

We're Baaack!

CMA is pleased to provide you with this latest edition of *Capital Markets News*. Our goal is to make this a monthly newsletter available on-line to CMA clients. We welcome your feedback and suggestions for topics that you would like us to discuss at rtortora@capmark.org. We hope you enjoy CMA's *Capital Markets News*.

Advance Refundings: Going, Going, Gone!

The Tax Cuts and Jobs Act signed into law by President Trump in late December ended the ability of public jurisdictions to advance refund outstanding bonds on a tax-exempt basis starting January 1, 2018. In an **advance** refunding, the proceeds from the sale of refunding bonds are used at some point beyond 90 days of their delivery date to refinance outstanding debt. Advance refundings can still be done using **taxable** bonds but the higher rate, taxable securities greatly reduce or eliminate the savings resulting from the transaction, which looks to take advantage of prevailing interest rates which are lower than the rates on the existing debt. The **current** refunding of outstanding bonds, where the issuer uses the refunding bond proceeds within 90 days of their receipt to redeem outstanding debt, is still permitted.

Refunding bonds made up approximately 15% of all bond issuance in 2017. Many public jurisdictions rushed to the market in December 2017 to advance refund their debt prior to implementation of the new law on January 1st resulting in December 2017 setting a new record for volume of debt issuance at \$62.5 billion. The earlier volume record of \$54.7 billion was set in December 1985, the month prior to the implementation of the last major changes to the Federal tax laws in 1986 during the Regan Administration. The Federal government's key rationale justifying the elimination of advance refunding bonds is that it would eliminate the incentive to local jurisdictions to issue two sets of Federally subsidized debt to finance the same activity. Refunding bonds are often outstanding for months or even years, along with the debt that they are refunding, until the latter debt is called in and

redeemed. Congress's Joint Commission on Taxation has projected that the elimination of advance refunding bonds will increase Federal revenues by \$17.3 billion over ten years (2018-2027).

In recent years, CMA has shortened the call feature on most of its clients' bond issues from the standard 10-year par call to an 8-year par call. We have found this to have a minimal impact on the bond's pricing while providing the client with more flexibility to refund its debt to generate savings. Further reductions in call features will likely be considered as a way of ameliorating the impact of the elimination of advance refundings. In the weeks following the passage of the new tax law, there had been whispers that there could be a transition period implemented that would allow advance refunding to continue for some period of time, however, as of today, tax-exempt advance refundings are a thing of the past.

2017 INDUSTRY RANKINGS

The Thomson Reuters rankings of U.S. Municipal Advisors for the 2017 calendar year are in and CMA once again emerged in the top 10 among all Municipal Advisors for both total number of completed deals (#3) and total par amount (#10). This marks the fifth straight year that CMA has been recognized as a top 10 national firm.

Orrick, Herrington & Sutcliffe LLP was the top Bond Counsel of 2017 while Bank of America Merrill Lynch extended its lead in Municipal Underwriting, and Assured Guaranty continued its dominance in Bond Insurance.

RECENT CMA CLIENT SALE RESULTS

<u>Issuer</u>	<u>Issue Type</u>	<u>Par Amount</u>	<u>Sale Date</u>	<u>Term</u>	<u>Rate</u>	<u>Purchaser</u>
East Greenbush CSD	BAN	\$11,574,500	25-Jan	12 mos.	1.60%	TD Securities (USA) LLC
Wallkill Town	Bonds	\$5,000,000	3-Jan	20 yrs.	2.77%	Robert W. Baird & Co. LLC
Islip Town	BAN	\$11,394,500	20-Dec	10 mos.	1.47%	TD Securities (USA) LLC
Suffolk County	Ref. Bonds	\$127,100,000	14-Dec	11 yrs.	2.54%	M&T Securities, Roosevelt & Cross,
Suffolk County	Ref. Bonds	\$62,370,000	14-Dec	10 yrs.	2.38%	Jefferies LLC
Suffolk County	TAN	\$410,000,000	14-Dec	7 mos.	1.66%	Jefferies, Roosevelt & Cross, UBS
Albany County	Ref. Bonds	\$18,235,000	12-Dec	10 yrs.	2.16%	Fidelity Capital Markets
Southampton UFSD	Ref. Bonds	\$16,330,000	7-Dec	11 yrs.	1.87%	UBS Financial Services, Inc.
Syracuse City	Ref. Bonds	\$15,535,000	5-Dec	11 yrs.	2.03%	FTN Financial Capital Markets
Long Beach City SD	Ref. SB	\$28,455,000	5-Dec	8 yrs.	1.80%	Janney Montgomery Scott LLC

Mitigating Fiscal Stress Through Strategic Planning, A Case Study

According to New York Office of the State Comptroller ("OSC"), strategic multiyear forecasts are a valuable financial tool, particularly for financially challenged jurisdictions. When a fiscal crisis hits, it is common for a municipality to lose focus on its long-term plans and instead concentrate only on day-to-day operations. This approach often leads to the neglect of problems, which may be structural in nature. Without structurally balanced operations, the further deterioration of fiscal conditions becomes a likely outcome. As recently demonstrated by the City of Poughkeepsie ("City"), developing a multiyear strategic plan is an effective first step in reestablishing sound fiscal practices.

