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STATE TREASURER

NANCY BREWER
CHAIR

MUNICIPAL DEBT ADVISORY COMMISSION
350 WINTER STREET NE, SUITE 100
SALEM, OREGON 97301-3896
(503) 378-4930

MUNICIPAL DEBT ADVISORY COMMISSION
MEETING NOTICE AND AGENDA

March 13, 2018
2:00 – 3:15 pm

Location:
Oregon Government Finance Officers Association
2018 Spring Conference
Sunriver Resort, Sunriver, Oregon
Abbott Conference Room

Teleconference Participation:

Dial-In Access	888-636-3807
Participant Code	662435

	Presenter
I. Call to Order	
II. Impacts of Federal Tax Reform on the Muni Market	Trish Eichar
a. Advance Refunding Alternatives	Carol Samuels
b. Impacts on Private Placement Bank Loans	Nikolai Sklaroff
III. Legislation Impacting the Oregon Bond Market	Laura Lockwood-McCall
a. Recent State Legislation	
b. Federal Legislation to Restore Advance Refundings	
IV. Potential Legislative Initiatives for 2019	Nancy Brewer
a. Local Government Bond Limits	
V. Additional Disclosure Requirements re: Local Gov't Bonds	Christine Reynolds
a. California Senate Bill 450 (Hertzberg)	
VI. Other Business	Nancy Brewer
a. MDAC Member Recruitments for: League of Oregon Cities Representative Oregon School Board Association Representative	
VII. Adjourn	

TAB II. – IMPACTS OF FEDERAL TAX REFORM ON THE MUNI MARKET

The Tax Cuts and Jobs Act: The Impact on the Municipal Bond Market

The Tax Cuts and Jobs Act: The impact on the municipal bond market

Presented by Trish Eichar

orrick

Tax Reform—Recap of late 2017

November 2— House version of bill formerly known as Tax Cuts and Jobs Act is released

- Eliminates advance refundings
- Eliminates private activity bonds (including 501(c)(3) bonds)
- Eliminates tax credit bonds
- Eliminates bonds to finance professional sports stadiums

November 9– Senate version is released

- Eliminates advance refundings and tax credit bonds

December 15—Conference bill is released

- Municipal bond provisions consistent with Senate version

December 22—Tax reform bill signed by President

Tax Reform—Direct Effects on Municipal Bonds

- Eliminates ability to issue tax-exempt advance refunding bonds after December 31, 2017
  - Advance refunding bonds are bonds issued more than 90 days prior to the redemption of the refunded bonds
- Eliminates ability to issue tax credit bonds after December 31, 2017
  - Qualified Zone Academy Bonds
  - New Clean Renewable Energy Bonds
  - Qualified Energy Conservation Bonds
- No transition rules
- No repeal of private activity bonds and no repeal of stadium bonds
- Tax reform proposals in November prompted a flood of late 2017 transactions, particularly private activity bonds and advance refundings

Tax Reform–Indirect Effects on Municipal Bonds

- Reduction of tax rates
  - May reduce the value of tax-exemption on municipal bonds
  - May trigger interest rate adjustments in outstanding private placements
- Repeal of corporate alternative minimum tax
  - May increase value of AMT private activity bonds for corporate taxpayers
- Increases tax rate on insurance companies with tax-exempt interest
- Taxes large private university endowments
- $10,000 limitation on deductions of state and local taxes (SALT)
  - Raises after-tax cost to taxpayers of state and local taxes
  - May increase value of state or local tax-exemption

Elimination of Tax-Exempt Advance Refundings

- For federal revenue purposes, there is a doubling of federal tax subsidy during escrow period, when two sets of tax-exempt bonds were outstanding
- Potential market changes following elimination of advance refundings
  - Shorter par call dates
  - Make-whole calls prior to par call
  - Synthetic advance refundings, including derivatives or options that provide equivalent cost savings to issuer
  - Taxable sandwich structures, where taxable bonds are issued to advance refund and later currently refunded by tax-exempt bonds
  - “Cinderella” structures, where taxable bonds convert to tax-exempt
    - Difficult and complicated tax issues

Other Issues Regarding Advance Refundings

- Pre-tax reform, regulations and rulings governed advance refunding of taxable bonds and other taxable debt
  - In most cases, a tax-exempt advance refunding of taxable debt was not counted as an advance refunding for purposes of old rule allowing one advance refunding
  - No general rule saying that a tax-exempt advance refunding was not treated as an advance refunding
- Post-tax reform, questions about how to apply these rules
  - Many bond counsel are currently discussing and analyzing this issue
  - Expect some guidance or clarifying statements from regulators
  - Right answer is that a tax-exempt advance refunding of taxable debt should be allowed, except in abusive circumstances

State and Local Tax-Exemption for Municipal Bonds

- Federal income tax exemption for interest on municipal bonds is governed by federal income tax requirements
- State income tax exemptions are different
  - In most states that impose individual income taxes, the interest on bonds issued by governmental entities within that state is categorically exempt from that state's income tax.
  - Under federal law, bonds issued by U.S. territories (Puerto Rico, Guam, Northern Marianas Islands, U.S. Virgin Islands, etc.) are also exempt from state or local income tax
  - Even if bonds are federally taxable, the interest may be exempt from state income tax (e.g., California BABs are exempt from California personal income tax, even though federally taxable).

Federal Tax Deductions for State and Local Taxes

- Historically, state and local taxpayers could claim a federal tax deduction for the amount of their state and local taxes paid (income tax, property tax, etc.)
- Effect is to reduce cost to taxpayers of paying state and local taxes
  - Pay $1,000 in local taxes
  - Claim $1,000 deduction on federal income tax return
  - At 35% federal tax rate, value of $1,000 deduction is $350
- Tax Cuts and Jobs Act imposes $10,000 limitation on deduction for state and local taxes
  - In high tax states (CA, NY, NJ, etc.), many taxpayers will not be able to deduct full amount of state and local taxes paid
- Individual investors in taxable bonds (e.g., corporate bonds) may have an increased interest in taxable municipal bonds that are exempt from their state or local income taxes

What the Future Holds

- Lower volume so far in 2018
- Developments to address elimination of advance refundings
  - Potential IRS/Treasury Guidance on refunding of taxable debt
  - Development of new structures
- Development of market for federally taxable state/local tax-exempt bonds
- Focus on change-in-law tax risk for future transactions
- Other issues

Questions?

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TAB II.a. – ADVANCE REFUNDING ALTERNATIVES

OST – Local Government News Report

GFOA – Potential Impacts of Tax Reform on Outstanding and Future Municipal Debt Issuance

NABL – Ban on Tax-Exempt Advance Refundings – Now What?

WWW.OST.STATE.OR.US

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SALEM, OREGON 97301

OREGON STATE TREASURY

Local Government

News Report

FEBRUARY 2018

INSIDE THIS ISSUE

Gary Halvorson, Oregon State Archives

HOLIDAY

February 19
Presidents Day

Pool Closed

See article from more information

POTENTIAL IMPACTS OF FEDERAL TAX REFORM ON MUNICIPAL DEBT ISSUANCE

Historically, the advance refunding of outstanding tax-exempt municipal bonds was a way for state and local government issuers to take advantage of favorable interest rates to lower their overall debt service costs, which in turn benefited their taxpayers and ratepayers. Given the historic drop in interest rates, it is estimated that 25–30 percent of municipal bond issuance in recent years was related to advance refundings. Over the past decade alone, Oregon state and local borrowers issued $9 billion in tax-exempt advance refunding bonds, saving Oregonians more than $800 million in bond interest costs.

