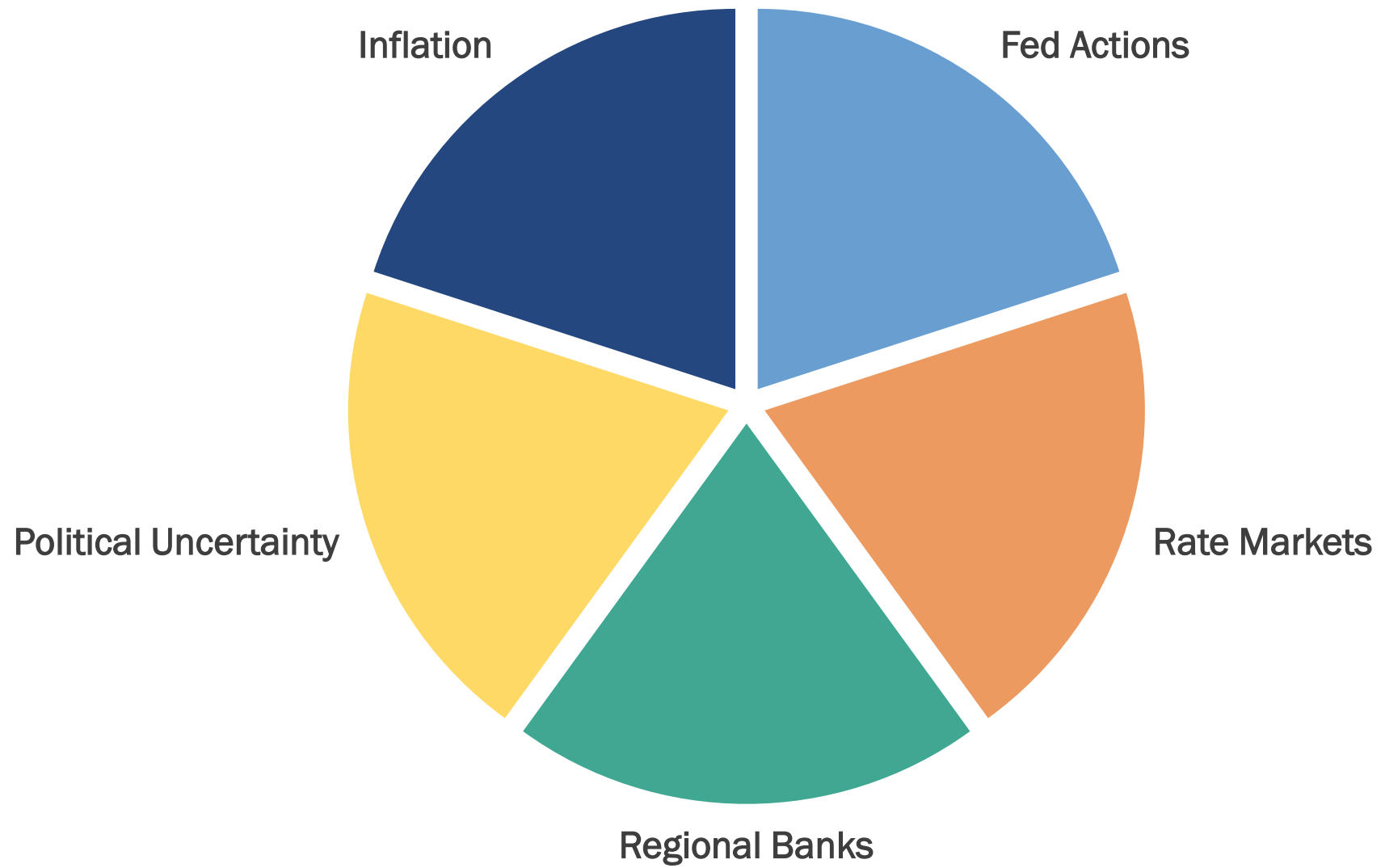


Financing Tools that Make Cents

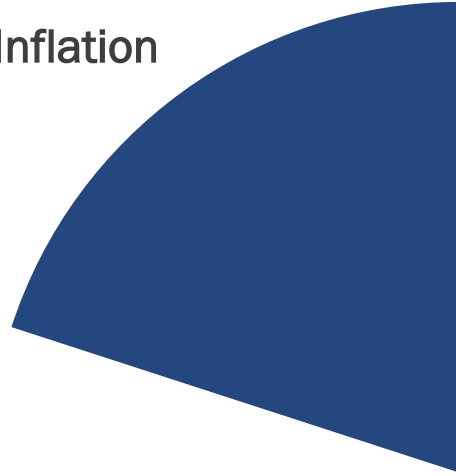
*Council of Infrastructure Financing Authorities Workshop
November 13, 2023*

