MIKE BURNS, Partner
104 South Main Street, Suite 700
Greenville, SC 29601
Office: (864) 552-9344
Email: mburns@burr.com

BRANDON NORRIS, Partner
104 South Main Street, Suite 700
Greenville, SC 29601
Office: (864) 552-9379
Email: bnorris@burr.com

DAVID CHEATWOOD, Managing Director
1355 Greenwood Cliff, Suite 400
Charlotte, NC 28204
Office: (704) 926-2447
Email: dcheatwood@firsttryon.com

Pressing Topics in Municipal Finance

October 2019

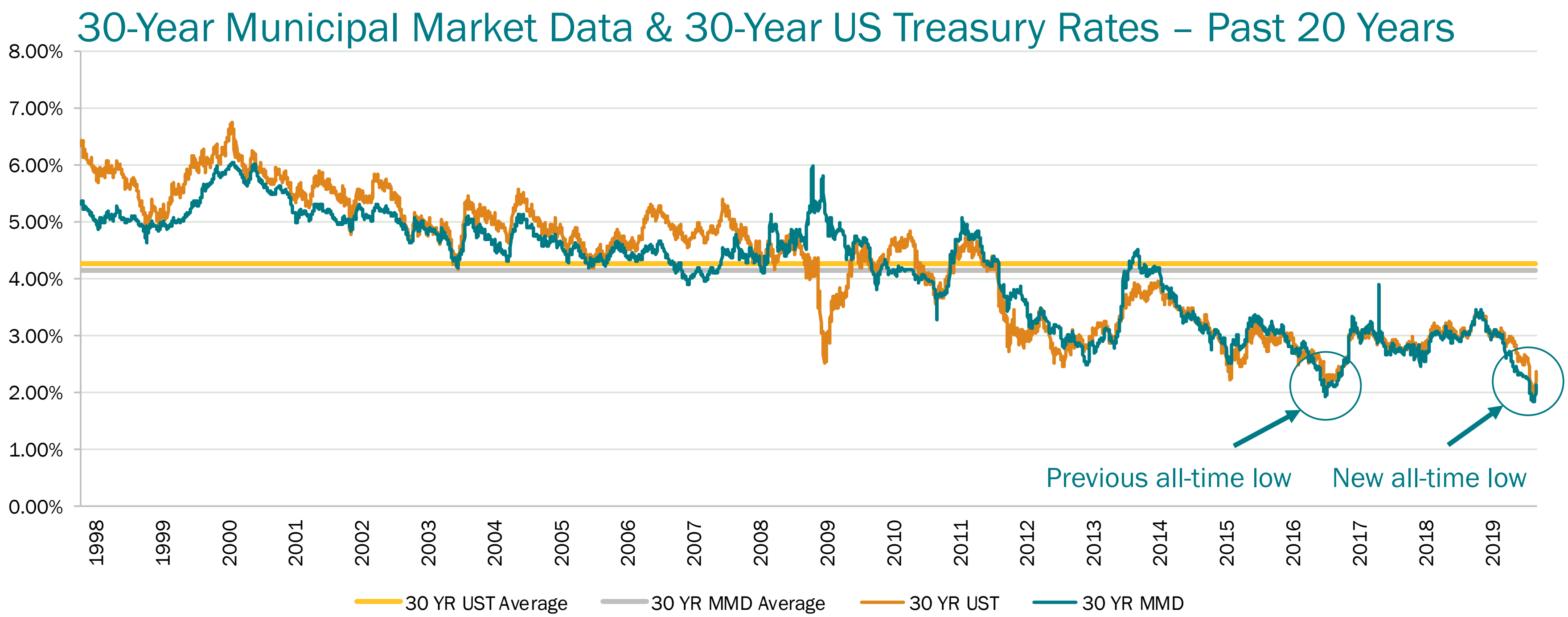
Agenda

Agenda

Overview

- Given tax law changes that went into effect in 2018, issuers can no longer advance refund tax-exempt bonds on a tax-exempt basis.
  - An advance refunding occurs when an issuer refunds outstanding debt more than 90 days in advance of the call date.
    - Tax-exempt advance refundings of taxable bonds that receive a federal subsidy (Build America Bonds, Recovery Zone Economic Development Bonds, etc.) are eligible to be issued, provided that the federal subsidy is forgone at closing.
  - Whereas, a current refunding, which is still permitted on a tax-exempt basis, occurs when an issuer refunds outstanding debt within 90 days of, or any time after, the call date.
    - Most bonds that were issued in 2009 and 2010 that would not be coming up on a current refunding were advance refunded prior to the tax law changes in 2018.
    - As such, most issuers will have to wait until 2020 or 2021 for current refundings to “catch up” where advance refundings left off and thus be able to refund issuances on a tax-exempt basis for debt service savings.
  - Two recent House Bills have been proposed, H.R. 2772 and H.R. 5003, which aim to bring back the ability to pursue tax exempt advance refundings.
- Despite the elimination of tax exempt advance refundings, issuers still maintain several options to lock in current interest rates and debt service savings in advance of the call date, including the following:
  - Taxable Advance Refundings
  - Forward Refundings
  - “Cinderella” Refundings
- These options are of particular importance in the current interest rate environment as rates at are historically lows levels.

Long Term Rates – All-Time Low



Observations

- After reaching the highest level in five years in November 2018, both tax-exempt and taxable long term rates have seen significant declines due to a variety of factors including geopolitical issues, global growth concerns, the trade war, fears of a possible recession and mixed domestic data.
- The rate on the 30-year Treasury Bond fell below 2.00% for the first time in history in mid-August and the 30-year tax-exempt benchmark rate reached an all-time low on in late August.
- Investor demand for tax-exempt bonds remains very strong as evidenced by 37 consecutive weeks of net inflows into municipal bond mutual funds.

Index	9/27/2019	YTD Change
2-Year UST	1.63%	-115 bps
10-Year UST	1.69%	-137 bps
30-Year UST	2.13%	-105 bps
2-Year MMD	1.22%	-74 bps
10-Year MMD	1.42%	-122 bps
