

# Municipal Issuance from a Buyer's Perspective

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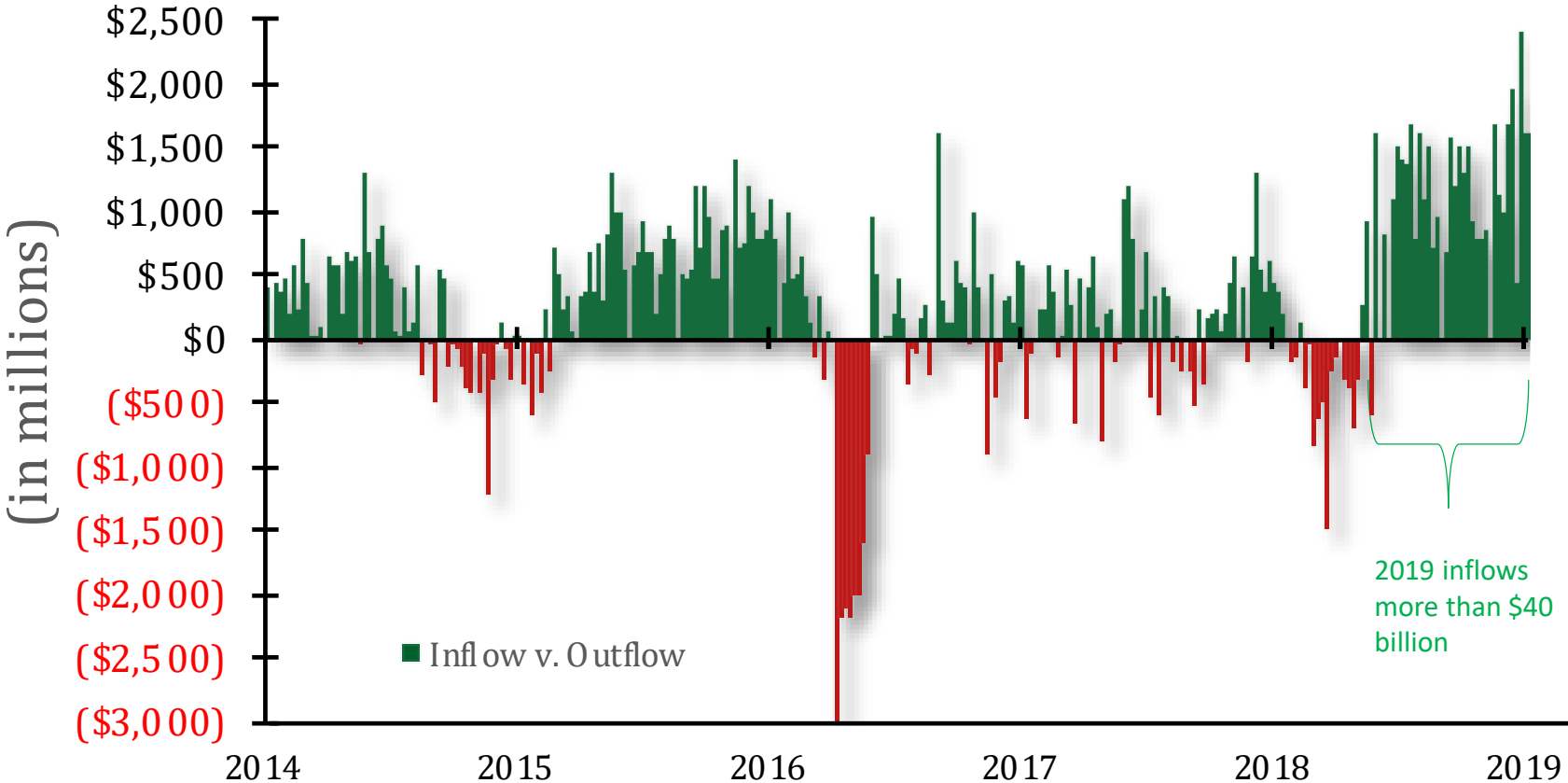
# Tax Cuts and Jobs Act of 2017 (TCJA)