Setting the Scene

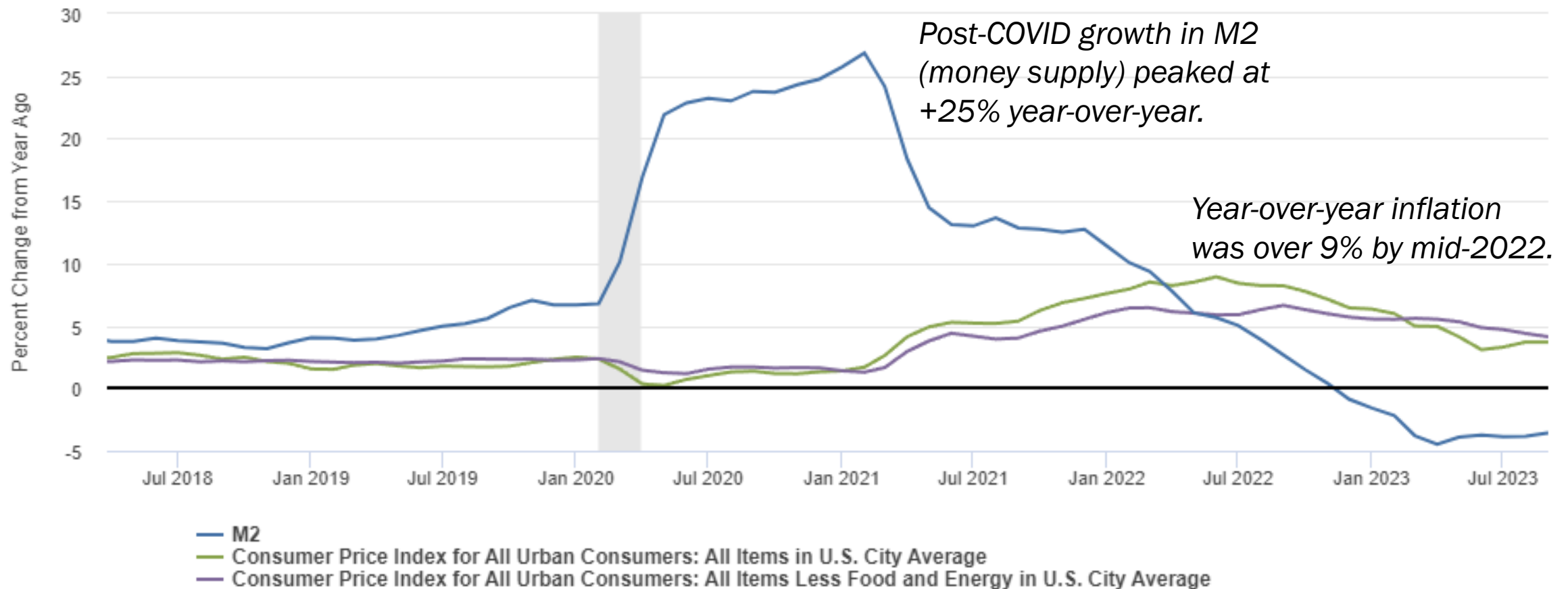
Bond issuers faced historic headwinds throughout 2022 and 2023