30-Year MMD	2.01%	-128 bps

Source: TM3, Treasury.gov as of September 25, 2019

Taxable Advance Refundings

- While tax reform prevents issuers from advance refunding tax-exempt debt on a tax-exempt basis, issuers are permitted to advance refund tax-exempt debt on a taxable basis.
- Other than the tax status of the refunding bonds, taxable advance refundings function the same as tax-exempt refundings from several perspectives:
  - Taxable refundings can be done in either the public market or the bank market.
    - The same factors that are typically taken into consideration in selecting the appropriate market still apply (i.e. interest rate, cost of issuance, term, size, administrative time / effort).
  - The mechanics of a taxable refunding are the same as a tax-exempt refunding (i.e. bonds are sold, funds are put in an escrow to pay the interest on the refunded bonds until the call date at which point the refunded bonds are redeemed).
  - The same savings targets / measures are evaluated in determining whether to proceed:
    - Net present value savings ($ and %)
    - Total cash flow savings
    - Annual cash flow savings / budgetary impact
    - Negative arbitrage
- However, in order to make a fully informed decision, an additional step that an issuer should take in evaluating a taxable advance refunding is the sensitivity to changes in interest rates between the proposed taxable advance refunding and what a current refunding on a tax-exempt basis could look like on the future call.
- The following slide highlights an example of such a sensitivity analysis.

Sensitivity Analysis

- This issuer has approximately $41mm of bonds that are callable beginning June 1, 2022 which means that under current tax law it would have to wait until March 1, 2022 (90 days ahead of the call date) to currently refund these bonds on a tax-exempt basis.
- However, based on current taxable interest rates, the issuer could advance refund these bonds on a <u>taxable</u> basis and achieve debt service savings of $2.4 million or 6.5% (which would typically hit most issuers' savings targets).
- A sensitivity analysis would show that if current tax-exempt interest rates held steady until the current refunding window opened, the issuer would be able to do a tax-exempt refunding and realize a much higher savings level ($5.9 million / 15.6%).
- However, given that that we are in a historically low interest rate environment, it is unreasonable to assume that current rates will hold steady over the next 2.5 years. Therefore, the sensitivity analysis should also show how much tax-exempt rates could go up over that time period and still achieve the same level of savings as the taxable advance refunding today (120bps in our example).
- This sensitivity analysis will give the issuer some level of perspective and allow them to provide their input / view on how likely that magnitude of an increase is so that they can make a fully informed decision.