- Elimination of Advance Refundings
  - *Ohio Municipal Issuance down 36.9% YoY (2018 vs. 2017)*
  - *National Municipal Issuance down 20.9% YoY (2018 vs. 2017)*
- Lowered Corporate Tax Rates
  - Cut from 35% to 21% (lowest rate since 1939)
- Caps on SALT deductions
  - Capped at \$10,000 per household

# TCJA Effects on the Market

- Highly taxed states have investors with increasing demand for tax-shelter
  - Due to SALT Deduction Caps
  - Retail Investors / SMA Buyers are flooding the municipal market in search of tax-free investments
  - Over \$40 billion of Municipal Fund inflows between Jan-Sep of 2019
- Limited supply of new tax-exempt municipal issuance
  - Driving down municipal yields relative to taxable US Treasury Bonds given high demand
- 30 Day Net Supply = New Issuance *minus* (Par Maturing + Par Called)
  - Currently negative as bonds maturing and being called are outweighing the new issuance

# Municipal Fund Weekly Inflows & Outflows



# Buyer Impact

- Net negative supply with increased demand has driven high-grade municipal tax-exempt yields lower
- SMA/Retail Buyers are heavily focused on bonds due within 10 years
- SMAs are beginning to be drawn towards taxable municipal issuance
  - Ratios of Treasuries to AAA Tax-Exempt are at lows not seen in a decade
- Banks are beginning to step back in to municipal holdings post-tax reform and bringing the ‘bank-qualified’ (small issuer) advantage for new-issues beyond 10 years.