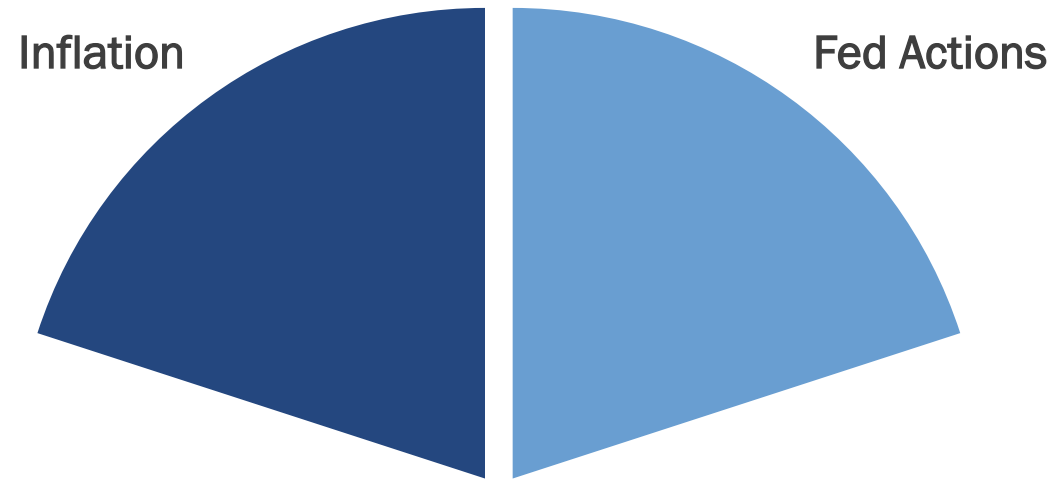
Inflation



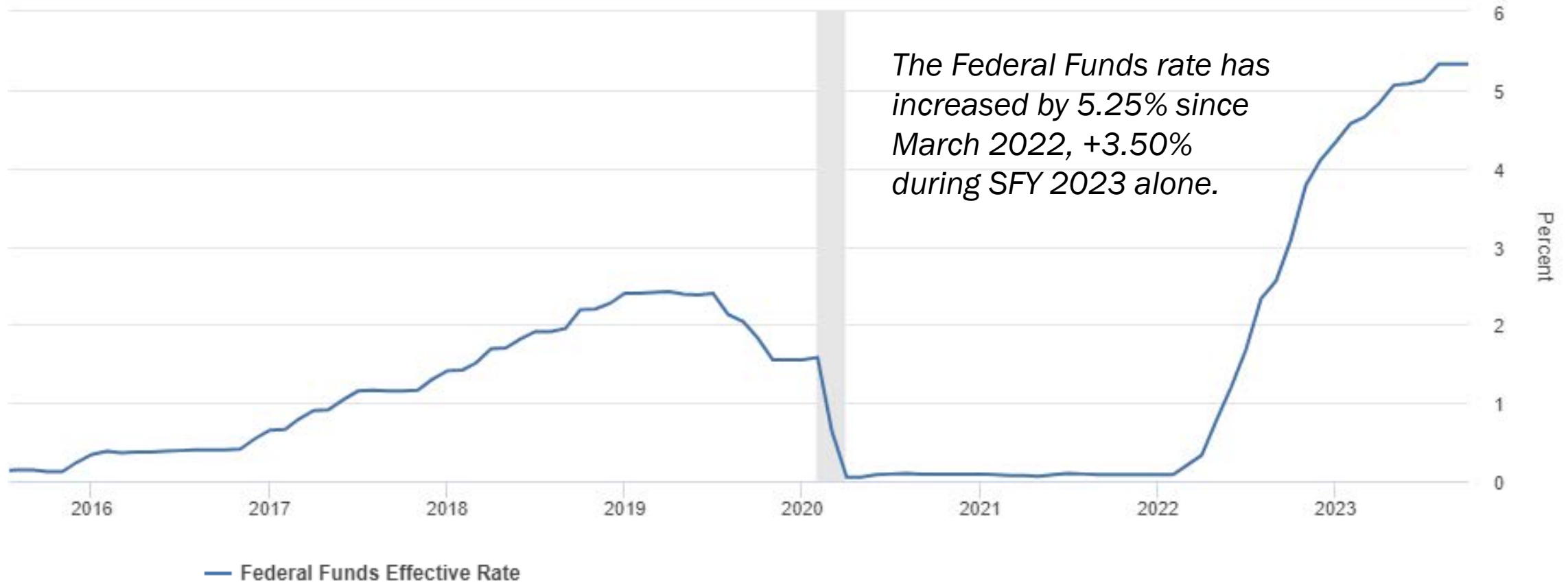
Inflation surged in 2021 due to pandemic-related shocks, supply chain problems, and fiscal/monetary stimulus.



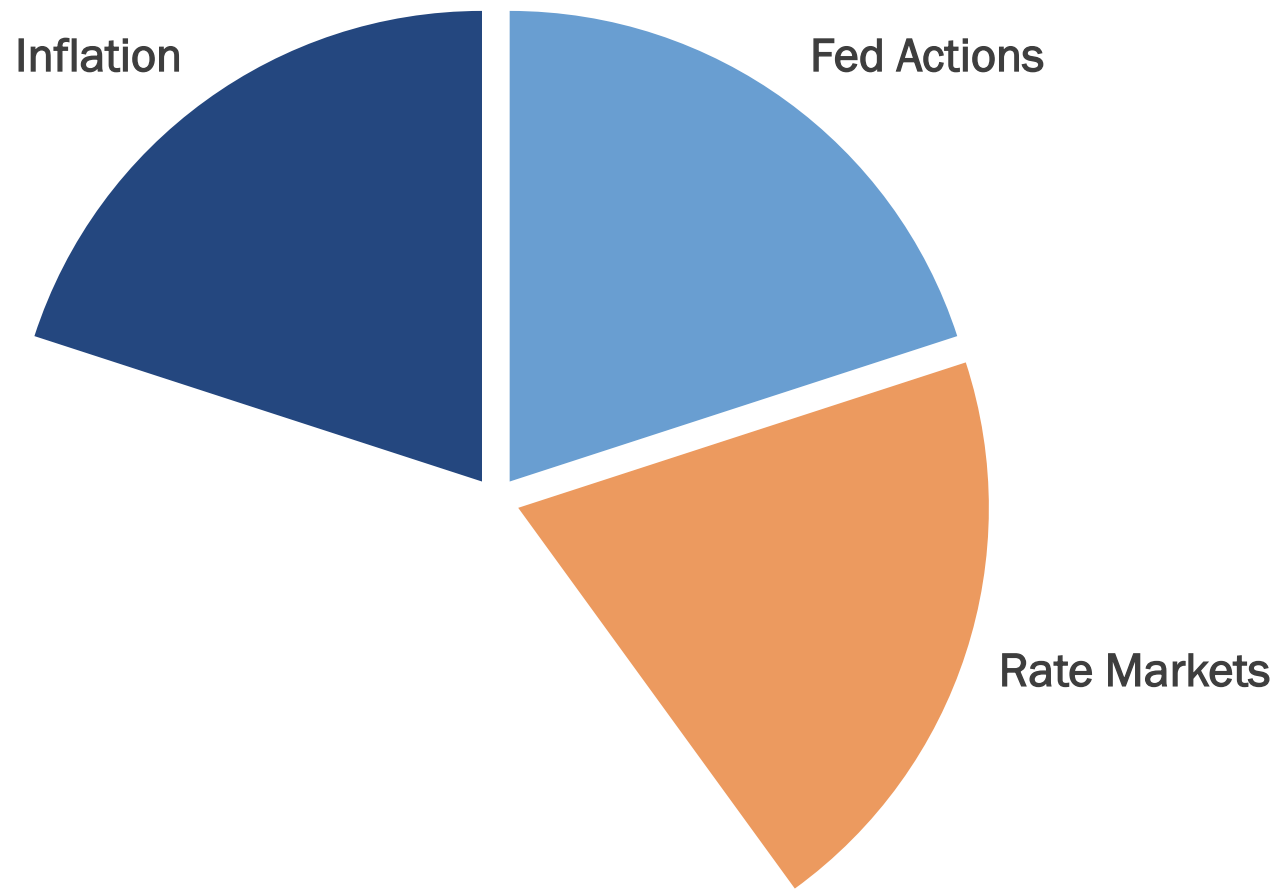
Source: Board of Governors, Bureau of Labor Statistics



