How a ‘AAA’ City Invested In Investor Outreach

By Colin MacNaught

Issuers of all types of securities – stocks and bonds – in all different capital markets around the world continually debate the value of investor relations. The debate comes down to this: is an investor outreach program a necessary cost, or is it an investment from which an issuer can expect a return on its investment?

The smart issuers view investor outreach as an investment. They proactively take steps to tell their story to investors, to make it easy for investors to understand their credit and use every tool available to enhance and diversify their investor base. In return for their investment, these issuers know that they will see a return in the form of reduced cost of capital over the long term. Enhanced transparency to investors may also help attract more long-term buyers, increase the liquidity of the issuer’s bonds and provide more stable spreads/bond valuations.

In the municipal bond market, we have a good case study on the question of investor outreach as a cost or investment in the City of Saint Paul, the capital city of Minnesota. Saint Paul issues bonds through several different credits. Its main borrowing program, the General Obligation program, is rated AAA/AAA by Fitch and S&P Global. Its sewer bonds are also rated AAA by S&P Global.

In recent months, the City has taken steps to improve the transparency of its financial operations. This included its debt financing program, and Saint Paul launched a new, dedicated investor website – www.stpaulbonds.com - powered by BondLink. CFO Todd Hurley and Treasurer Michael Solomon sought technology that would attract more investors to their bond program, including local investors such as local banks, trust departments, financial advisors and individual investors.

Ahead of its competitive bids on March 8, the City launched its new investor website. This was featured in The Bond Buyer, as well as the local Saint Paul and Minneapolis press. The City held a total of three competitive sales that day, of which two mirrored competitive sales sold in prior years based on analysis by City’s municipal advisor. According to the City, the number of bidders who participated jumped by more than 20% for each auction.

Good news on the number of bidders. But how were the bids?

Despite the fact that the municipal bond market weakened every day that week with the MMD yield curve re-setting higher in yield every day, the bids came in substantially stronger than in prior years. For the $9.96 million General Obligation bond sale, the City’s average spread to MMD was reduced by 9 to 12 basis points relative to prior years. On a present value basis using some back-of-the-envelope calculations, the reduction in borrowing costs on the G.O. bond sale ranged from $63,000 to nearly $85,000.

For the City’s $7.795 million Sewer Revenue bond sale, bids were tighter on a spread-to-MMD basis of 12 to 24 basis points in different maturities. This is a reduction in interest costs of roughly $85,000 to $170,000 for Saint Paul’s taxpayers. These results are even more impressive because one of the rating agencies had recently assigned a “negative outlook” to the rating on the AAA sewer bonds. But the City used its investor website to tell its story, and not let its story be defined solely by the rating agency. Taken together, the City’s reduced borrowing costs were over $250,000 on the higher end of the range.

“BondLink was a tool that we used to increase transparency and drive investor interest in our bond sale,” *said Treasurer Michael Solomon.* ***“Even though the City has high bond ratings, the finance team is always looking for ways to reduce borrowing costs, and we are very excited about the results of the first bond sales with the City’s new investor relations website in place.”***

Obviously, there are a number of different factors that go into how a bond prices on a given day. But it certainly did not hurt that the City had taken steps to attract more investors using its new investor website. Saint Paul invested in investor outreach and saw a strong return in the form of reduced borrowing costs.

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