Advance Refunding - 12/1/19 Close

Refunding Bonds	Series 2019
Par Amount	40,580,000
All-in True Interest Cost	3.026%
Net PV Savings ($)	***2,441,540***
Net PV Savings (%)	***6.47%***
Negative Arbitrage	1,154,954
Average Annual Savings	177,451

Fiscal Year Ending	Cash Flow Savings
6/30/2020	93,439
6/30/2021	177,446
6/30/2022	174,904
6/30/2023	177,588
6/30/2024	179,998
6/30/2025	175,057
6/30/2026	179,257
6/30/2027	175,903
6/30/2028	175,669
6/30/2029	176,892
6/30/2030	179,226
6/30/2031	176,817
6/30/2032	176,858
6/30/2033	179,174
6/30/2034	178,488
6/30/2035	179,780
6/30/2036	175,110
6/30/2037	178,505
Total Cash Flow Savings	3,110,107

Breakeven
+119bps

Current Refunding - 3/5/22 Close

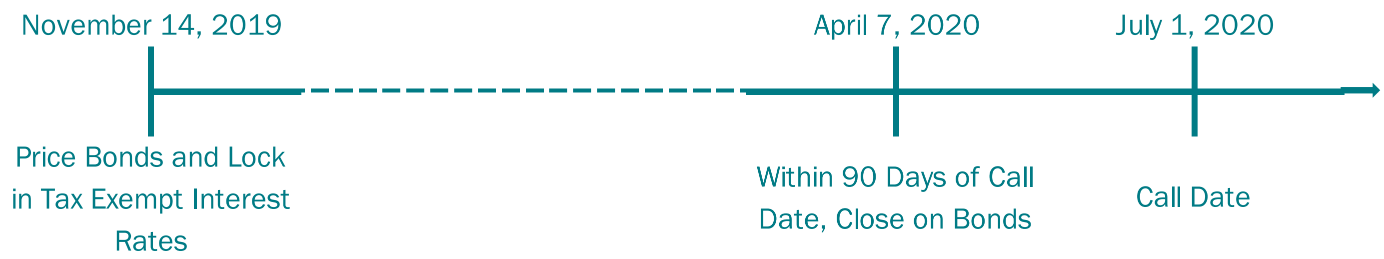
Refunding Bonds	Series 2022
Par Amount	31,535,000
All-in True Interest Cost	2.435%
Net PV Savings ($)	***5,890,708***
Net PV Savings (%)	***15.60%***
Negative Arbitrage	7,926
Average Annual Savings	459,787

Fiscal Year Ending	Cash Flow Savings
6/30/2020	-
6/30/2021	-
6/30/2022	15,913
6/30/2023	456,613
6/30/2024	457,113
6/30/2025	461,613
6/30/2026	460,763
6/30/2027	458,975
6/30/2028	456,875
6/30/2029	461,750
6/30/2030	458,000
6/30/2031	460,250
6/30/2032	461,500
6/30/2033	461,750
6/30/2034	461,000
6/30/2035	459,250
6/30/2036	461,500
6/30/2037	459,850
Total Cash Flow Savings	6,912,713

Forward Refundings

- A forward refunding occurs when an issuer locks in the interest rate on the refunding bonds more than the typical 2-5 weeks ahead of the closing date.
- This interest rate lock can occur anywhere from 2 months to up to 2 years ahead of the closing date.
- The closing date would fall within the 90 day window of the call date on the refunded bonds thus allowing the refunding bonds to be issued on a tax-exempt basis.