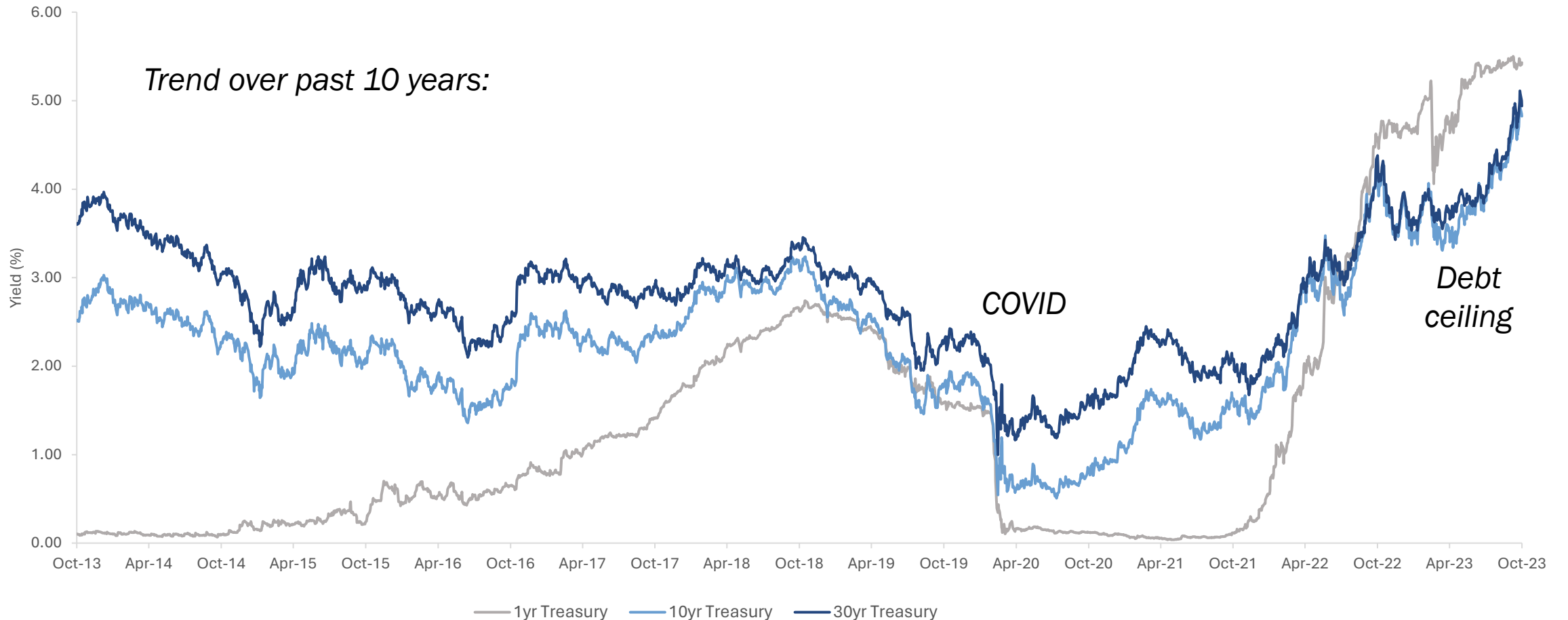
The Federal Reserve responded to the spike in inflation by aggressively raising interest rates.