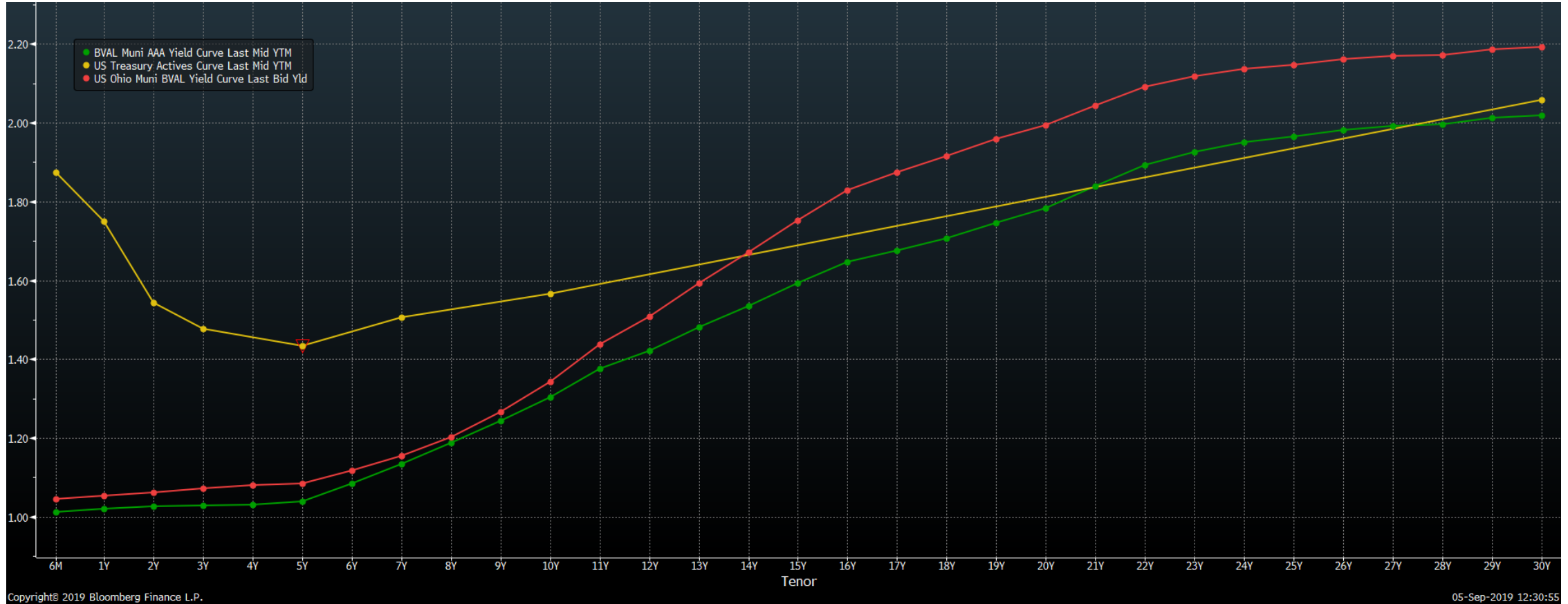
# Advance Refunding Dynamics

- If tax-exempt advance refundings were made permissible again, today's market yields would be ideal to mitigate Negative Arbitrage.
  - Investment Rate = Borrowing Cost
- Given the slope of the taxable yield curve, we are starting to see taxable advance refundings.
- Reinvestment Rates (investment rate for escrow) are higher:
  - 2-Year Treasury Sept. 2019 = 1.50%
  - 2-Year Treasury Sept. 2017 = 1.34%
- Municipal Rates (borrowing rate for new issuance) are lower:
  - 10-Year Municipal Sept. 2019 = 1.22%
  - 10-Year Municipal Sept. 2017 = 1.88%



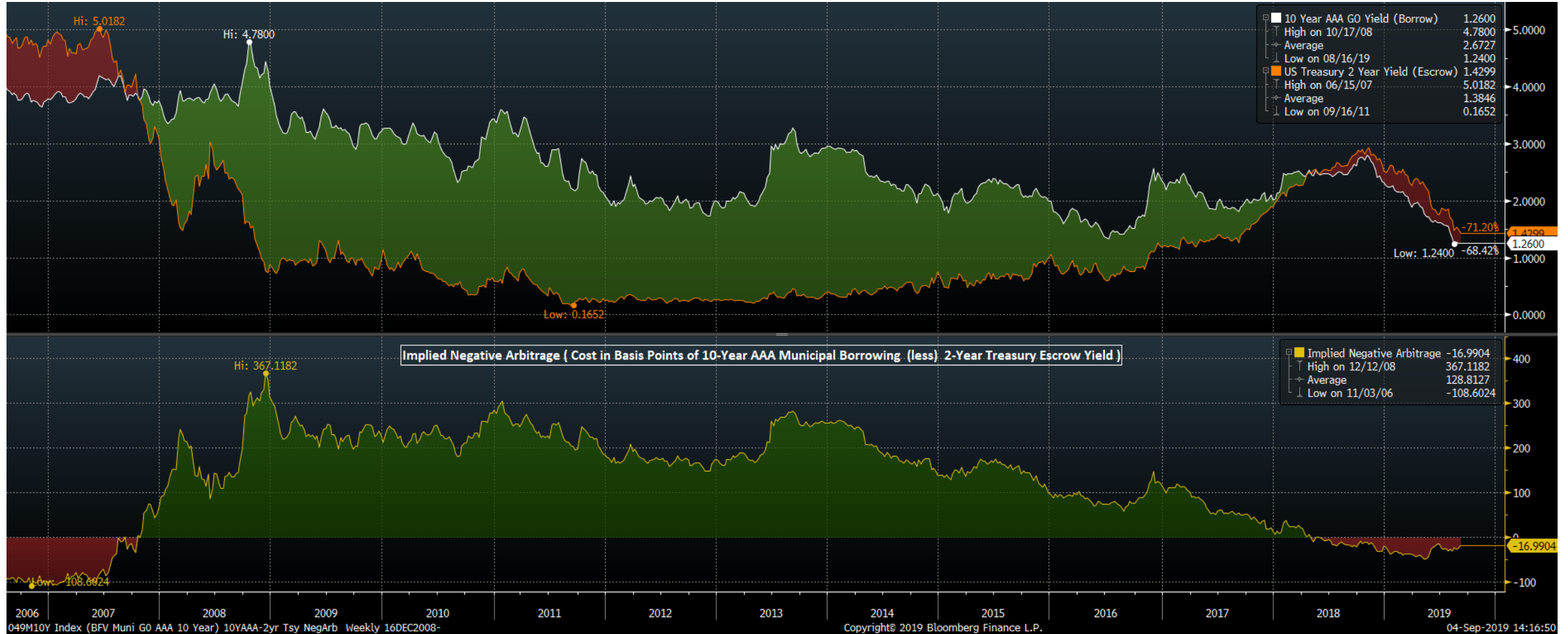
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# AAA Muni, Ohio Muni & UST Yield Curves



