

# **Bond Case Briefs**

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## **Family Tie Clouds Nashville Bond Deals; Mayor Vows Changes.**

The financial firm employing the son of the top adviser to Nashville's last two mayors has earned almost all of the city's bond underwriting deals in recent years without having to competitively bid for the contracts.

Four of the last five bonds issued by Metro agencies have been underwritten by Piper Jaffray, which employs the son of Rich Riebeling, who is a top aide to Nashville Mayor Megan Barry and is the city's chief operating officer. Barry has continued her predecessor's practice of awarding bond underwriting contracts without a competitive bidding process.

In response to questions from The Tennessean after weeks of investigation, Barry's administration has committed to change the way underwriting contracts are awarded. Finance Director Talia Lomax-O'dneal will oversee bond issuances, instead of Riebeling, and a new solicitation process will be implemented.

Though there is debate in municipal finance circles, the Securities and Exchange Commission and multiple experts say competitive bond deals tend to yield better interest rates and lower underwriting fees. Metro's own debt management policy states that the city prefers competitive bond deals.

Under a competitive process, firms submit sealed proposals and the government picks the bid with the lowest interest rate.

After Karl Dean was elected mayor in 2007, under Riebeling's leadership of the city's finances, Metro switched to negotiated deals. For negotiated deals, Metro and its financial adviser can hold behind-closed-doors talks with financial firms and pick one without a public bid. Proponents of these deals say negotiated offerings allow flexibility to go to the bond markets at the optimal time.

In the past five years, Metro has used just one competitively bid bond deal.

On the other hand, the city has executed 17 negotiated bond deals in the past five years. Piper Jaffray has been the lead underwriter on nine of those deals and underwrote at least a portion of 16 issuances, according to records provided by Metro. Piper Jaffray, which is a preeminent financial firm headquartered in Minnesota, earned roughly \$3.07 million in underwriting fees on those deals, according to an analysis by The Tennessean.

Metro does business with Piper Jaffray's Memphis office, where Riebeling's son Michael Riebeling works in the public finance division.

"Public confidence in transactions overseen by the Metropolitan government is important," said at-large Councilman John Cooper, who is chairman of the Council Budget and Finance Committee. "Good process protects us all. That's not to say anything has gone wrong here, but it merits asking the question for what our conflict of interest policy is."

## **City's debt policy calls for competitive deals**

On Dec. 6, 2011, the Metro Council approved the city's new debt management policy, which states that Metro "prefers a competitive issuance process for debt issuances" but will "consider negotiated issuance ... where it is clear that such process is in the best interests of the Metropolitan Government."

The Government Finance Officers Association, a nonprofit trade group of state and municipal finance officials, laid out guidelines for when a city should utilize negotiated bond deals — instances when there is low credit, a traditional bond issuance is too expensive, the structure of the issuance is complicated or if the city requires use of a minority-owned underwriting firm.

However, Metro's outside financial adviser Wayne Placide argued in a prepared statement that negotiated deals benefit the city. He said the city's bond issuances have been complicated deals that warranted a negotiated sale.

"The negotiated sale method is used for the more complex or nontraditional bond issues to allow time to explain the financing to potential investors, thereby potentially reducing or removing market uncertainty," Placide said. "Also, the negotiated sale method provides a more flexible timetable, which, during periods of high market volatility, may allow the bond issue to be sold at short notice when a favorable marketing window is perceived to exist."

But Emily Evans, who was formerly the head of the underwriting division at JC Bradford and served on the Metro Council from 2006 until 2015, said the city's bond deals are straightforward. Interest rate swaps, derivatives or forward-looking speculative deals are the kinds of issuances that may be more complicated and benefit from a negotiated sale. Evans said those kinds of deals don't apply to Metro.

"There's nothing complicated about those deals," Evans said. "In fact, Tennessee bond laws are very conservative and by virtue of that we just don't have very complicated financing in this state."

## **Piper Jaffray's hot streak**

The Tennessean examined five years of Metro bond deals and found that until 2014, the city used a variety of underwriters selected through a negotiated process. Reputable financial firms Morgan Keegan, Morgan Stanley, Raymond James and Goldman Sachs each served as the lead underwriter on various bond issuances.

Metro issues bonds to pay for sidewalks, schools, police headquarters or other capital projects.

Since 2014, Piper Jaffray has been on a hot streak, serving as the lead underwriter on all but one bond issuance from a Metro agency. Michael Riebeling was hired by Piper Jaffray in 2012.

"Piper Jaffray takes conflicts of interest issues seriously and has robust procedures throughout our various businesses, including public finance, to avoid or mitigate perceived or actual conflicts of interest based on the facts and circumstances of each client relationship," the company said through spokeswoman Pamela Steensland.

Rich Riebeling was Metro's finance director and one of two top advisers to Dean between 2007 and 2015. Riebeling was picked by Barry to be her chief operating officer and still advises her on financial matters. Before advising the mayors, Riebeling worked at Fifth Third Securities and at Morgan Keegan.

## **Metro changes bond underwriting after newspaper questions**

The relationship between Riebeling and his son's firm does not constitute a conflict of interest, Barry's spokesman, Sean Braisted, said. Michael Riebeling works on a salary and has not benefited financially from the underwriting of Metro's bonds, Braisted said.

"Based on the facts presented to me, there does not seem to be any actual conflict of interest," said Barry, who worked as an ethicist advising health care companies before she was elected mayor last year. "However, out of an abundance of caution, steps will be taken to avoid even the appearance of a conflict going forward."

Rich Riebeling acknowledged that once his son was hired by Piper Jaffray in 2012 he was aware of the potential for conflicts.

"After Michael accepted an offer of employment, I made clear to the management team that he could not be involved in, or financially benefit from, any work related to Metro Nashville," he said. "To the best of my knowledge, they have never violated those conditions. Since my son has been employed with Piper Jaffray, many other firms have participated in and led underwriting transactions, and at no point was his employment ever a consideration when choosing an underwriter."

Rich Riebeling said that going forward he will not be involved with any negotiations for bond underwriting. When he was advising Dean, Riebeling failed to list some of his personal business dealings on annual public disclosures, including real estate deals with prominent attorney Charles Robert Bone, who was hired as legal counsel for the Music City Center project. Riebeling amended his disclosure forms to show those investments.

Lomax-O'dneal, the finance director, said she would instruct Hilltop Securities, Placide's firm that advises Metro on financial matters, to conduct an "annual, independent competitive solicitation" to compile a list of pre-approved underwriting vendors for the Treasury Office to negotiate with.

"This will ensure the continued objective selection of our underwriters, while avoiding even the appearance of impropriety," she said.

The solicitation process described by Lomax-O'dneal is still through a negotiated sale and Metro would not necessarily use competitive bids to choose the firm proposing the lowest interest rate.

### **The Tennessean**

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