Despite intense lobbying efforts by various state and local organizations, federal tax reform legislation adopted by the U.S. Congress in December 2017 eliminated our ability to issue tax-exempt advance refunding bonds in the future. Market solutions seeking to provide similar outcomes to that of tax-exempt advance refundings are now emerging, as are changes to the way that new bond issuances are structured.

In response to the loss of this important financing tool, the National Association of Bond Lawyers (NABL) recently published a four-page white paper describing a wide variety of alternatives to tax-exempt advance refundings that issuers may want to consider. In addition, the Government Finance Officers Association (GFOA) recently released an alert on this topic to its membership, discussing a wide range of alternatives that banking professionals are beginning to pitch to issuers.

Considerations for the Refunding of Outstanding Bonds

Market participants will likely recommend previously used tools or develop new tools or mechanisms to simulate the beneficial impacts of tax-exempt advance refundings. Potential alternatives may include taxable advance refundings, interest rate locks, forward-purchase agreements, or other options. GFOA urges issuers to be particularly mindful of the unique risks and uncertainties associated with these options, and to discuss these options with their municipal advisors and legal counsel. Additionally, issuers wishing to refund Build America Bonds (or similar tax credit subsidy bonds) must consult with their legal counsel and municipal advisors before proceeding with this type of financing.

Issuers also should be aware that outstanding bank loans or direct placements could be impacted by tax law changes that reduced corporate tax rates. “Gross up”

(Continued on page 2)

INTEREST RATES

Average Annualized Yield

January
1.7387 percent

Interest Rates

January 1–23
1.70 percent

January 24–31
1.85 percent

ACTS OF FEDERAL TAX REFORM ON ISSUANCE

(Continued from page 1)

provisions—included in many bank loan agreements—may result in immediate increased interest costs, so issuers should discuss possible solutions with their debt management team at their earliest opportunity.

Considerations for Future Tax-exempt Bond Issues

Governments preparing to issue new municipal bonds may want to pursue issuance alternatives that provide early refinancing options in the absence of tax-exempt advance refunding provisions. These alternatives may include use of shorter call features, bullet maturities, derivative products, and variable rate financing options. Similar alternatives may also be pursued with current refunding bonds.

For example, issuers can sell new tax-exempt bonds that allow redemption to occur at par before the traditional 10-year par call. A variation of this would be to issue bonds with shorter calls with a declining redemption premium over time. A declining redemption premium would give investors some call protection and added compensation, while providing the issuer the option of a shorter call option.

Issuers may also sell fixed rate bonds with make-whole calls, in which the bonds are callable at any time as long as bondholders are paid an amount equal to the present value of the remaining principal and interest payments. Issuers may want to consider issuing variable rate bonds, as they can be called and or restructured over much shorter periods of time.

Finally, issuers may want to give consideration to privately placing their bonds with banks, which allows them to negotiate their own prepayment terms and redemption provisions. The new tax law's reduction of the corporate rate from of 35 percent to 21 percent may result in reduced demand by banks for tax-exempt bonds, which will likely make the private placement option more costly to municipal borrowers from an interest rate perspective than in the past.

GFOA urges issuers to carefully consider whether the specific benefits, risks, and costs of any financial tool are fully understood and are consistent with the entity's debt management policies. For example, shorter call features may come with an increased cost premium at the time of issuance, and other material changes to terms or costs. Issuers may want their municipal advisors to help them perform a diligent analysis of various call feature costs versus their potential benefits as they structure future new money transactions.

In the next few weeks, the Debt Management Division's web pages below will be updated to present current information and resources.

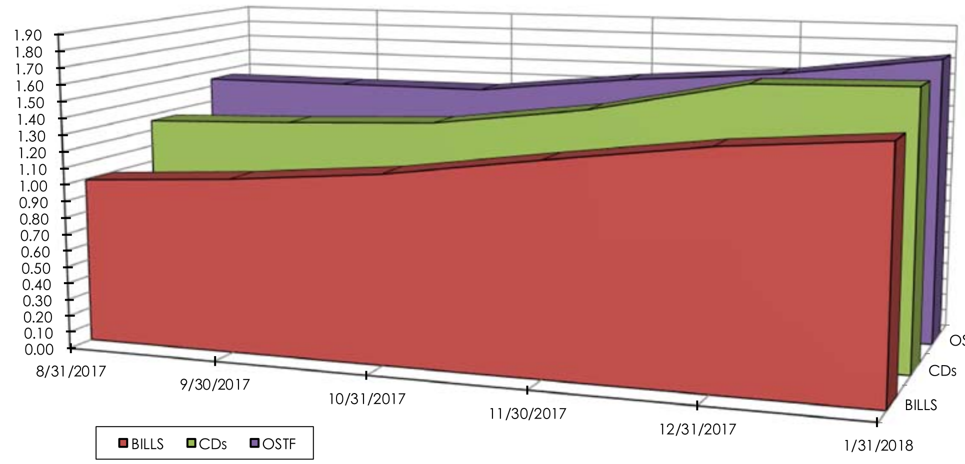
http://www.oregon.gov/treasury/Divisions/DebtManagement/LocalGov/Pages/Oregon-Bond-Education-Center.aspx

http://www.oregon.gov/treasury/Divisions/DebtManagement/LocalGov/Pages/default.aspx

UPCOMING HOLIDAY

The pool will be closed on Monday, February 19, for Presidents Day. EON will be available but the system will not allow transactions to settle on the holiday.

OREGON SHORT TERM FUND ANALYSIS AS OF 1-31-18



	8/31/2017	9/30/2017	10/31/2017	11/30/2017	12/31/2017	1/31/2018
LGIP AV DOLLARS INVESTED (MM)	6,605	,605	,255	,926	,100	,509
STATE AGENCY AV DOLLARS INVESTED (	9,061	,077	0,898	0,526	0,418	0,589
TOTAL OSTF AV DOLLARS INVESTED (MM)	15,666	5,682	7,153	9,452	9,518	9,098
OST ANNUAL YIELD (ACT/ACT)	1.4	.4	.4	.5	.6	.74
3-MO UST BILLS (BOND EQ YLD)	0.9	.0	.1	.2	.3	.46
3-MO US CD (ACT/360)*	1.26	1.29	1.33	.45	1.64	1.66

NOTE: The OST ANNUAL YIELD represents the average annualized yield paid to account holders during the month. Since interest accrues to accounts on a daily basis and the rate paid changes during the month, this average rate is not the exact rate earned by each account.

3-MO UST BILLS yield is the yield for the Treasury Bill Issue maturing closest to 3 months from month end. 3-MO US CD rates are obtained from Bloomberg and represent a composite of broker dealer quotes on highly rated (A1+/P1/F1+ from Standard & Poor's Ratings Services, Moody's Investors Service and Fitch Ratings respectivley) bank certificates of deposit and are quoted on a CD equivalent yield basis.