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# 10-Year Municipal vs. 2-Year Treasury Yields



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# Municipal Market Overview

Short Term Rates (%)	9/3/2019	1-Wk Chg	5Yr Avg	5Yr High	5Yr Low
SIFMA Index	1.35	-1 bps	0.75	2.30	0.01
1-Month LIBOR	2.11	-6 bps	1.09	2.52	0.15
SIFMA/LIBOR Ratio	63.92	+1%	59.31	165.5	2.31
Federal Funds Target (Mid)	2.13	+0 bps	0.98	2.38	0.13
Long Term Rates (%)	9/3/2019	1-Wk Chg	5Yr Avg	5Yr High	5Yr Low
AAA 2 Year	1.01	+3 bps	1.04	2.11	0.31
AAA 5 Year	1.03	+2 bps	1.45	2.34	0.79
AAA 10 Year	1.22	-1 bps	2.05	2.77	1.21
AAA 30 Year	1.84	-3 bps	2.83	3.46	1.83
Bond Buyer Index 20 GO	2.97	-10 bps	3.67	4.37	2.80
Bond Buyer Revenue Index	3.45	-10 bps	4.08	4.90	2.98
30-Day Visible Supply (\$mm)	15,213	-1,686	10,007	26,856	2,339
Municipal Bond Fund Flow (\$mm)	1,630	-180	329	2,400	-4,533

Long Term Taxable (%)	9/3/2019	1-Wk Chg	5Yr Avg	5Yr High	5Yr Low
US Treasury 2 Year Note	1.46	-6 bps	1.41	2.97	0.31
US Treasury 5 Year Note	1.34	-4 bps	1.89	3.09	0.94
US Treasury 10 Year Note	1.47	-0 bps	2.30	3.24	1.36
US Treasury 30 Year Bond	1.95	+0 bps	2.86	3.45	1.95

MMD / Treasury Ratios (%)	9/3/2019	1-Wk Chg	5Yr Avg	5Yr High	5Yr Low
2 Year Spot	69.18	+5%	77.65	114.52	56.28
5 Year Spot	76.81	+4%	76.97	104.90	60.26
10 Year Spot	83.04	-1%	89.36	106.94	70.93
30 Year Spot	94.20	-2%	99.05	113.53	83.69



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# Purchasing Debt from a Bank's Perspective:

## Differences Between Public and Private Placements

Public Bond Offering – A District Sells its Bonds to an Underwriter who Resells the Bonds to Retail or Institutional Investors on Established Securities Markets.

- Investors will often Base Investment Decisions on the Public Debt Rating.

# Purchasing Debt from a Bank's Perspective:

## Differences Between Public and Private Placements

Direct Purchase/Private Placement - A District Places it's Bonds/Notes Directly with a Bank or Other Financial Institution.