Forward Refunding Example

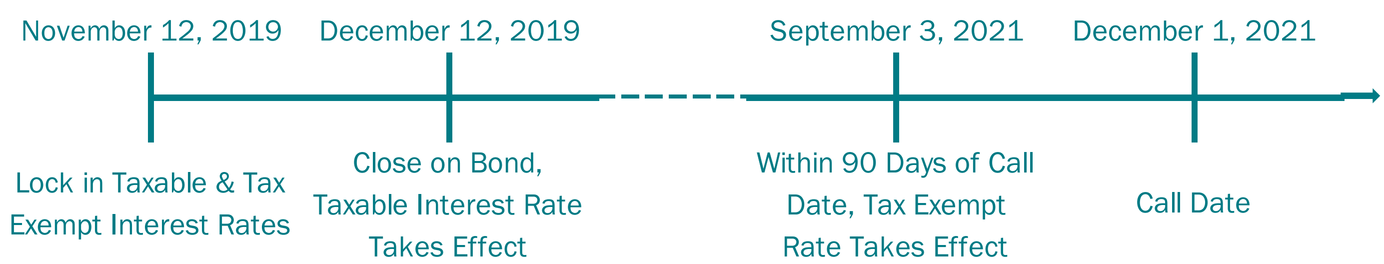


- Since the bonds won't close until some point in the future, the interest rate will contain a forward premium, the amount of which is dependent on the length of time between the interest rate lock / pricing date and the closing date (typically, the longer the forward period, the higher the premium).
- Forward refundings are attractive because they allow issuers to take advantage of low interest rates on a tax-exempt basis.
- Forward refundings are available to issuers in both the public market and bank market with a few caveats:
  - Public market investors typically prefer higher rated entities, standard security structures (GO / W&S) and maturities that are at least $1 million.
    - In addition, the forward period for a public market is typically limited to less than 1 year.
  - While banks can typically offer a longer forward period (up to 2 years), not all banks offer the forward structure, not all refundings fit the bank market (due to size or term) and banks still have to approve the credit.

Cinderella Bonds

- A Cinderella Bond is a hybrid between a taxable advance refunding and a forward refunding.
- In a Cinderella Bond structure, the issuer initially advance refunds tax-exempt bonds on a taxable basis. Then, on the call date of the refunded bonds, the interest rate converts to (or is refunded into) a tax-exempt rate.
  - Both the taxable rate and the tax-exempt rate are locked in upfront.

Cinderella Example



- This structure allows issuers to take advantage of current market rates while also taking advantage of a lower tax-exempt rate in the future.
- A Cinderella Bond is something that is only available to issuers in the bank market.
- However, a very few number of banks offer the Cinderella bond structure and, like with the forward refundings, not all refundings fit the bank market (due to size or term) and banks still have to approve the credit.
- In addition, given the prohibition of tax-exempt advance refundings, the specific details and mechanics of the conversion from a taxable rate to a tax-exempt rate are of particular importance to an issuer's bond / tax counsel.
  - **Therefore, bond / tax counsel should be involved from the beginning if a Cinderella structure is being considered**.

Agenda

Continuing Disclosure Overview

- An issuer that has bonds outstanding in the public market has certain continuing disclosure obligations.
- The typical continuing disclosure obligations consist of filing audited financial statements on an annual basis, filing certain operating statistics (i.e. top taxpayers, assessed value, tax collections, top W&S customers, W&S rates, etc.) on an annual basis as well as filing a notice upon the occurrence of certain "material events".
- Two new material event notices have been added for all issuers who issue debt in the public market **after February 27, 2019**.

1) Principal and interest payment delinquencies;
2) Non-Payment related defaults;
3) Unscheduled draws on debt service reserves;
4) Unscheduled draws on credit enhancements;
5) Substitution of credit or liquidity providers;
6) Events affecting the tax status of the Bonds;
7) Modifications to rights of securities holders;
8) Bond calls and tender offers;
9) Defeasances;
10) Release, substitution, or sale of property securing repayment of the Bonds;
11) Rating changes;
12) Bankruptcy, insolvency, receivership of the obligor;
13) Consummation of a merger, consolidation, or acquisition involving an obligor or the sale of all or substantially all of the assets of the obligor;
14) Appointment of a successor or additional trustee, or the change of name of a trustee;
15) Incurrence of a Financial Obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligation person, any of which affect securities holders, if material; or
16) Default, event of acceleration, termination event, modification of terms or other similar events under the terms of a Financial Obligation of the obligated person, any of which reflect financial difficulties.