This material is available in alternative format and media upon request.

MARKET DATA TABLE

	1/31/2018	1 Month	3 Months	12 Months		1/31/2018	1 Month	3 Months	12 Months
7-Day Agency Discount Note**	1.04	1.00	0.83	0.48	Bloomberg Barclays 1-3 Year Corporate YTW*	2.53	2.30	2.01	1.88
30-Day Agy Nt Disc**	1.18	1.16	0.93	0.49	Bloomberg Barclays 1-3 Year Corporate OAS*	0.40	0.41	0.40	0.68
90-Day Agy Nt Disc**	1.40	1.33	1.10	0.53	Bloomberg Barclays 1-3 Year Corporate Modified Duration*	1.90	1.88	1.91	1.89
180-Day Agy Nt Disc**	1.51	1.40	1.21	0.59					
360-Day Agy Nt Disc**	1.85	1.65	1.39	0.82	7-Day Muni VRDN Yield**	1.08	1.71	0.92	0.66
					O/N GGC Repo Yield**	1.43	2.00	1.08	0.59
30-Day Treasury Bill**	1.34	1.21	0.98	0.46					
60-Day Treasury Bill**	1.33	1.27	1.01	0.46	US 1 Year Inflation Break-Even**	2.13	0.85	1.21	2.13
90-Day Treasury Bill**	1.41	1.33	1.08	0.49	US 2 Year Inflation Break-Even**	1.84	1.56	1.60	1.91
6-Month Treasury Yield**	1.65	1.53	1.28	0.62	US 3 Year Inflation Break-Even**	1.88	1.71	1.71	2.00
1-Year Treasury Yield**	1.89	1.74	1.43	0.78					
2-Year Treasury Yield**	2.14	1.89	1.60	1.21	1-Day CP (A1/P1)**	1.41	1.46	1.15	0.69
3-Year Treasury Yield**	2.29	1.97	1.73	1.47	7-Day CP (A1/P1)**	1.44	1.49	1.17	0.70
					30-Day CP (A1/P1)**	1.54	1.57	1.23	0.77
1-Month LIBOR**	1.58	1.56	1.24	0.78					
3-Month LIBOR**	1.78	1.69	1.38	1.03	30-Day CD (A1/P1)**	1.55	1.53	1.24	0.79
6-Month LIBOR**	1.97	1.84	1.58	1.36	90-Day CD (A1/P1)**	1.75	1.68	1.36	1.01
12-Month LIBOR**	2.27	2.11	1.85	1.72	6-Month CD (A1/P1)**	1.91	1.79	1.53	1.29
Sources: *Bloomberg Index Services, **Bloomberg					1-Year CD (A1/P1)**	2.15	2.02	1.76	1.58

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February 13, 2018

MEMBER ALERT

FROM GFOA'S FEDERAL LIAISON

Potential Impacts of Tax Reform on Outstanding and Future Municipal Debt Issuance

Passage of the tax reform bill in December 2017 eliminated state and local governments' ability to use tax-exempt bonds to advance refund outstanding bonds, as of January 1, 2018. An advance refunding occurs when bonds are refunded more than 90 days prior to the optional redemption, or "call," date of the outstanding bonds. Tax-exempt advance refundings offered an important tool for state and local governments to reduce debt service costs, freeing up resources to be used for other important purposes, and minimizing taxpayer and ratepayer burdens[1]. Advance refundings are also utilized to restructure debt service payments or address problematic bond terms and conditions, if needed.

Federal tax laws previously provided issuers an opportunity to advance refund bonds on a tax-exempt basis. Since 1985, issuers were permitted a single advance refunding prior to the call date of the bond. In 2017, advance refundings represented approximately 20% of total tax-exempt municipal bond issuance. Market solutions seeking to provide similar outcomes to that of previous tax-exempt advance refundings are emerging, as are changes to new bond issuances. Issuers should work with their advisors to understand potential new risks and other considerations that may accompany these alternatives.

GFOA best practices recommend utilizing the skills and expertise of Bond Counsel and Municipal Advisors in making financing or refunding decisions. GFOA also cautions many entities against entering into swap or derivative agreements.

[1]*Federal regulations continue to allow issuance of tax-exempt current refunding bonds, where outstanding bonds may be refinanced on a tax-exempt basis within 90 days of the optional redemption, or "call," date of outstanding bonds.*

The following offers preliminary considerations for the issuer when working within the new tax laws:

Considerations for Outstanding Bonds

Market participants will likely recommend previously utilized tools or develop new tools or mechanisms to simulate the beneficial impacts of tax-exempt advance refundings. Potential alternatives may include taxable advance refundings, interest rate locks, forward-purchase agreements, or other options. Issuers should be particularly mindful of the unique risks and uncertainties associated with these options, and discuss these options with their municipal advisors and legal counsel. Additionally, issuers wishing to refund Build America Bonds (or similar tax credit subsidy bonds) will need to consult with their legal counsel and municipal advisors before proceeding.

Issuers should also be aware that outstanding bank loans or direct placements could be impacted by tax law changes that reduced corporate tax rates. “Gross up” provisions included in many bank loan agreements may result in increased interest costs effective immediately, and issuers should discuss possible solutions with their debt management team. Bank waivers or modifications of gross up provisions may trigger “reissuance” of the obligations.

Considerations for Future Bond Issues

Governments preparing to issue new municipal bonds may feel compelled to pursue issuance alternatives that provide early refinancing options in the absence of tax-exempt advance refunding provisions. These alternatives may include use of shorter call features, bullet maturities, derivative products and variable rate financing options. The same alternatives could also be pursued with current refunding bonds.

Issuers should be certain that specific benefits, risks, and costs of any financial tool are fully understood and are consistent with the entity’s debt policies. For example, shorter call features may come with an increased cost premium at the time of issuance, or other material changes to terms or costs. Performing diligent cost-benefit analysis of call features is likely to increase in importance.

Additional GFOA Resources

- GFOA Public Policy Statement: *Regulation of Derivative Products*
- GFOA Best Practice: *Refunding Municipal Bonds*
- GFOA Advisory: *Use of Debt-Related Derivative Products*
- GFOA Advisory: *Use of Derivatives and Structured Investments by State and Local Governments for Non-Pension Fund Investment Portfolios*
- GFOA Best Practice: *Debt Management Policy*
- GFOA Best Practice: *Selecting Bond Counsel*
- GFOA Best Practice: *Selecting and Managing Municipal Advisors*

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National Association of Bond Lawyers
established 1979

BAN ON TAX-EXEMPT ADVANCE REFUNDINGS -
NOW WHAT?
Published February 2018

The tax reform bill passed by Congress and signed into law on December 22, 2017 (referred to herein as the "Act") prohibits the issuance of tax-exempt advance refunding bonds after December 31, 2017. Previously, federal tax law provided issuers of governmental and 501(c)(3) bonds a single opportunity to advance refund outstanding bonds on a tax-exempt basis. An advance refunding occurs when refunding bonds are issued more than 90 calendar days prior to the call date of the outstanding bonds. The Act does not provide transition rules or an exception for outstanding bonds that would otherwise have been eligible for a tax-exempt advance refunding. As a result, the prohibition on advance refunding bonds applies immediately to outstanding bonds and may affect how call features for new bonds are drafted going forward.

