



Competitive or Negotiated Sale – Which is right for me?

September 30, 2021

Masterson Advisors LLC



Masterson Advisors

“Empowering communities to grow through uniquely crafted financial solutions.”

25 Employees

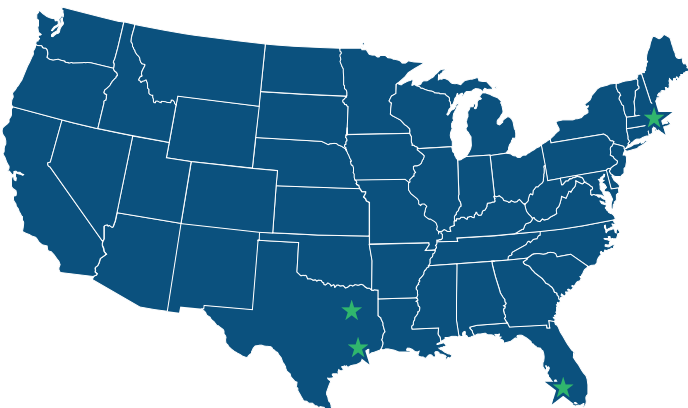
Bankers have an average of 16 years and over 330 combined years of experience in municipal finance.

4 Offices

The firm’s headquarters is located in **Houston**, with additional offices in Dallas, Massachusetts, and Florida

100% Employee Owned

We are a certified MWBE with the City of Houston and HUB Certified with the State of Texas



\$660,490,000

Airport System
Subordinate Lien Rev
Ref Bonds, Series
2020C
NEGOTIATED



September 2020

\$610,720,000

Combined Utility
System
First Lien Rev Ref
Bonds,
Series 2020C,
2020D (Taxable)
NEGOTIATED



July 2020

\$320,635,000

Consolidated Rev Ref
Bonds, Series 2020A
COMPETITIVE



January 2020

\$132,025,000

Limited Obligation
Ref Bonds, Series
2021A
COMPETITIVE



July 2021

\$282,480,482

Tobacco Settlement
Asset-Backed Bonds,
Series 2021
NEGOTIATED



June 2021

Sale Methods

When offering public securities, Issuers must choose which method of sale to employ