Source: Board of Governors



Treasury rates across all tenors increased sharply since the beginning of 2022.



Source: Bloomberg, US Treasury

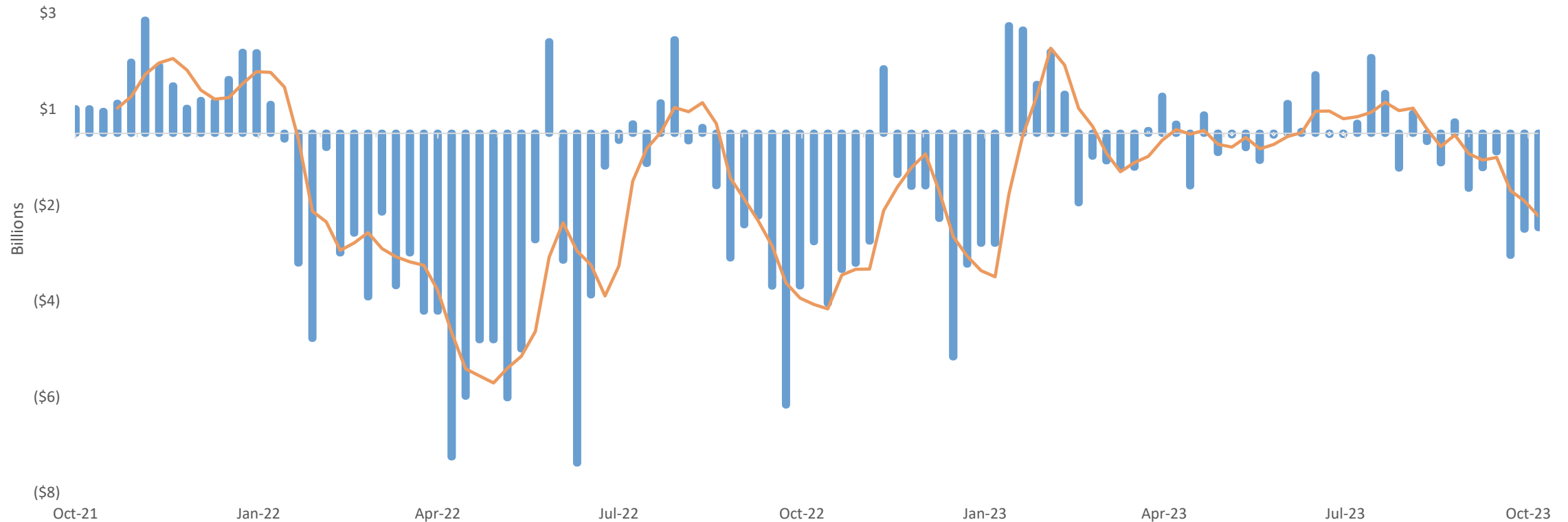
Similar movement occurred in tax-exempt rates.