The purpose of this paper is to briefly (1) describe known alternatives to tax-exempt advance refunding bonds[1] and (2) identify issues for consideration when structuring new transactions in light of the advance refunding ban. Given the creativity of investment bankers, municipal advisors, lawyers, and issuers,[2] it is likely that approaches in addition to those identified in this paper will develop over time. Further, as the municipal bond market and investors react to call provisions other than the traditional 10-year par call, alternatives involving shorter and other call features may become more cost-effective in the future. Of course, the viability of any of these approaches will depend on factors including market interest rates, demand for bonds, federal tax issues, and state law considerations.

Advance Refunding Alternatives

Current Refunding. The Act does not affect the ability of issuers to issue tax-exempt refunding bonds within 90 days of the call date of the refunded bonds. Depending on the purpose of the refunding, such as eliminating disadvantageous covenants, waiting until the current refunding window is available may or may not be a viable option.

Taxable Advance Refunding Bonds. For some issuers, issuing taxable advance refunding bonds may be a simple approach to achieving the benefits of an advance refunding. If the motivation for the refunding is (i) eliminating disadvantageous covenants, (ii) achieving interest rate savings and taxable rates are less than the rates on the refunded bonds, or (iii) restructuring existing debt, a taxable advance refunding may be a good alternative.

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1 References to bonds in this paper include all types of obligations including bonds, notes, leases, loan agreements and certificates of participation.

2 As used in this paper, issuer refers to bond issuers and obligors in conduit financings.

Negotiate with Existing Bondholders. Where bonds are held by a limited number of investors, it may be possible to negotiate a change in interest rate or a waiver of call protection. Because many fixed rate bonds are sold in $5,000 increments and may be traded on a daily basis, it may be challenging to identify the correct pool of bondholders. Even if bonds are widely held, an issuer may offer to purchase outstanding bonds pursuant to a tender offer. Issuers should be mindful of the federal securities laws when communicating with investors. In addition, negotiated changes may result in a reissuance for federal tax purposes. Such a reissuance would be treated as a current refunding, which is still permitted, but bond counsel should also consider whether interim changes in tax law may be applicable to the reissued bonds and whether a new IRS Form 8038 needs to be filed.

Cinderella Bonds. A “Cinderella bond” is initially issued on a taxable basis and converts to tax-exempt status upon the occurrence of some specified event or at a specified time. In the case of a refunding, the conversion could occur within 90 calendar days of the redemption date of the refunded bonds. This locks in the tax-exempt rate at the time the bonds are sold even though the conversion will occur in the future. Investors may demand a higher interest rate for committing to a rate in the future. Further, there are risks that the conversion may not occur. For example, if federal tax law changes between the date of issuance and the conversion date, the tax-exempt conversion may not happen. Practitioners will need to determine what structuring elements, if any, are necessary to ensure that the taxable bond is in fact treated as retired on the “Cinderella date” and replaced with a tax-exempt bond.

Forward Delivery Bonds. Tax-exempt bonds may be sold by an issuer to an underwriter pursuant to a bond purchase agreement with a longer than normal delivery date so that the closing occurs within 90 days prior to the redemption date for the refunded bonds. For example, if the bonds to be refunded are callable on December 1, 2020, the issuer might sell refunding bonds to an underwriter in March 2020, for a closing in September 2020. Like Cinderella bonds, investors may demand a higher interest rate for locking in an interest rate that takes effect in the future and there may be risks that prevent the refunding bonds from being delivered, such as changes in federal tax law.

Forward-Starting Swaps. An interest rate swap may be used to hedge against rising interest rates. An issuer may use a forward-starting swap to effectively “lock in” interest rates at the time current refunding bonds are issued. The swap could be entered into more than 90 days before the call date of the refunded bonds. The hedged bonds would not be issued until within 90 days of the call date. There are at least two fundamental variations of this concept:

> *Swaps Anticipated to be Cash Settled at Time of Issuance of Fixed Rate Bonds*: If rates rise between the date the swap is entered into and the date the fixed rate refunding bonds are issued, the swap counterparty will make a payment to issuer. If rates decrease during that period, the issuer will make a payment to the swap counterparty. These payments will generally reflect the present value of the difference in interest rates between the hedged rate and market rates at the cash settlement date, which is the issuance date of the refunding bonds. If rates have gone up, the issuer will issue a

smaller amount of refunding bonds based upon the cash payment from the swap counterparty.

Swaps Anticipated to be Part of Synthetic Fixed Rate Financings: If the issuer issues variable rate bonds contemporaneous with the start date of the swap, the issuer will have entered into a synthetic fixed rate transaction. In this circumstance, it is not anticipated that the swap would be cash settled at the time of issuance.

Sale of Optional Redemption Right. An issuer may sell its right to redeem outstanding bonds or agree to an extension of the date on which it may redeem the bonds. An investor may be willing to pay an issuer an upfront amount in exchange for this sale or extension. Such a sale or extension may give rise to a reissuance and the corresponding change in law risk and the requirements of filing a new IRS Form 8038.

Future Structuring Considerations

Shorter Calls. Issuers may sell new tax-exempt bonds with par call features that allow the bonds to be redeemed sooner than the traditional 10-year par call. This means the current refunding option can be structured to be available sooner than a traditional ten year lock-out would permit.

Shorter Calls with Declining Redemption Premium. Issuers may sell new tax-exempt bonds with shorter calls and/or a declining redemption premium. For example, if the bonds are callable in year seven, the redemption premium may be 3%, then 2% in year eight, 1% in year nine, and no premium in year ten and thereafter. Declining redemption premiums provide issuers the option of calling bonds sooner than with the traditional 10-year par call, and give investors some call protection (and added compensation) from solely a shorter call.

Make-Whole Calls. An issuer may sell bonds that are callable at any time so long as the bondholders are paid an amount equal to the present value of remaining principal and interest payments. A make-whole call is present in many corporate bond issues and was prevalent in many direct-pay taxable bonds issued under the American Recovery and Reinvestment Act of 2009, such as direct-pay Build America Bonds.

Variable Rate Bonds. Issuers may consider selling variable rate bonds rather than fixed rate bonds because they can be callable at any time. This exposes the issuer to the risk of interest rate increases and generally will require a liquidity support feature such as a bank letter of credit.

Bank Loans. Issuers may consider private placements with banks, which may have more flexible repayment terms. The Act, however, lowers the corporate tax rate to a flat rate of 21%, which may significantly affect the market for tax-exempt bonds, including potentially diminishing the appetite for banks for tax-exempt loans, or may increase the interest rate that banks will charge.

Conclusion

This paper briefly summarizes a few of the refunding options available to issuers of municipal bonds after December 31, 2017, and identifies considerations for structuring new financings allowing issuers to preserve the ability to refinance their debt without the ability to do a tax-exempt advance refunding. Investment bankers, municipal advisors, lawyers, issuers, and other members of the working group will provide advice on these issues and may develop other strategies for dealing with the tax-exempt advance refunding ban. Time will tell what types of call provisions will replace the traditional 10-year par call as the bond market adjusts and adapts to the Act.