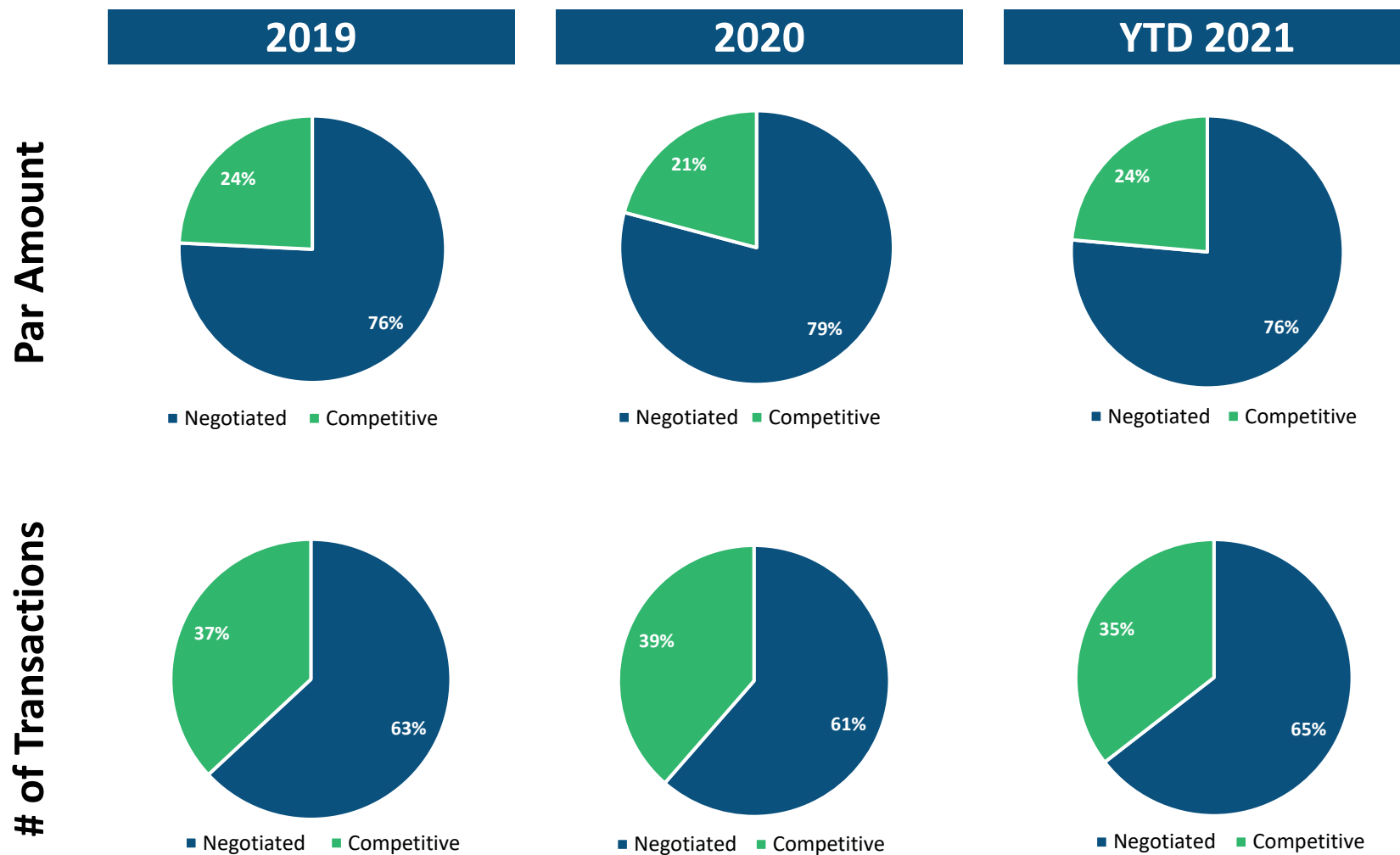
NEGOTIATED SALE

- Issuer selects underwriter or underwriting syndicate upfront and negotiates the purchase of new municipal securities
- Among the primary points of negotiation for an issuer are the interest rate, call features and purchase price of the issue

COMPETITIVE SALE

- Method of sale requesting underwriters to submit a bid or firm offer to purchase a new issue of municipal securities
- The Issuer awards the municipal securities to the “winning” underwriter or syndicate based on lowest interest cost