New Material Events

- Material event #15 is of particular importance given that it will apply to the large majority of issuers.
- The discussion around this material event notice centers around what two questions:
  - What is a “Financial Obligation”?
  - What is “material”?
- A “Financial Obligation” is defined as a <u>debt obligation</u>; a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or a guarantee of a debt obligation or derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation.
- However, the word “material” is not a defined term so it is open to interpretation:
  - Is all debt considered material?
  - Is there are particular dollar amount threshold that makes it material?
  - Is it only material if it applies to the same security / source of revenues as the publicly issued debt where there is a continuing disclosure obligation?
- As issuers are in the process of issuing debt in the public market, issuers are encouraged to have these conversations with their bond counsel.
- Some issuers, after consultation with their bond counsel, may determine that they will simply disclose all financial obligations, regardless of size, security or structure.
  - Under this approach, issuers are not at risk of the SEC, MSRB or other parties second guessing their interpretation of materiality or applicability at a later date.
- Regardless of the decision, it is helpful to have written policies and procedures in place governing continuing disclosure in general and specifically addressing these new material events.
- Underwriters of publicly issued debt (on both competitive and negotiated transactions) have become very focused on an issuer’s awareness of these two new material event notices and their ability to comply with them on a going forward basis.
  - This includes policies and procedures in place covering these events as well as identifying the responsible party.

Sample Financial Obligation Disclosure

- With regard to the new material event #15, it can be helpful to develop a template for making the disclosure.
- Below is an example of such a template which provides the key information of the issuer's Financial Obligation (date, issue name, amount, purpose, interest rate / payment schedule, redemption, security).
- Please consult your bond counsel to determine the appropriate template or information to provide in your material event notice.

SAMPLE ISSUER, SOUTH CAROLINA

LISTED EVENT NOTICE

Dated: _________, 2019

General Obligation Bonds
Cusip Prefix: 123456

Limited Obligation Bonds (Hospitality Fee Pledge)
Cusip Prefix: 234567

Combined Utility System Revenue Bonds
Cusip Prefix: 345678

Tax Increment Bonds
Cusip Prefix: 456789

Submitted in compliance with the provisions of the Continuing Disclosure Certificate executed by the Sample Issuer in connection with the City's outstanding: $10,000,000 Revenue Bonds, Series 2019 dated June 1, 2019.

The Sample Issuer, South Carolina (the "City") hereby provides notice that it has incurred a financial obligation with the following terms:

1. Title of Issue: Sample Issuer, South Carolina, $5,215,000 Revenue Bond, Series 2019 (the "Series 2019 Bond").
2. Security: The Series 2019 Bond is issued under and secured by a Master Trust Indenture and Third Supplemental Trust Indenture (collectively, the "Indenture"), each between the City and The Trustee. The Series 2019 Bond is a special limited obligation of the City and does not constitute either a pledge of the full faith and credit of the City or a charge against the general credit or taxing power of the City.
3. Date of Sale: September 1, 2019.
4. Issue Date: September 30, 2019.
5. Principal Amount: $10,100,000
6. Registered Holder: Sample Lender
7. Purposes: Series 2019 Bond proceeds will be used to (i) refund the City's $5,000,000 original principal amount Revenue Bond, Series 2012, (ii) refund the City's $6,00,000 original principal amount Revenue Bond, Series 2016, (iii) defray all or a portion of the costs of acquiring by construction, purchase and installation, and equipping, certain public improvements within the City, and (iv) pay the costs of issuance of the Series 2019 Bond.
8. Interest Payment Dates and Repayment Schedule: The Series 2019 Bond will bear interest at the rate of 2.000% (calculated on the basis of a 360-day year comprised of twelve 30-day months) payable on May 1 of each year commencing May 1, 2020, until final maturity or prior redemption; and will mature in successive annual installments on May 1 in each of the years and in the principal amounts as follows:

Year	Principal Amount	Year	Principal Amount
2020	$514,000	2025	$522,000
2021	480,000	2026	532,000
2022	490,000	2027	544,000
2023	500,000	2028	554,000
2024	512,000	2029	567,000

9. Redemption Terms: The Series 2019 Bond may, at the option of the City, be called for redemption prior to maturity as a whole, at any time, or in part on any interest payment date, at par plus accrued interest, if any, to the date of redemption, without premium.
10. Paying Agent/Registrar: The Trustee.

Continuing Disclosure Policies / Procedures

- As previously mentioned, underwriters of publicly sold debt have become increasingly interested in an issuer's policies and procedures in place to ensure compliance with continuing disclosure requirements, particularly the two new material event notices

- While is it not a requirement for an issuer to have written continuing disclosure policies, it is a good practice and underwriters will want some assurance that issuers are aware of their disclosure requirements and have the ability to make them on a going forward basis.

- These policies / procedures typically have the following characteristics:
  - A dedicated person or persons responsible for maintaining compliance with the policies and continuing disclosure obligations.
  - Routine review, discussion, and education of continuing disclosure requirements with Bond Counsel and Financial Advisor(s).
  - A listing of all debt obligations that require continuing disclosure monitoring.

Sample Policies / Procedures

CERTIFICATE ESTABLISHING WRITTEN PROCEDURES
RELATING TO CONTINUING DISCLOSURE OBLIGATIONS
IN CONNECTION WITH THE SERIES 2019A BONDS

Sample Issuer, South Carolina, Combined Utility System Revenue Bonds, Series 2019A

We, the undersigned City Manager and Chief Financial Officer of the Sample Issuer, South Carolina (the "City"), do hereby certify:

1. The City has occasion to issue publicly traded bonds or other obligations from time to time to fund certain capital improvements.

2. As part of the requirements for issuing certain bonds which are publicly traded, S.E.C. Rule 15c2-12 (the "Rule") provides that the Participating Underwriter (as defined in the Rule) must obtain a written agreement or contract from the City to (a) provide certain financial information on an annual basis, and (b) provide notice within 10 business days of the occurrence of certain events enumerated in the Rule ("Events").

3. On the date hereof, the $______________ original principal amount Combined Utility System Revenue Bonds, Series 2019A (the "Series 2019A Bonds"), of the City have been issued by the City pursuant to Seventh Supplemental Ordinance No. 2019-17 enacted by the City Council of the City on April 23, 2019 (the "Seventh Supplemental Ordinance"). In addition, on the date hereof, the City has executed a Continuing Disclosure Certificate in connection with the Series 2019A Bonds (the "2019A Continuing Disclosure Certificate").

4. Pursuant to the authority granted, in Section 17 of the Seventh Supplemental Ordinance, to the City Manager and Chief Financial Officer of the City, the following written procedures relating to continuing disclosure obligations are hereby established by the City in connection with the Series 2019A Bonds.

a. The Chief Financial Officer of the City or successor position (the "Disclosure Compliance Officer") shall be responsible for compliance with this policy and for compliance with any continuing disclosure obligations undertaken by the City or imposed upon the City by state or federal law or regulations. The Disclosure Compliance Officer is permitted to obtain the assistance of other City staff to cause this information to be compiled and provided, but the ultimate responsibility for the dissemination of the information will remain with the Disclosure Compliance Officer.

b. The Disclosure Compliance Officer shall become and remain informed regarding the City's continuing disclosure obligations through participation in professional groups and through attendance at workshops or other informational and/or training programs.

c. For each issuance of bonds or other obligations that involves a continuing disclosure obligation, the Disclosure Compliance Officer shall review such continuing disclosure undertaking and discuss with the City's bond counsel and financial advisor prior to the execution of such continuing disclosure undertaking.