TAB II.b. – IMPACTS ON PRIVATE PLACEMENT BANK LOANS

Municipal Bond Market Impacts of Federal Tax Reform

Part B: An Investment Banker's Perspective on the Impacts on Private Placement Bank Loans

WELLS FARGO SECURITIES

Municipal Bond Market Impacts of Federal Tax Reform

Part B: An Investment Banker's Perspective on the Impacts on Private Placement Bank Loans

State of Oregon Municipal Debt Advisory Commission (MDAC)

Nikolai J. Sklaroff
Public Finance Investment Banker
Wells Fargo Securities
March 13, 2018

Together we'll go far

Disclosures

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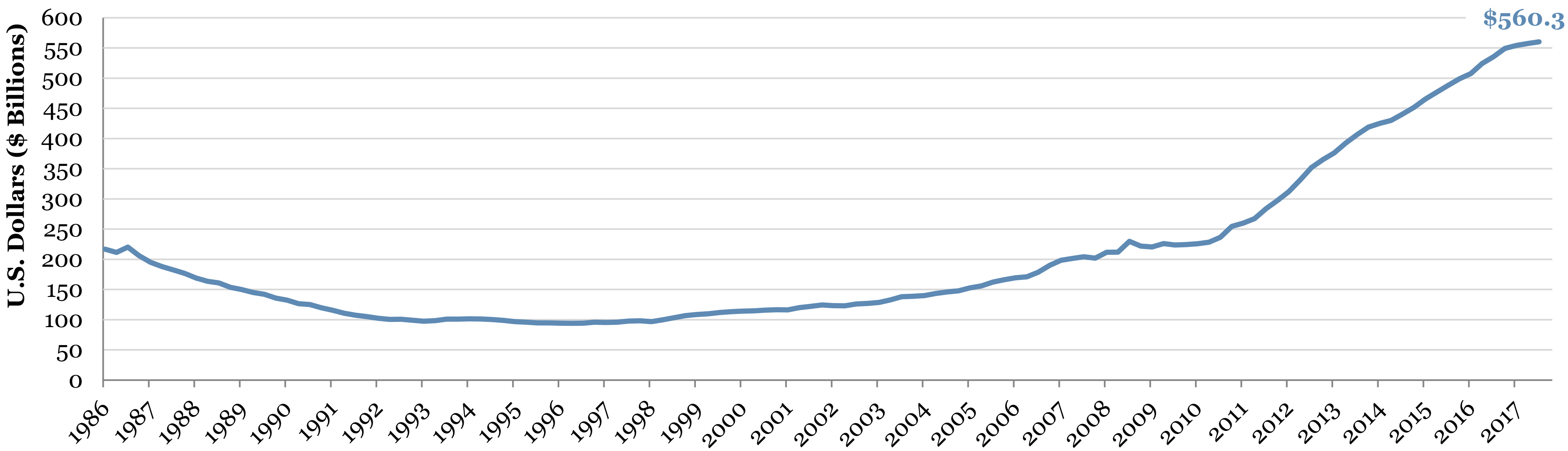
1Q2018

Since the Financial Crisis Banks Have Become Increasingly Large Holders of Municipal Debt

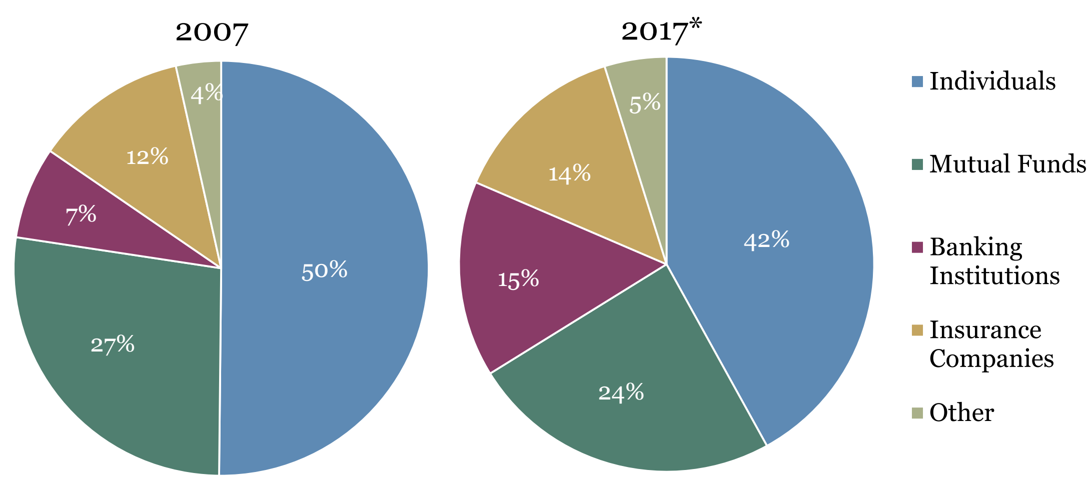
Banks' Holdings of State and Local Debt Since 1986



Source: Bloomberg as of 3Q 2017

- Appetite for tax advantaged income
- Replacing fee income for tax exempt interest
- Political/regulatory pressures to increase 'lending'

Buyers of Tax Exempt Bonds: 2007 vs. 2017*



*Source: SIFMA; *2017 statistics are up to the 3Q 2017, 4Q statistics not available*

- The legislation permanently reduced the marginal corporate tax rate from 35% to 21%
- For married couples making:
  - ✓ $100,000 - the marginal tax rate was dropped from 25% to 22% temporarily for tax years 2018 – 2025
  - ✓ $1 million – they are in the highest tax bracket, the rate was dropped from 39.6% to 37%
- While taxes are complex and each taxpayer is unique, as a simple guide, here is a simple comparison of the differing impacts of just the changes in marginal tax rate:

Trump Signs Sweeping Tax Bill, a Major Legislative Victory for the President

By MICHAEL TACKETT and EILEEN SULLIVAN

December 22, 2017

WASHINGTON – President Trump signed a sweeping tax bill on Friday that Republicans promise will benefit the middle class, despite warnings from Democrats that the new law could be harmful to the country.

The bill was the most significant overhaul of America's tax system in decades and a legislative victory for Mr. Trump, who has struggled during his first year in office to pass major bills that would deliver on campaign promises, even with Republicans having the majority in both chambers of Congress.