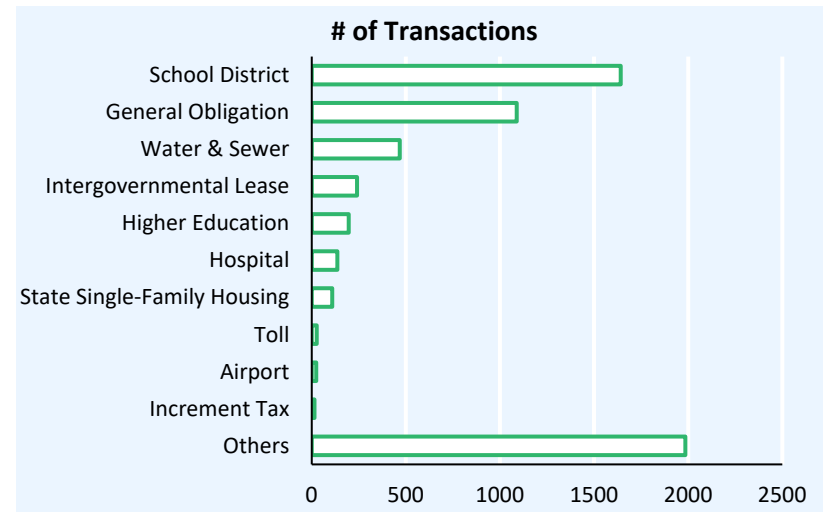
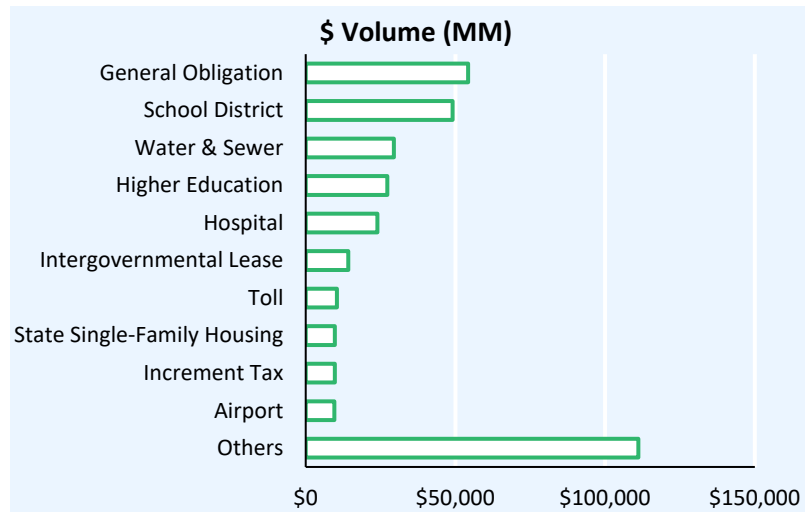
Issuance Composition Overview[†]



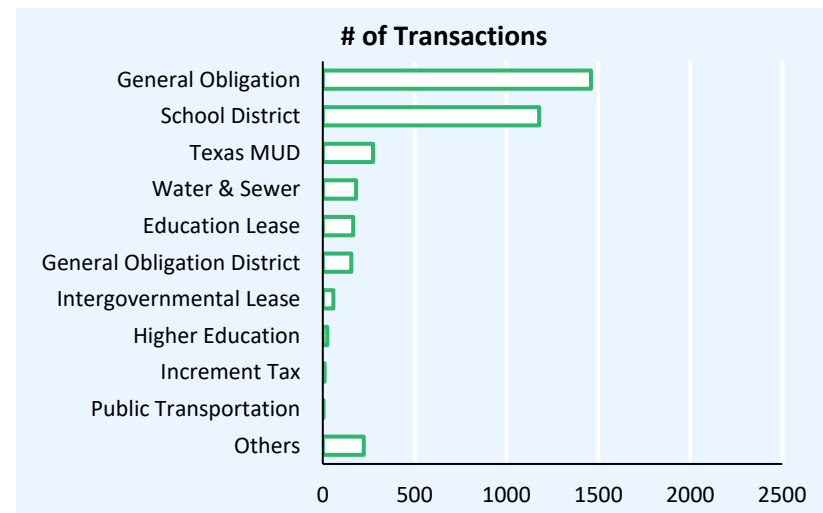
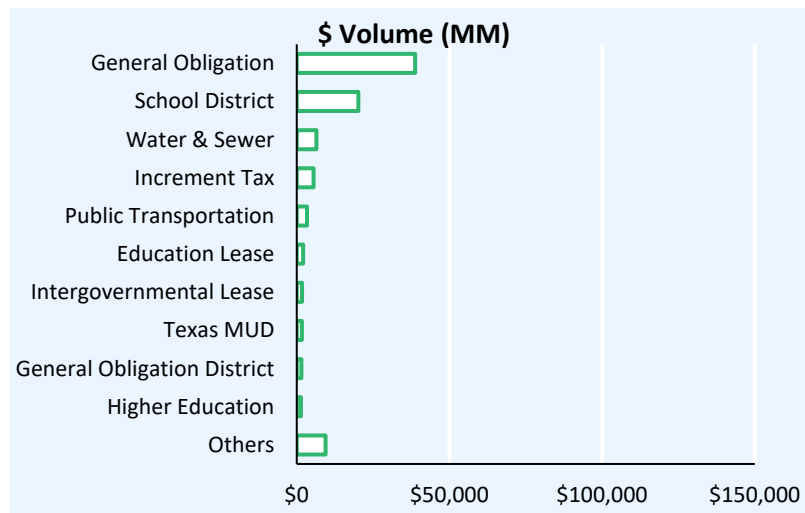
[†] Source: Bloomberg