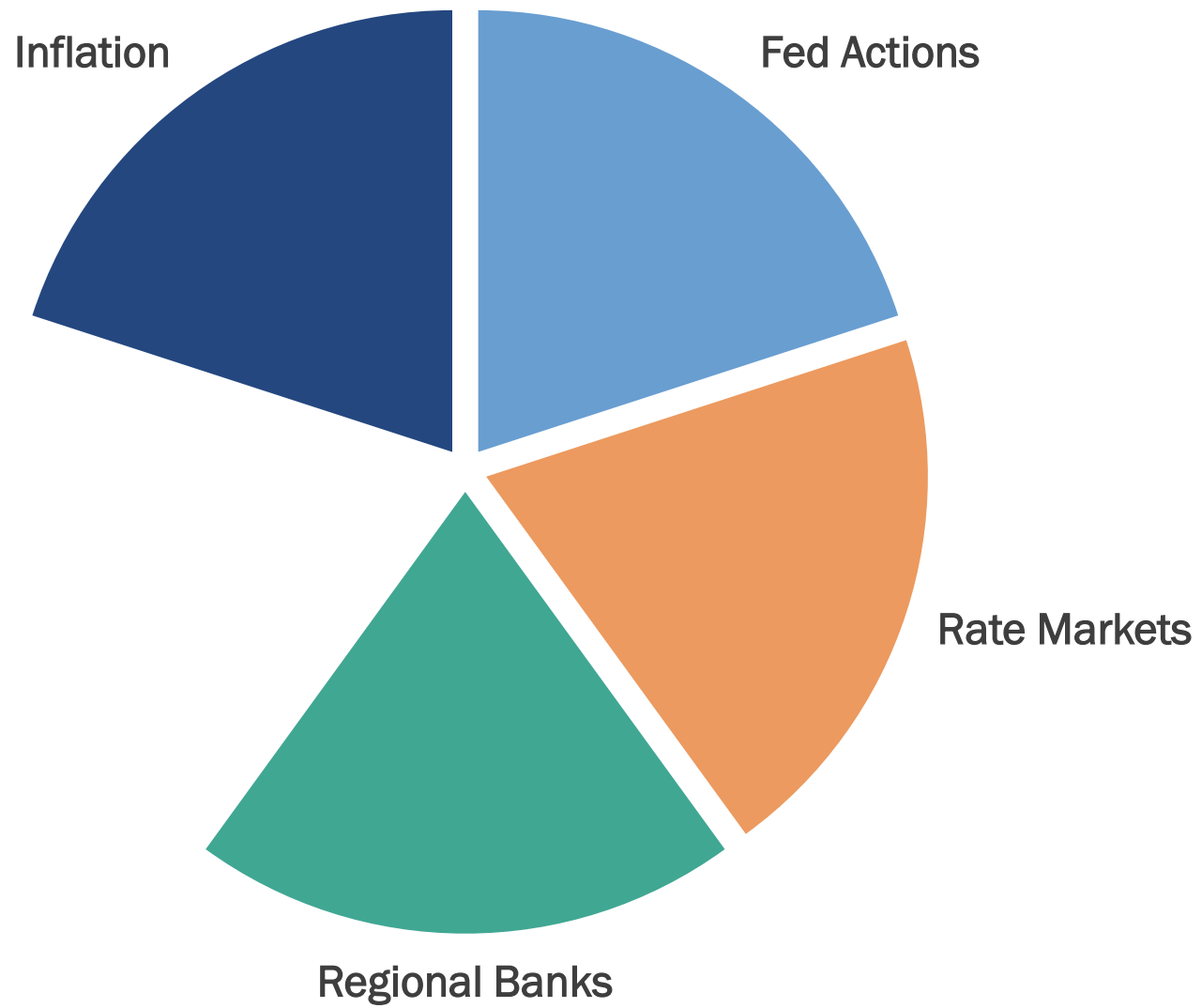
Source: Bloomberg, US Treasury

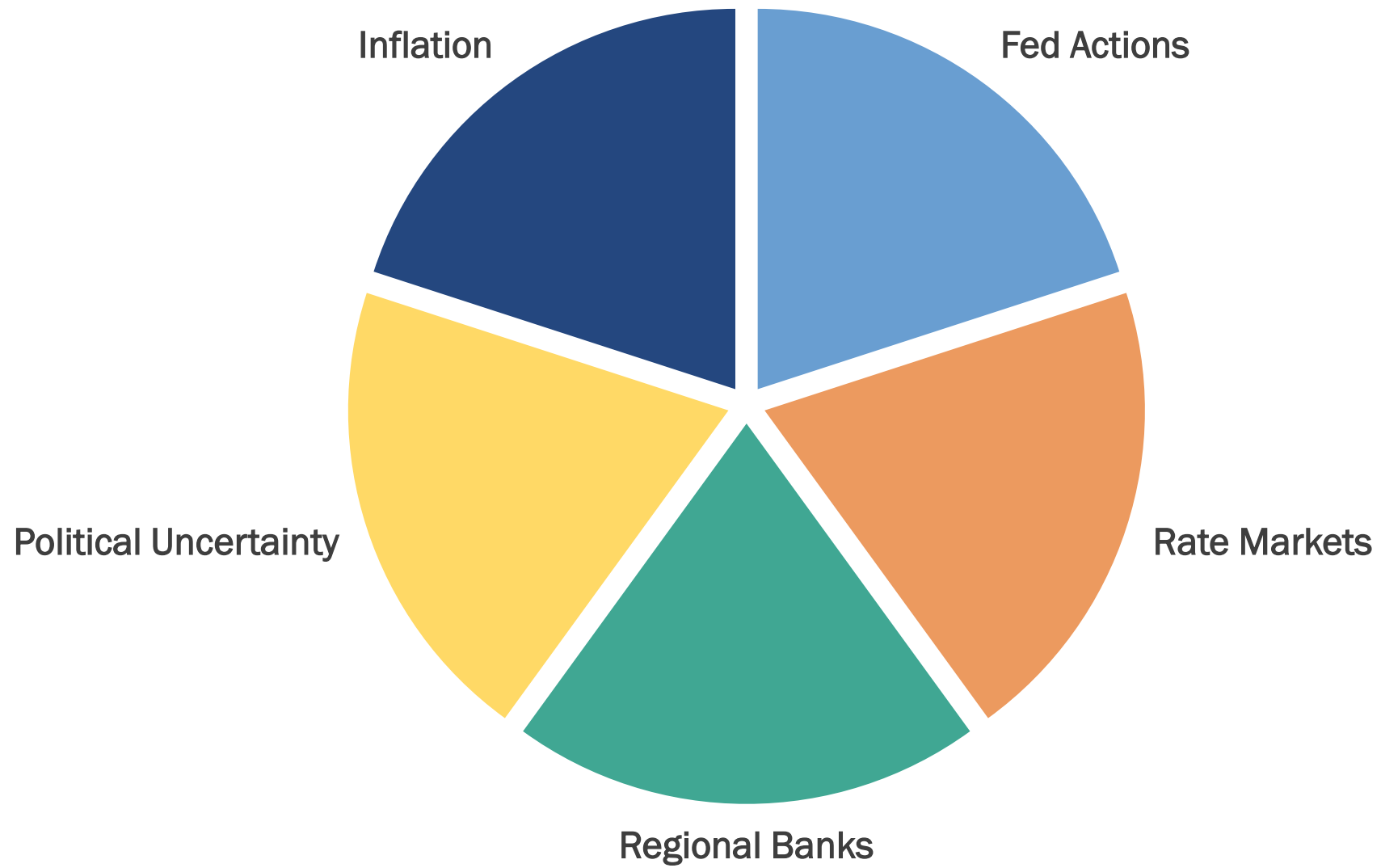
Municipal bond funds have experienced significant outflows each week since the beginning of 2022.