	Marginal Tax Rate		Change in Marginal Tax Rate	If Tax-Exempt Rate is 2% What is the Taxable Equivalent?[1]		If Taxable Rate is 3% What is the Tax-Exempt Equivalent?[2]	
Investors:	**2017**	**2018**	**2017 - 2018**	**2017**	**2018**	**2017**	**2018**
Corporate	35.00%	21.00%	-66.67%	3.08%	2.53%	1.95%	2.37%
$100k Couple	25.00%	22.00%	-13.64%	2.67%	2.56%	2.25%	2.34%
$1 Million Couple	39.60%	37.00%	-7.03%	3.31%	3.17%	1.81%	1.89%

[1] Formula: Tax-Exempt Rate/(1 – Tax Rate) = Taxable Equivalent; [2] Taxable Rate x (1 – Tax Rate) = Tax-Exempt Equivalent

- How changes in tax rate are reflected:

  ✓ In a public market Variable Rate Demand Bond, the bond is remarketed every week and investors can decide each week, based on their tax condition at the time, how much interest to demand

  ✓ In a bank facility negotiated upfront, there is no weekly remarketing so the adjustment is handled by formula

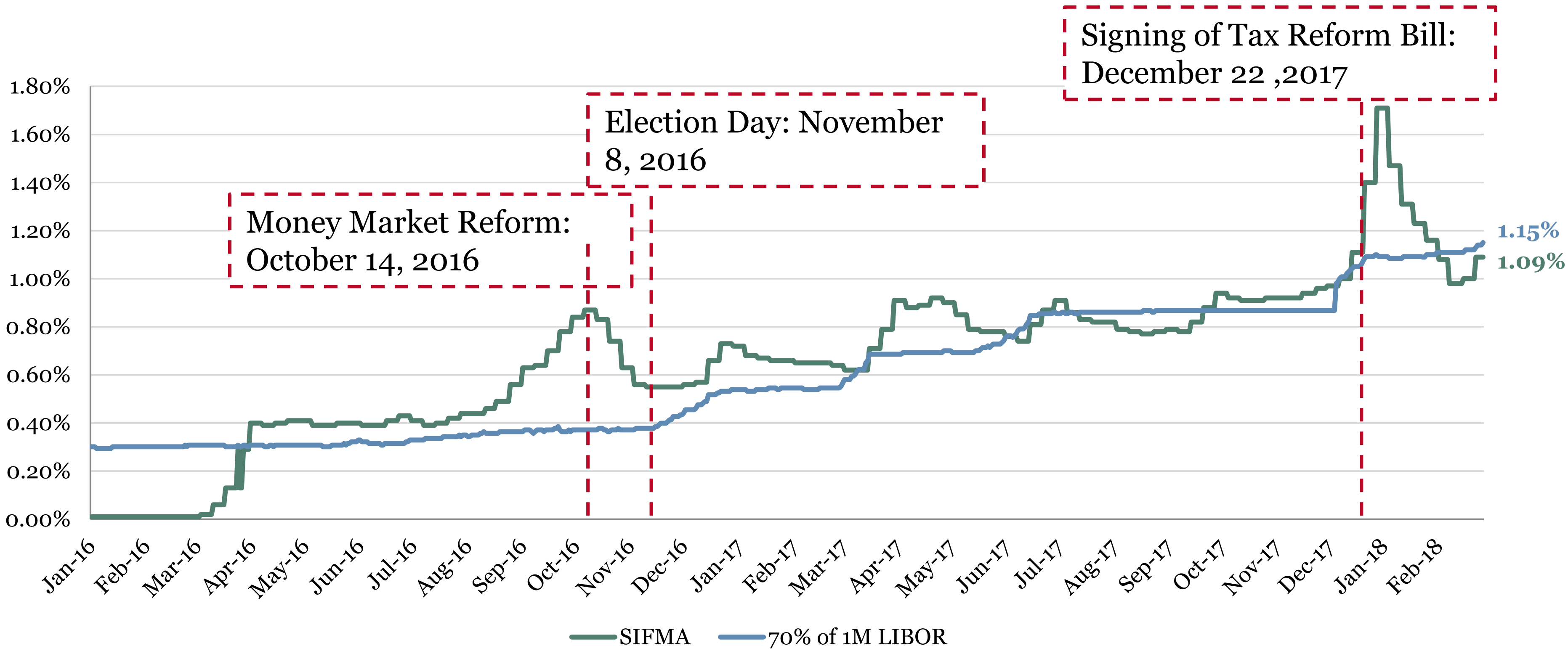
- This had allowed banks to offer low rates based on prevailing high tax conditions, without charging the higher rates based on expectations of changing tax rates

  ✓ For example, even though President Trump was floating a 15% Corporate Tax Rate a year ago, which became a 20% cut in Congressional bills that were ultimately modified to 21%, a formula allowed issuers to pay a lower rate until the tax rates were actually changed

- Example: A borrower who was paying 70% of 1 month LIBOR + 30 bps, is now paying 1.21538 x (1 month LIBOR +30 bps) to reflect the difference in the tax exempt "gross up" value to the bank of receiving tax exempt income subject to a 21% tax, versus a 35% tax
  - In this example the new rate is 1.76%, versus 1.45% without the tax change

A Market Still Finding the Right Equilibrium

Short Term Interest Rates (2016 2018 YTD)



Source: The Municipal Market Monitor (TM3) as of February 27, 2018

Current Short Term Interest Rates		
	12 Month Average	**Current**
SIFMA	0.92%	1.09%
70% of 1-Month LIBOR	0.87%	1.15%

- Issuers use variable rate borrowing for low rates and the flexibility to prepay/refinance the debt into a different mode

- Due to the flexibility to prepay or refinance the borrowing, issuers have ability to seek more favorable rates or change the mode

- Public Market Index Bonds and Variable Rate Demand Bonds are sold to different classes of investors and may prove to have better rates once rates settle down

- Public Market Index Bonds or "Floating Rate Notes"
  - ✓ Still being quoted with 70% of LIBOR (plus spread) rates
  - ✓ Currently enjoy strong demand to lock in favorable rates now
  - ✓ Limited buyer base whose appetite changes based on other investment options

- Variable Rate Demand Bonds with a Letter of Credit or Liquidity Facility
  - ✓ Enjoy extremely low rates (but with great volatility)
  - ✓ Still have the remarketing, bank rating and bank renewal risks and expenses that caused issuers to seek other options following the financial crisis

- Public market options require disclosure documents and ratings; many bank placements do not

Bank Purchases of Fixed Rate Bonds vs. Public Market

- Typically bank placements have been most efficient for maturities of 10 years and less due to the impact of upfront costs and bank funding costs
- On longer bonds, public market issuance costs are spread over more maturities and generally are minimal impact on overall cost
- Some issuers opt for the ability to eliminate an offering document or public ratings
- But the efficiency of a fixed bank purchase is dependent on the funding costs of the bank

- After disruption in the market along with a slowly shifting investor demand, it may take time for the market to achieve equilibrium

- Issuers of variable rate products will likely seek and find alternatives to margin rate factor adjustments, either through renegotiated rates, switching to public market alternatives or using LOC or liquidity backed solutions
  - Possible increase in participation of foreign banks providing LOCs and Standby Facilities; who typically did not participate in the direct purchase business due to unfavorable corporate tax structure

- The flattening of the yield curve will likely cause further consideration of fixing debt to eliminate future interest rate risk

- In June 2017, financial representatives convened by the Fed, announced their choice of Secured Overnight Financing Rate ("SOFR") as an alternative to LIBOR

  - SOFR is based on US Treasury repurchase transactions. The index will incorporate data from about $600-800 billion in daily repo transactions and the Fed plans to begin publishing SOFR in cooperation with the U.S. Treasury, starting in the first half of 2018

- Creating a viable market with a new benchmark rate will take at least 3 to 5 years, so both are expected to be published in conjunction to facilitate a smooth transition

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TAB III.b. – FEDERAL LEGISLATION TO RESTORE ADVANCE REFUNDINGS

Reuters – Bill Aims to Restore U.S. Tax Break for Advance Refunding Bonds

H.R. 5003 – To Amend the IRC of 1986 to Reinstate Advance Refunding Bonds

FEBRUARY 13, 2018 / 9:49 AM

Bill aims to restore U.S. tax break for advance refunding muni bonds

CHICAGO (**Reuters**) - The federal tax exemption for a type of debt refunding used by U.S. states, cities, schools and other issuers to lower borrowing costs would be restored under a new bipartisan bill in Congress, two of its sponsors said on Tuesday.