2020 Transactions[†]

NEGOTIATED



COMPETITIVE



[†] Source: Bloomberg,

And now for the main event...

NEGOTIATED SALE



- ✓ Weighing in at 44 years in public finance
- ✓ Managing Director

COMPETITIVE SALE



- ✓ Weighing in at 37 years in public finance
- ✓ Managing Director and CEO

Pros & Cons

Advantages

Negotiated

- ✓ Ability to negotiate
- ✓ The underwriter can do more presale marketing
- ✓ The issuer and underwriter can respond to changing market conditions or change sale date
- ✓ Can maximize investor structuring preferences and accommodate reverse inquiries
- ✓ Have Retail Order period
- ✓ The issuer has greater control over the composition of the underwriting syndicate to include regional firms and/or minority owned firms
- ✓ Competition is driven by order flow and investor appetite

Disadvantages

- ✗ There is no direct competition among underwriters in setting the terms of the offering
- ✗ The gross underwriting spread covers additional services that may differ from one issuer to another
- ✗ Municipal officials may be open to accusations of favoritism toward the selected underwriter
- ✗ Can place too much emphasis on underwriters discount (i.e. limit takedown)

Competitive

- ✓ Avoids the procurement process of underwriter selection
 - ✓ Underwriters may bid aggressively to help secure a future negotiated underwriting
 - ✓ With flexible “Notice of Sale”, sale date can be rescheduled
 - ✓ Outliers often bid well through other firms
 - ✓ Required by law: New money MUD bonds in Texas
 - ✓ Emphasis on lowest True Interest Cost drives lower couponing structure
- ✗ Bidders may factor in a risk premium – especially in turbulent markets
 - ✗ An issuer has little control over the composition of the underwriting syndicate
 - ✗ Focus on lowest rate ignores considerations like optionality
 - ✗ Some small firms are less likely to participate because of the higher risk

Decision Process

There are many factors to consider, and each bond sale will have different needs, structures, complexity, market conditions, etc.