ICI Weekly Fund Flows (Past 24 Months)



Source: Bloomberg





Despite these and other challenges, Iowa saved millions via alternative refunding mechanisms.

Through private placement and tender offers, Iowa SRF saved nearly \$20 million in debt service costs.

Private placements can provide distinct advantages compared to a capital markets financing.

- A commercial bank's cost of funds differs from that of a traditional capital markets investor.
 - Customer deposits provide stable, low-cost funding, which means they can often accept a lower rate of return.
- Lower fees, costs of issuance, and financial disclosure.
 - Limited bond documents and disclosures (no official statement)
 - No credit rating (usually)
- High degree of flexibility in structure, payment, and terms.
 - Forward delivery
 - Taxable convertible (“Cinderella”)

Forward Delivery Explained

- Forward delivery allows borrowers to lock in an interest rate on refunding bonds that will be issued on (or slightly before) the call date of the refunded bonds several months in the future.
- Savings on the refunded bonds is known at execution.
- Negates the impact of rising interest rates between the execution date on the refunding bonds and the call date on the refunded bonds.
- **Bottom line:** a forward delivery refunding preserves savings from eroding away due to increasing interest rates.

Taxable Convertible (“Cinderella”) Explained

- Refunding structure that allows borrowers to advance refund tax-exempt bonds using taxable rates up to the call date of the refunded bonds.
 - At closing, proceeds of the refunding bonds fund an escrow to legally defease the callable bonds.
- Once the call date is reached and the related tax opinion is delivered, the convertible advance refunding bonds *convert* to the predetermined tax-exempt rate set at the closing date of the refunding.
- **Bottom line:** A taxable convertible structure allows borrowers to lock in savings based on a combination of both taxable and tax-exempt interest rates today compared with issuing solely at a taxable rate until maturity.

Market dynamics and recent tax law changes significantly curtailed refunding activity by the end of 2022.

- During the decade preceding 2022, refunding bonds represented over 49% of annual issuance of municipal bonds, on average, according to SIFMA.
- Refunding issuance dropped significantly to about 20% of total municipal issuance in 2022.
 - Higher interest rates that have eliminated potential savings from refinancing.
 - Elimination of tax-exempt advance refunding options by the 2017 Tax Cuts and Jobs Act.
- Tender offers may serve as a workaround to achieve a tax-exempt advance refunding.
 - Since the existing bonds are purchased back by the issuer and would no longer be outstanding, the new bonds may be issued as tax-exempt rather than taxable.

Tender Offer Explained

- An issuer offers to purchase back certain bonds from bondholders at a specific price and on a specific date.
- Bondholders have no obligation to sell.
- The tender offer price is usually discounted from par but is higher than the prevailing market price.
- A true win-win:
 - Issuers realize savings resulting from a low purchase (refunding) price despite higher market rates.
 - Bondholders receive a better price than the market currently offers.

Iowa SRF's 2023 Tender Offer

- RBC Capital Markets served as Sole Dealer Manager
- Iowa Finance Authority (IFA) announced a tender offer for certain maturities the Series 2015, Series 2016, Series 2017 and Series 2019A bonds.
 - None of which were callable until at least 2025.