The sweeping tax bill signed into law by President Donald Trump in December ended the federal tax break for new advance refunding bonds, which are used to refund outstanding debt beyond 90 days of its call date to take advantage of lower interest rates in the municipal market.

Bill sponsors U.S. Representative Randy Hultgren, an Illinois Republican, and U.S. Representative Dutch Ruppersberger, a Maryland Democrat, said the legislation would save state and local governments millions of dollars, allowing them to invest in infrastructure and lower taxes.

“Given that interest rates are expected to increase, this tool is especially important to states and local governments responsibly planning for the future,” Hultgren said in a statement.

The two lawmakers co-chair the Congressional Municipal Finance Caucus, which unsuccessfully pushed to keep advance refunding bonds out of the tax bill.

Advance refunding bond issuance totaled $91 billion in 2017, accounting for 22.2 percent of supply last year, according to Thomson Reuters data. The municipal bond market is roughly $3.8 trillion in size.

The termination of the tax break for interest earned on the debt is expected to generate $17.3 billion for the U.S. government between 2018 and 2027.

Current debt refundings, which are done within the 90-day call date window, remain tax exempt.

Reporting By Karen Pierog, Reuters

Publically accessible at https://www.reuters.com/article/us-usa-tax-municipals-bonds/bill-aims-to-restore-u-s-tax-break-for-advance-refunding-muni-bonds-idUSKCN1FX2GK

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115TH CONGRESS
2D SESSION

H. R. 5003

To amend the Internal Revenue Code of 1986 to reinstate advance refunding bonds.

IN THE HOUSE OF REPRESENTATIVES

FEBRUARY 13, 2018

Mr. HULTGREN (for himself, Mr. RUPPERSBERGER, Mr. MESSER, Mr. ROYCE of California, Mr. KILDEE, and Mr. CAPUANO) introduced the following bill; which was referred to the Committee on Ways and Means

---

A BILL

To amend the Internal Revenue Code of 1986 to reinstate advance refunding bonds.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. TREATMENT OF ADVANCE REFUNDING BONDS.

(a) IN GENERAL.—Section 149(d) of the Internal Revenue Code of 1986 is amended—

(1) in paragraph (1), by striking “to advance refund another bond” and inserting “as part of an issue described in paragraph (2), (3), or (4)”;

(2) by redesignating paragraphs (2) and (3) as paragraphs (6) and (7), respectively; and

(3) by inserting after paragraph (1) the following new paragraphs:

"(2) CERTAIN PRIVATE ACTIVITY BONDS.—An issue is described in this paragraph if any bond (issued as part of such issue) is issued to advance refund a private activity bond (other than a qualified 501(c)(3) bond).

"(3) OTHER BONDS.—

"(A) IN GENERAL.—An issue is described in this paragraph if any bond (issued as part of such issue), hereinafter in this paragraph referred to as the 'refunding bond', is issued to advance refund a bond unless—

"(i) the refunding bond is only—

"(I) the 1st advance refunding of the original bond if the original bond is issued after 1985, or

"(II) the 1st or 2nd advance refunding of the original bond if the original bond was issued before 1986,

"(ii) in the case of refunded bonds issued before 1986, the refunded bond is redeemed not later than the earliest date on which such bond may be redeemed at par or at a premium of 3 percent or less, "(iii) in the case of refunded bonds issued after 1985, the refunded bond is redeemed not later than the earliest date on which such bond may be redeemed,

"(iv) the initial temporary period under section 148(c) ends—

"(I) with respect to the proceeds of the refunding bond not later than 30 days after the date of issue of such bond, and

"(II) with respect to the proceeds of the refunded bond on the date of issue of the refunding bond, and

"(v) in the case of refunded bonds to which section 148(e) did not apply, on and after the date of issue of the refunding bond, the amount of proceeds of the refunded bond invested in higher yielding investments (as defined in section 148(b)) which are nonpurpose investments (as defined in section 148(f)(6)(A)) does not exceed—

"(I) the amount so invested as part of a reasonably required reserve or replacement fund or during an allowable temporary period, and

"(II) the amount which is equal to the lesser of 5 percent of the proceeds of the issue of which the refunded bond is a part or $100,000 (to the extent such amount is allocable to the refunded bond).

"(B) SPECIAL RULES FOR REDEMPTIONS.—

"(i) ISSUER MUST REDEEM ONLY IF DEBT SERVICE SAVINGS.—Clause (ii) and (iii) of subparagraph (A) shall apply only if the issuer may realize present value debt service savings (determined without regard to administrative expenses) in connection with the issue of which the refunding bond is a part.

"(ii) REDEMPTIONS NOT REQUIRED BEFORE 90TH DAY.—For purposes of clauses (ii) and (iii) of subparagraph (A), the earliest date referred to in such clauses shall not be earlier than the 90th day after the date of issuance of the refunding bond.

"(4) ABUSIVE TRANSACTIONS PROHIBITED.—An issue is described in this paragraph if any bond (issued as part of such issue) is issued to advance refund another bond and a device is employed in connection with the issuance of such issue to obtain a material financial advantage (based on arbitrage) apart from savings attributable to lower interest rates.

"(5) SPECIAL RULES FOR PURPOSES OF PARAGRAPH (3).—For purposes of paragraph (3), bonds issued before the date of the enactment of this subsection shall be taken into account under subparagraph (A)(i) thereof except—

"(A) a refunding which occurred before 1986 shall be treated as an advance refunding only if the refunding bond was issued more than 180 days before the redemption of the refunded bond, and

"(B) a bond issued before 1986, shall be treated as advance refunded no more than once before March 15, 1986.".

(b) CONFORMING AMENDMENT.—Section 148(f)(4)(C) of such Code is amended by redesignating clauses (xiv) through (xvi) as clauses (xv) through (xvii) and by inserting after clause (xiii) the following new clause:

"(xiv) DETERMINATION OF INITIAL TEMPORARY PERIOD.—For purposes of this subparagraph, the end of the initial temporary period shall be determined without regard to section 149(d)(3)(A)(iv).".

(c) EFFECTIVE DATE.—The amendments made by this section shall apply to advance refunding bonds issued after the date of the enactment of this Act.

○

TAB IV.a. – POTENTIAL LEGISLATIVE INITIATIVES FOR 2019

Potential Action Regarding Local Government Bond Limits

DOR – Calculation of Bond Limits Under ORS 308.207

LOCAL GOVERNMENT BOND LIMITS

PROBLEM: Language in ORS 308.207 about the computation of RMV for taxing or bonding limits is not treated the same in all taxing jurisdictions.

BACKGROUND: This issue arose when a community college that crossed county lines was working on a bond issue. One County's Assessor wanted to use M5 RMV less veteran's exemptions while the other two counties used the published M5 RMV. (See the following information from DOR about the Veterans Exemption in calculating RMV.)