Considerations for Negotiated Sale

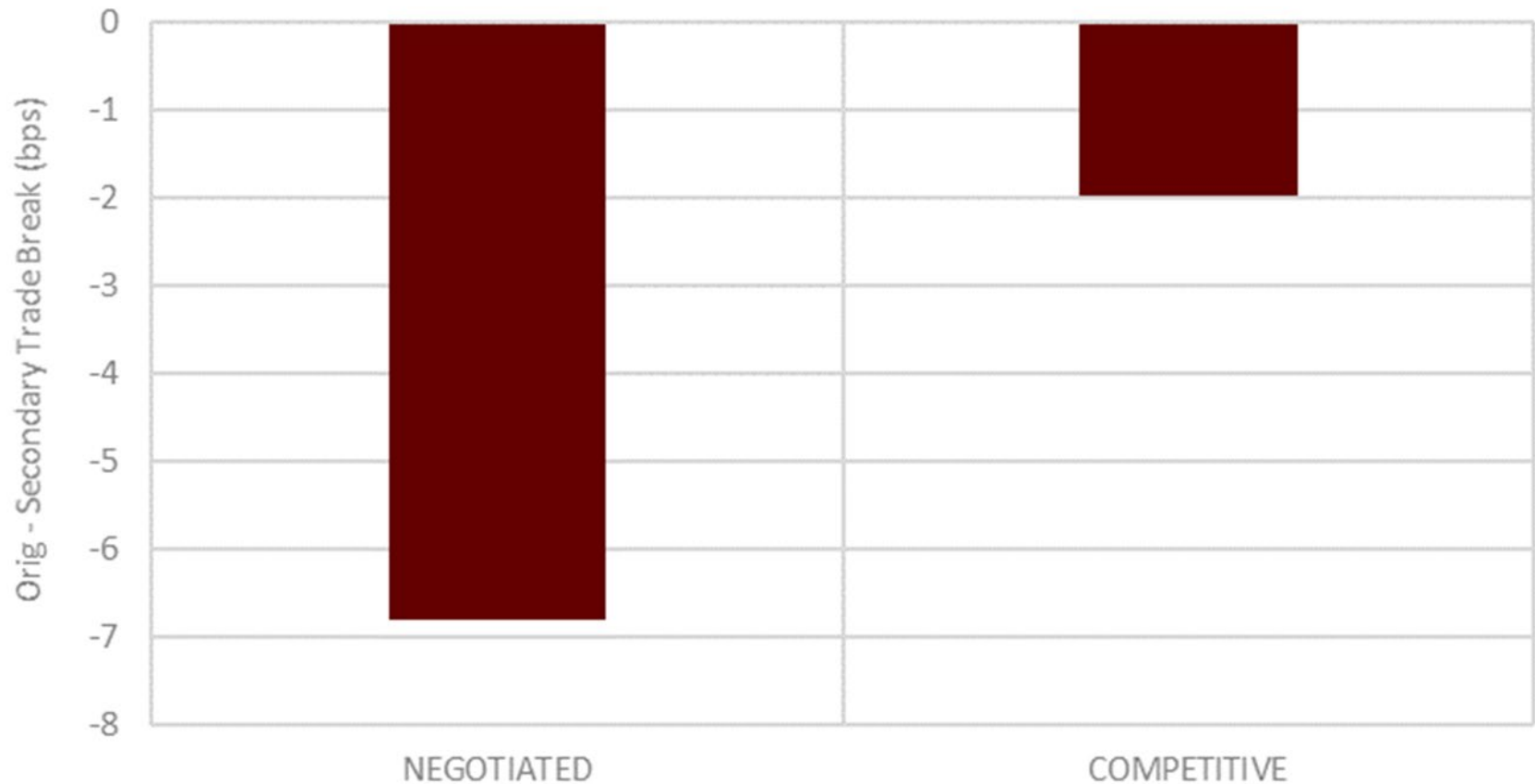
- Unusually Large Issue
- New Entity / First time Issuer
- Priority for MWBE Participation
- Unusual Financing Terms
- Complex Refunding
- Market Volatility
- Unrated/Lower Rated Credit
- Retail Order Period

