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OREGON STATE TREASURY

# Local Government

## News Report

FEBRUARY 2018

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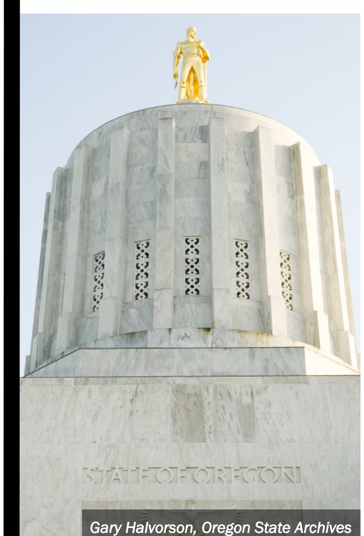


*Gary Halvorson, Oregon State Archives*

### 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**

## POTENTIAL IMPACTS OF FEDERAL TAX REFORM ON MUNICIPAL DEBT 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.

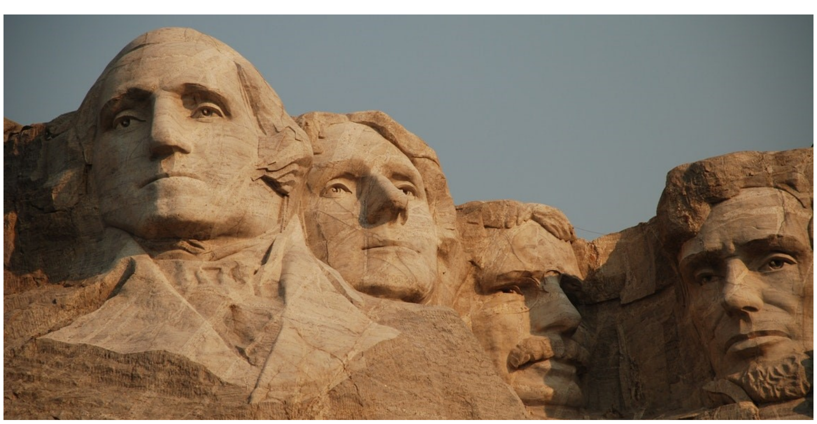
Finally, issuers may want to give consideration to privately placing their bonds with banks, which allows them to negotiate their own prepayment terms and redemption provisions. The new tax law's reduction of the corporate rate from of 35 percent to 21 percent may result in reduced demand by banks for 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

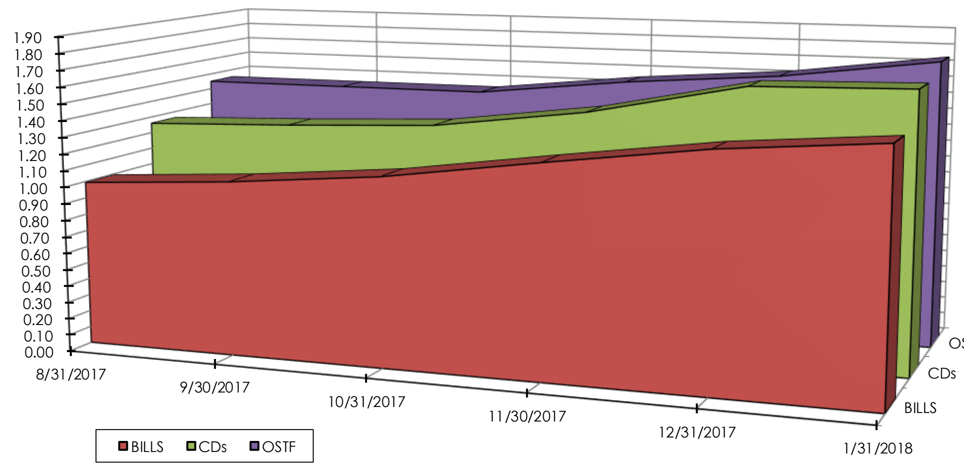
http://www.oregon.gov/treasury/Divisions/DebtManagement/LocalGov/Pages/default.aspx



## 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 | 6,605 | 6,255 | 8,926 | 9,100 | 8,509 |
| STATE AGENCY AV DOLLARS INVESTED (MM) | 9,061 | 9,077 | 10,898 | 10,526 | 10,418 | 10,589 |
| TOTAL OSTF AV DOLLARS INVESTED (MM) | 15,666 | 15,682 | 17,153 | 19,452 | 19,518 | 19,098 |
| OST ANNUAL YIELD (ACT/ACT) | 1.45 | 1.45 | 1.45 | 1.55 | 1.62 | 1.74 |
| 3-MO UST BILLS (BOND EQ YLD) | 0.99 | 1.05 | 1.13 | 1.26 | 1.38 | 1.46 |
| 3-MO US CD (ACT/360)* | 1.26 | 1.29 | 1.33 | 1.45 | 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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**Local-Gov-News Mailing List**
listsmart.osl.state.or.us/mailman/listinfo/local-gov-news

**Local Government Investment Pool**
www.oregon.gov/lgip

**PFM Client Services**
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csgwestregion@pfm.com

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**Treasury**
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