capabilities

\*RJF data as of August 18, 2005.



### Principal Business Segments





#### Raymond James Financial Corporate Structure





# Capital Position



**RAYMOND JAMES** 

#### RJ Stock Performance Among Major Indices



**Raymond James vs American Equity Indices** 

\*Indexed Price to 100 as of 1/1/1997. Prices as of 8/31/2007.

![](_page_57_Picture_4.jpeg)

#### Raymond James North American Locations

**Retail Branch, Institutional Sales and Investment Banking Locations** Raymond James & Associates, Inc. A Raymond James Financial Services, Inc. Raymond James Ltd. Other Locations Buenos Aires, Argentina Brussels, Belgium London, England Paris, France Düsseldorf, Germany Mumbai, India Geneva, Switzerland Istanbul, Turkey Raymond James Retail Branch • Offices Investment Banking / Fixed Income / Institutional Sales Offices Δ

Raymond James has over 2,330 offices covering all 50 states.

#### **RAYMOND JAMES**

#### Fixed Income Department

![](_page_59_Figure_1.jpeg)

#### **Raymond James Combined Fixed Income Employees**

![](_page_59_Figure_3.jpeg)

![](_page_59_Picture_4.jpeg)

#### Highlighted Transactions

![](_page_60_Figure_1.jpeg)

![](_page_60_Picture_2.jpeg)

#### Highlighted Transportation Transactions

![](_page_61_Figure_1.jpeg)

![](_page_61_Picture_2.jpeg)

#### Highlighted Healthcare Transactions

![](_page_62_Figure_1.jpeg)

**RAYMOND JAMES**