Considerations for Competitive Sale

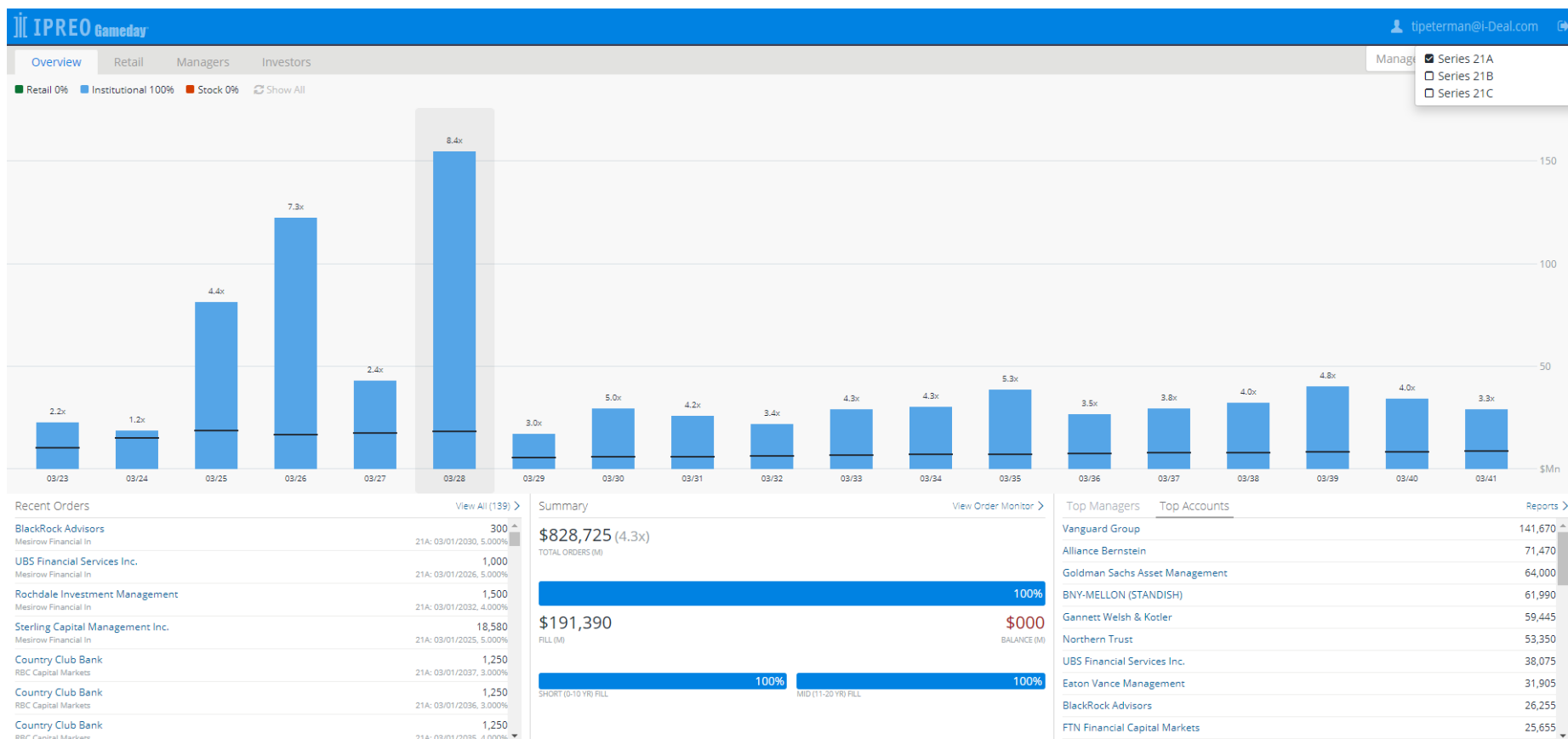
- High Grade Credit
- Stable Market
- Straight Forward Structure
- Legal / Statutory Requirements

Secondary Breaks[†]

Secondary Breaks By Offering Type: Tax-Exempt Only, All Ratings
Long Term Average 2016 - Current



Negotiated Sale: Ipreo Gameday



Competitive Sale: Bidding Platforms

- Sealed bid
 - All bids are hidden until final bid time
 - Award to low bidder
- Open Auction
 - Allows bidders to know their ranking before bid deadline
 - Bidders typically amend their bids multiple times
 - Bid period is extended if best bid changes within a certain time period (two minutes)

Competitive Sale: Notice of Sale Terms

- Allows for rescheduling of sale date, typically 24 hours in advance.
- Allows for rebalancing of principal amounts within a short time period after the initial award.
 - Typically, no more than 10% of originally stated principal amounts
- Allows for significant premium structures that are popular in today's market.
- May require documented good faith effort to include MWBE firms.