d. The certificates of the City with respect to its continuing disclosure undertakings related to the City's outstanding combined utility system revenue bonds, other than the Bonds to be Refunded (as such term is defined in the Seventh Supplemental Ordinance), and the Series 2019A Bonds (collectively,

1

1967624v3

Agenda

Other Topics

Bank Qualification

- Created in 1986 to encourage banks to invest in tax-exempt bonds from smaller, less-frequent municipal bond issuers.
  - Under current law, carrying costs allocable to tax-exempt bonds are generally not allowed to be deducted by financial institutions that purchase and carry these bonds unless the bond is deemed to be Bank Qualified.
- Governments issuing $10 million or less in bonds per calendar year can designate those bonds as bank-qualified.
- House Bill 3967, titled the "Municipal Bond Market Support Act of 2019", was recently introduced by in the House of Representatives with the purpose of increasing the amount of tax-exempt bonds that may be issued as bank qualified obligations.
  - If the Municipal Bond Market Support Act of 2019 is passed in its current form, the bill would expand the opportunity to issue bank qualified bonds by modifying the definition of a qualified small issuer to increase the maximum anticipated amount of bonds issued in a calendar year from $10,000,000 to $30,000,000.
  - Additionally, this figure would be subject to an annual adjustment for inflation.

GASB Statement No. 88

- The goal of this Statement is to provide users of the financial statements with additional important information related to debt.
  - The disclosures required by Statement 88 are effective for reporting periods beginning after June 15, 2018.
- Statement 88 emphasizes that debt related disclosures in notes to financial statements should separate information regarding direct borrowings and direct placements from other types of debt.
- In addition to currently required disclosures, units should also include information regarding:
  - Amount of unused lines of credit (this disclosure is not limited to lines of credit associated with debt).
  - Assets pledged as collateral for the debt (this disclosure does not include assets to be constructed with the related debt proceeds).
  - Terms specified in debt agreements related to significant events of default with finance related consequences, as well as termination events with finance related consequences, and any subjective acceleration clauses.

Disclaimer

First Tryon Advisors is a business of First Tryon Securities LLC. This communication is for informational purposes only and should not be construed as an offer or solicitation to sell or buy any securities. This material does not provide tax, regulatory, accounting, or legal advice. Prior to entering into any proposed transaction, recipients should determine, in consultation with their own investment, legal, tax, regulatory and accounting advisors, the economic risks and merits, as well as the legal, tax, regulatory, and accounting characteristics and consequences, of the proposed transaction.
Any proposal included in this communication is confidential information of First Tryon Securities, LLC and is solely for the benefit of the recipient(s), and the recipient(s) is (are) not authorized to sell, redistribute, forward or deliver this communication to any other person without the prior written consent of First Tryon Securities, LLC.

The statements within this material constitute the views, perspective and judgment of First Tryon Securities LLC at the time of distribution and are subject to change without notice. First Tryon Securities, LLC gathers its data from sources it considers reliable; however, it does not guarantee the accuracy or completeness of the information provided within this communication. The material presented reflects information known to First Tryon Securities, LLC at the time this communication was prepared, and this information is subject to change without notice. First Tryon Securities, LLC makes no warranties regarding the accuracy of this material.

Any forecasts, projections, or predictions of the market, the economy, economic trends, and equity or fixed-income markets are based upon current opinion as of the date of issue, and are also subject to change. Opinions and data presented are not necessarily indicative of future events or expected performance. Actual events may differ from those assumed and changes to any assumptions may have a material impact on any projections or performance. Other events not taken into account may occur and may significantly affect the projections or estimates. Certain assumptions may have been made for modeling purposes only to simplify the presentation and/or calculation of any projections or estimates, and First Tryon Securities LLC does not represent that any such assumptions will reflect actual future events. Accordingly, there can be no assurance that estimated projections will be realized or that actual performance results will not materially differ from those estimated herein.

Neither FINRA nor any other regulatory organization endorses, indemnifies, or guarantees First Tryon Securities, LLC's business practices, selling methods, any class or type of securities offered, or any specific security.