- Banks are Required to Complete Their Own Independent Analysis
- Ongoing Credit Surveillance as With any Other Commercial Loan is required

# Purchasing Debt from a Bank's Perspective:

## Important Considerations Impacting a Bank's Decision

- Typically Hold Until Maturity
- Interest Rate Risk
- Term and Repayment Structure
- Customer vs Non-Customer
- Pledge and Source of Repayment:  
How is it repaid?
- Concentrations in Certain Areas or Sectors
- Reputational Risk



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# Purchasing Debt from a Bank's Perspective:

## Deal Discussion

OPTION A	OPTION B
Par Amount: \$2,500,000	Par Amount: \$2,500,000
Customer	Non-Customer
Lease/Lease-Back (Ground Lease)	LTGO
15 Years	25 Years
No credit rating	AA
9 Year No Call Option	Callable at Anytime
New Treasurer	Biggest employer just announced closure



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# Purchasing Debt from a Bank's Perspective:

## Deal Discussion

OPTION A	OPTION B
Par Amount: \$2,500,000	Par Amount: \$5,000,000
Customer	Customer
Lease/Lease-Back (Ground Lease)	LTGO
15 Years	10 Years
No credit rating	A-
Callable after 10 years	Non-Callable
Established management team	Growing significantly



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# Purchasing Debt from a Bank's Perspective:

## The Credit Assessment Process

All Commercial Banks Lending Activity is Monitored by Regulators.

- A Bank's Credit Policy Will Define:
  - What Loan Types are Acceptable.
  - What Credit Profiles are Desirable . . . . and Those that are Less So.
- A Bank's Credit Assessment Process Will Evaluate the Loan Request vis-à-vis the Desired Profile.

# Purchasing Debt from a Bank's Perspective:

## The Credit Assessment Process

### 1. The Loan Request

- Pledge, Term, Source of Repayment
- Repayment Analysis – Debt Service Coverage Ratio

### 2. Underlying Economics of the Issuer's Service Area . . .

- Characteristics and Nature of the Local Economy
- Composition: Urban, Suburban, Agricultural, Rural
- Diverse or Concentrated Economy
- Population Attributes
- Tax Base



# Purchasing Debt from a Bank's Perspective:

## The Credit Assessment Process

### 3. Financial Performance / Financial Statements

- Operating Statement Trends
  - Revenues, Expenses, Fiscal Balance
- Balance Sheet Trends
  - Liquidity
  - Fixed Asset Trends
  - Leverage: Funded Debt and Other Obligations
  - Fund Balances and Other Reserves

# Purchasing Debt from a Bank's Perspective:

## Important Considerations Impacting a Bank's Decision

	Entity 1	Entity 2	Entity 3
<b>Revenue</b>			
Taxes	20,414	320	18,277
Intergovernmental	13,317	612	5,374
Services	4,528	9,350	2,544
Other Revenues	1,813	211	8,816
<b>Total Revenue</b>	<b>40,072</b>	<b>10,493</b>	<b>35,011</b>
<b>Expenditures</b>			
General Government	30,632	750	10,650
Public Safety	-	7,488	647
Capital Outlay	1,086	505	1,323
Debt Service	-	2,923	-
Other	4,251	883	1,786
<b>Total Expenditures</b>	<b>35,970</b>	<b>12,548</b>	<b>14,406</b>
<b>Excess of Revenues/Expenditures</b>	<b>4,102</b>	<b>(2,055)</b>	<b>20,606</b>
Other Sources (Uses)	(1,278)	1,264	(16,145)
<b>Net Change in Fund Balance</b>	<b>2,824</b>	<b>(791)</b>	<b>4,461</b>
<b>Fund Balance Beginning</b>	<b>9,198</b>	<b>1,094</b>	<b>18,280</b>
<b>Fund Balance Ending</b>	<b>12,022</b>	<b>303</b>	<b>22,741</b>
<b>Fund Balance as % of Expenditures</b>	<b>33.4%</b>	<b>2.4%</b>	<b>157.9%</b>



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# Purchasing Debt from a Bank's Perspective:

## The Credit Assessment Process

4. Management Assessment

5. Material Litigation

6. Review of Current Events

7. Credit Decision



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# QUESTIONS?



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