Competitive Sale: Pricing Advantage

Examples of Winning Bid compared to Cover Bid

Issuer	Series	Size	Credit	Rating			Winning TIC	Cover Difference
				S	M	F		
Seguin, City	Comb Tax & Ltd CO, Series 2021	10,970,000	GO	AA		AA	2.0224	0.1511
Denison, City	Comb Tax & Ltd CO, Series 2021B	10,365,000	GO	AA-		AA	2.0060	0.1258
Travis Co Healthcare Dist	CO Taxable Series, 2021	62,755,000	GO		Aa2		2.1182	0.1184
Austin, City	CO Taxable Series, 2021	20,300,000	GO	AAA	Aa1	AA+	1.9013	0.1173
Denton, City	GO Bonds, Series 2021	54,710,000	GO	AA+		AA+	1.8739	0.1119
Irving, City	Comb Tax & Rev CO, Series 2021	22,505,000	GO	AAA	Aaa		1.8557	0.0912
Plano, Drainage Uti Sys	Mun Dr Util Sys Rev Ref & Imp Bds, Series 2021	40,590,000	Rev	AAA	Aa1		2.3277	0.0886
Sugar Land, City	GO Ref & Imp Bds, Series 2021	12,525,000	GO	AAA	Aa1	AAA	1.5108	0.0817
Arlington, City	Perm Imp Bonds, Series 2021A	31,820,000	GO	AAA	Aa1	AAA	1.5152	0.0777
State GO Debt	College Stud Loan Ref Bds, Series 2021A	146,880,000	GO	AAA	Aaa		2.1174	0.0719
Plano, City	GO Ref & Imp Bds, Series 2021	74,085,000	GO	AAA	Aaa	AAA	1.6314	0.0707
Round Rock, City	Comb Tax & Ltd CO, Series 2021	27,460,000	GO	AAA	Aa1		1.7917	0.0686
State GO Debt	College Stud Loan Ref Bds, Series 2021B	72,385,000	GO	AAA	Aaa		1.3893	0.0665
San Marcos, City	Comb Tax & Rev CO, Series 2021B	34,530,000	GO	AA			1.6911	0.0663
FB LID 2	UL Tax Levee Imp Bds, Serie 2021	16,635,000	GO	AA-			1.8507	0.0649
Irving, City	WW & SS New Lien Rev Bd, Series 2021	18,920,000	Rev	AA+	Aa2		1.6840	0.0640
Pleasanton, City	Comb Tax & Ltd CO, Series 2021	10,075,000	GO	AA-			1.6773	0.0592
Greenville, City	Comb Tax & Rev CO, Series 2021	64,970,000	GO	AA-		AA-	2.1958	0.0580
Acton MUD	Utility System Revenue, Series 2021	10,870,000	Rev	AA-			1.9889	0.0573
Malcomson Road UD	UL Tax Bds, Series 2021	12,895,000	GO	A+			2.0787	0.0556
Jim Ned CISD	UL Tax School Bldg Bds, Series 2021	23,570,000	GO		Aa3		1.8558	0.0541
Arlington, City	W&WW System Rev Bds, Series 2021	44,070,000	Rev	AAA	Aa1	AAA	1.5923	0.0536
Univ of Houston	Cons Rev Ref Bds, Series 2021A	16,425,000	Rev	AA	Aa2		1.6860	0.0533
Princeton, City	Comb Tax & Surp Rev CO, Series 2021	10,800,000	GO	AA-		AA-	1.8140	0.0528
Denton, City	CO, Series 2021	97,035,000	GO	AA+		AA+	2.1213	0.0518
Grapevine, City	Comb Tax & Ltd CO, Series 2021	10,220,000	GO	AA+	Aa1		1.6773	0.0453

Competitive Sale: Outliers

\$54,710,000
City of Denton
GO Bonds, Series 2021
AA+//AA+

<u>Rank</u>	<u>TIC</u>	<u>Diff</u>
Win	1.874	
2	1.986	0.112
3	2.027	0.153
4	2.034	0.160