- Timeline:

May 22, 2023	Launch Date
May 31, 2023	Expiration Date (and Withdrawal Deadline)
June 1, 2023	Acceptance Date
June 15, 2023	Settlement Date

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May 27, 2023:

The New York Times

White House and G.O.P. Strike Debt Limit Deal to Avert Default

Iowa SRF's 2023 Tender Offer – Results

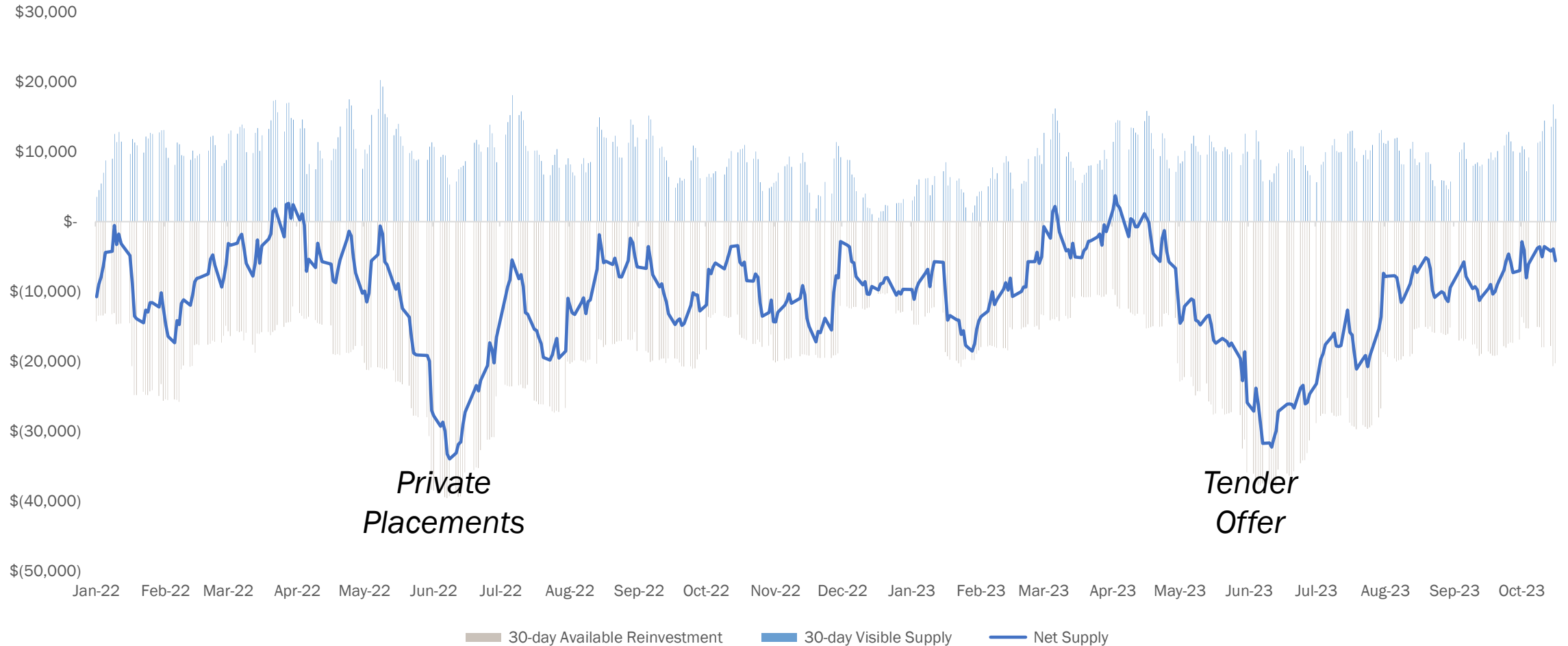
Series	Maturity (August 1)	Coupon	Outstanding Principal Amount	Notional Tendered	Success Rate	Notional Accepted
2015	2027-2029	5.00%	\$16,740	\$6,635	39.6%	\$6,635
2016	2029-2039	5.00%	\$112,820	\$87,195	77.3%	\$87,195
2017	2030-2047	5.00%	\$185,490	\$113,430	61.2%	\$83,110
2019A	2031-2042	5.00%	\$163,030	\$120,035	73.6%	\$71,450
			\$478,080	\$327,295	68.5%	\$248,390

Putting it all together

Iowa SRF's SFY 2023 Refunding Results

	Forward Delivery	Taxable Convertible	Tender Offer	TOTAL
Dated Date	9/15/2022	6/28/2023	6/15/2023	
Refunding Par	\$36,000,000	\$41,810,000	\$248,390,000	\$326,200,000
NPV Savings \$	\$2,946,069	\$2,647,927	\$13,884,360	\$19,472,692
NPV Savings %	8.18%	6.33	5.59%	5.97%

The net supply of municipal bonds has been mostly negative since January 2022.



Takeaways

- Private placements offer increased flexibility and the potential to generate positive economics and enhance refunding savings.
- Tender offers give SRFs another way to access the market, broaden the investor pool, increase demand, and current refund otherwise uncallable bonds.
- Stay on top of market trends and what other programs are doing.
- Check in with your consultants regularly to review potential financing opportunities.
 - Financial Advisor
 - Bond Counsel
 - Underwriters / Bankers

Contact

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