POTENTIAL ACTION: MDAC could request a bill to be drafted for the 2019 legislative session to clarify the language in 308.207. Some options include:

- Clarify that Taxable Value is the M5 RMV as presented in the SAL for each taxing jurisdiction.
- Require County Assessors to provide the Veteran's Exemptions for each taxing jurisdiction on the SAL as a subtraction from M5 RMV.
- Other ideas?

Calculation of Bond Limits under ORS 308.207

In some cases, under Oregon law, local district indebtedness for general obligation bonds is limited to a percentage of the district's total real market value (RMV). For purposes of calculating bond limits, RMV is defined in ORS 308.207:

> **308.207 Computation of real market value for taxing or bonding limitations.** (1) If the taxing or bonding power of any governmental unit is limited to a millage or percentage of the real market value of the taxable property within the unit, the real market value shall be the real market value as reflected in the last certified assessment roll.
>
> (2) Changes in the boundary lines of a governmental unit shall be taken into account in computing its real market value for purposes of subsection (1) of this section even though such boundary changes may not be included on the latest assessment roll.
>
> (3) As used in this section, "governmental unit" includes the state, counties, cities, municipal corporations, and all special districts having the power to levy taxes or issue bonds.

The statute requires the values used for the bond limit can only be calculated from the RMV of taxable property. Consequently, it is our position the real market value to be used for bond limit calculations should include the real market value of all non-exempt property except that, in the case of specially assessed property, the value to be used should be the specially assessed value, and in the case of a veteran's or active duty military exemption, the value to be used should be the real market value of the property less the value of the exemption.

In theory, it should be possible for county assessors to provide this information to districts; however, a county may not have the data compiled for each district or may not have the resources to make the computations. All the counties provide the Department of Revenue with "Summary of Assessments and Levies" (SAL) data that identifies RMV for each unique tax code area. The Department's annual *Property Tax Statistics* publication uses that information to calculate RMV for each district, and that information (along with RMV for the state and each county) is forwarded by the department to Treasury.

The problem with using the SAL data to calculate bond limits as set out in ORS 308.207 is that the RMV data requested from the counties includes the full RMV of veteran's and military exemption property with no deduction for the value of the exemption. Counties do provide the exemption values to the department on SAL Table 3 for the whole county, but they don't report those exemption values by district.

We should note that the value of all the veteran's and military exemptions in a county would be a very small percentage of the total RMV for the county. (For example, in 2016-17, the value of the veteran's exemptions in Lane County was 0.00449% of the total RMV of the county.) Further, at any given time, the information provided by a county could vary from the amounts derived from the SAL data due to appeals or roll corrections made after the tax roll is certified in October.

As a practical matter, a way for a district to calculate bond limits to comply with ORS 308.207 would be to use the RMV for the district from the Property Tax Statistics and if the county can provide the value of any veteran's or military exemptions, then subtract that from the RMV.

TAB V.a. – CALIFORNIA SENATE BILL 450 (HERTZBERG)

SB-450 Public bodies: bonds: public notice. (2017-2018)

Date Published: 10/09/2017 09:00 PM

Senate Bill No. 450

CHAPTER 625

An act to add Section 5852.1 to the Government Code, relating to bonds.

[Approved by Governor October 09, 2017. Filed with Secretary of State October 09, 2017.]

LEGISLATIVE COUNSEL'S DIGEST

SB 450, Hertzberg. Public bodies: bonds: public notice.

Existing law authorizes the governing body of a public body to authorize the issuance of bonds pursuant to a resolution, indenture, agreement, or other instrument providing for the issuance of bonds. Existing law defines a "public body" to mean, among other entities, a county, city, or city and county.

This bill, prior to authorization of the issuance of certain bonds, would require the governing body of a public body to obtain and disclose specified information regarding the bonds in a meeting open to the public. The bill would require the information to be obtained as a good faith estimate from an underwriter, financial advisor, or private lender or from a third party borrower, as specified, if the public body issuing bonds is a conduit financing provided, as defined.

By imposing new duties upon local county officials with respect to the public notice requirement described above, this bill would impose a state-mandated local program.

The California Constitution requires local agencies, for the purpose of ensuring public access to the meetings of public bodies and the writings of public officials and agencies, to comply with a statutory enactment that amends or enacts laws relating to public records or open meetings and contains findings demonstrating that the enactment furthers the constitutional requirements relating to this purpose.

This bill would make legislative findings to that effect.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority Appropriation: no Fiscal Committee: yes Local Program: yes

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 5852.1 is added to the Government Code, to read:

5852.1. (a) (1) Prior to authorization of the issuance of bonds with a term greater than 13 months pursuant to this chapter, the governing body of a public body shall obtain and disclose all of the following information in a meeting open to the public:

(A) The true interest cost of the bonds, which means the rate necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue of bonds.

(B) The finance charge of the bonds, which means the sum of all fees and charges paid to third parties.

(C) The amount of proceeds received by the public body for sale of the bonds less the finance charge of the bonds described in subparagraph (B) and any reserves or capitalized interest paid or funded with proceeds of the bonds.

(D) The total payment amount, which means the sum total of all payments the borrower will make to pay debt service on the bonds plus the finance charge of the bonds described in subparagraph (B) not paid with the proceeds of the bonds. The total payment amount shall be calculated to the final maturity of the bonds.

(2) The information in paragraph (1) shall be obtained as follows:

(A) As a good faith estimate from an underwriter, financial adviser, or private lender.

(B) From a third-party borrower pursuant to subdivision (b).

(b) (1) If the public body issuing bonds is a conduit financing provider, as defined in subdivision (b) of Section 5870, issuing bonds on behalf of a third-party borrower, the information in paragraph (1) of subdivision (a) shall be presented to the third-party borrower as a good faith estimate by an underwriter, financial adviser, or private lender engaged by the third-party borrower.

(2) If the third-party borrower has a governing board, the information shall be presented to the governing board or the official or officials or committee designated by the governing board to obligate the third-party borrower in connection with the financing. If the third-party borrower does not have a governing board, the information shall be presented to the official or officials of the third-party borrower who has the authority to obligate the third-party borrower in connection with the financing.

(3) The third-party borrower shall provide the information received pursuant to this subdivision to the public body prior to the disclosure of the information as required pursuant to subdivision (a).

(c) The requirements of this section shall not apply to any public body that is a state entity. For purposes of this subdivision, “state entity” means any agency, department, bureau, board, or commission of any kind.

(d) This section, including the failure to comply with the requirements of this section, shall not affect the validity of the bonds or the authorization of the bonds by the public body.

SEC. 2. The Legislature finds and declares that Section 1 of this act, which adds Section 5852.1 to the Government Code, furthers, within the meaning of paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, the purposes of that constitutional section as it relates to the right of public access to the meetings of local public bodies or the writings of local public officials and local agencies. Pursuant to paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution, the Legislature makes the following findings:

This act ensures the public’s right of access to information about the conduct of their government agencies relating to the issuance of bonds.

SEC. 3. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district under this act would result from a legislative mandate that is within the scope of paragraph (7) of subdivision (b) of Section 3 of Article I of the California Constitution.

Publically accessible at https://leginfo.legislature.ca.gov/faces/billTextClient.xhtml?bill_id=201720180SB450