\$10,970,000
City of Seguin
Comb Tax & Ltd Pledge
Rev CO, Ser 2021
AA//

<u>Rank</u>	<u>TIC</u>	<u>Diff</u>
Win	2.022	
2	2.174	0.151
3	2.177	0.155
4	2.207	0.185

\$20,300,000
City of Austin
CO Taxable, Series 2021
AAA/Aa1/AA+

<u>Rank</u>	<u>TIC</u>	<u>Diff</u>
Win	1.901	
2	2.019	0.117
3	2.038	0.136
4	2.078	0.177

And the winner is...YOU – the Issuer

- Both sale methods are proven
- Issuers have different objectives and use different sale methods depending on the facts and circumstances
- Consult your financial advisor



Lunch & Learn Series: Mastering Public Finance

Spring 2021 – What Happens if C/O's Go Away

Fall 2021 – Negotiated vs. Competitive Sales

Upcoming Events

January 2022 – Let us know what you'd like to learn about next

Connect with us...

The image shows a LinkedIn profile for Masterson Advisors LLC and a section of their website. The LinkedIn profile includes the company logo, name, location (Houston, Texas), and follower count (739). It also shows a banner image of a city skyline and a navigation bar with options like Home, My Network, Jobs, and Messaging. The website resources section features a grid of six items, each with an icon and a title: Market Commentary, Rate Sheet, Hot Topic, Statement of Qualifications, Archive, and Masterson Year in Review.

LinkedIn Profile:

- Company:** Masterson Advisors LLC
- Location:** Financial Services · Houston, Texas · 739 followers
- Connections:** Trey & 21 other connections work here · 24 employees
- Buttons:** Following, Visit website, More
- Navigation:** Home, My Company, About, Posts, Jobs

Website Resources:

Resource	Date
Market Commentary	September 27, 2021
Rate Sheet	September 27, 2021
Hot Topic	August 5, 2021
Statement of Qualifications	
Archive	
Masterson Year in Review	

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Pursuant to Municipal Securities Rulemaking Board (“MSRB”) Rule G-42, on Duties of Non-Solicitor Municipal Advisors, Municipal Advisors are required to make certain written disclosures to clients which include, amongst other things, Conflicts of Interest and any Legal or Disciplinary events of Masterson Advisors LLC and its associated persons.

Conflicts of Interest

Masterson Advisors LLC represents that in connection with the issuance of municipal securities, Masterson Advisors LLC may receive compensation from an Issuer or Obligated Person for services rendered, which compensation is contingent upon the successful closing of a transaction and/or is based on the size of a transaction. Consistent with the requirements of MSRB Rule G-42, Masterson Advisors LLC hereby discloses that such contingent and/or transactional compensation may present a potential conflict of interest regarding Masterson Advisors LLC’s ability to provide unbiased advice to enter into such transaction. This conflict of interest will not impair Masterson Advisors LLC’s ability to render unbiased and competent advice or to fulfill its fiduciary duty to the Issuer.

If Masterson Advisors LLC becomes aware of any additional potential or actual conflict of interest after this disclosure, Masterson Advisors LLC will disclose the detailed information in writing to the Issuer in a timely manner.

Legal or Disciplinary Events

Masterson Advisors LLC does not have any legal events or disciplinary history on Masterson Advisors LLC’s Form MA and Form MA-I, which includes information about any criminal actions, regulatory actions, investigations, terminations, judgments, liens, civil judicial actions, customer complaints, arbitrations and civil litigation. The Issuer may electronically access Masterson Advisors LLC’s most recent Form MA and each most recent Form MA-I filed with the Commission at the following website: www.sec.gov/edgar/searchedgar/companysearch.html.

There have been no material changes to a legal or disciplinary event disclosure on any Form MA or Form MA-I filed with the SEC. If any material legal or regulatory action is brought against Masterson Advisors LLC, Masterson Advisors LLC will provide complete disclosure to the Issuer in detail allowing the Issuer to evaluate Masterson Advisors LLC, its management and personnel.



MASTERSON
ADVISORS LLC