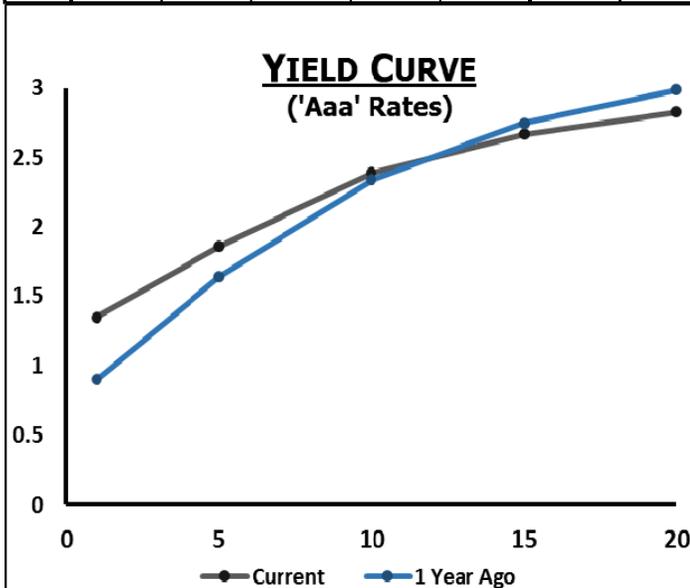
For several years, the City suffered from serious fiscal conditions. This stress resulted in an accumulated deficit position in the City's General Fund of approximately \$13.1 million, as of December 31, 2015. Despite showing signs of stabilization in 2013 and 2014, City officials recognized the need for a corrective action plan. In 2015, CMA was engaged by the City to develop a strategic plan aimed at restoring structural balance in the General Fund. A comprehensive evaluation soon commenced and was concluded in December 2015. In April 2016, the strategic plan was publicly presented by CMA at a City Council meeting, with its contents and recommendations discussed in detail. Weekly meetings at City Hall soon commenced to ensure steps were being taken to execute the plan. During the evaluation period, conversations were held with various State and local government officials to determine what resources, if any, were available to the City. CMA was successfully able to identify two funding opportunities. The first, a County grant, ultimately covered all costs associated with the development of the strategic plan. The second, a much larger opportunity through the New York State Financial Restructuring Board for Local Governments, would counterbalance the upfront costs of executing key plan initiatives. More specifically, the focus was on initiatives that would yield positive, recurring results. In June of 2017, a special aid package of \$3 million was approved by the State and awarded to the City. The package included \$1 million for economic development, \$1.25 million to help resolve long-standing collective bargaining issues and \$750,000 to consolidate certain transit functions.

Combined, the multiyear strategic plan and grant funds proved to be a major success. The plan assisted decision-makers as they established long-term priorities and work toward achieving goals. Fiscal policies and best practices have been implemented and the City's most recent audit report, as of December 31, 2016, reports an operating surplus of \$873,904 in the City's General Fund.

For more information and a copy of the City's Strategic Fiscal Improvement Plan, please contact CMA Vice President James Nytko at (845) 227-8678 or jnytko@capmark.org.

MMD GENERAL OBLIGATION INTEREST RATES

	2/1/2018					1/1/2018					2/1/2017				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr	1.35%	1.38%	1.46%	1.56%	1.83%	1.42%	1.45%	1.53%	1.63%	1.90%	0.90%	0.92%	1.00%	1.09%	1.36%
5	1.86	1.99	2.18	2.30	2.61	1.68	1.77	1.95	2.07	2.38	1.64	1.75	1.96	2.05	2.36
10	2.39	2.62	2.78	2.91	3.26	1.98	2.16	2.34	2.46	2.81	2.34	2.55	2.85	2.94	3.30
15	2.67	2.91	3.07	3.20	3.56	2.30	2.50	2.67	2.79	3.15	2.75	3.01	3.31	3.40	3.77
20	2.83	3.07	3.21	3.36	3.70	2.45	2.65	2.80	2.93	3.26	2.99	3.25	3.52	3.63	3.99



While short-term interest rates have risen significantly over the past 12 months, as noted above, long-term rates have actually declined. Since February 2017, the cost of capital over the short-term has risen 45 basis points for 'Aaa' rated credits while interest rates for borrowings over 20 years are 16 basis points less. It's likely we'll see the yield curve continue to flatten throughout this year as the Federal Reserve, and its new, more hawkish chair Jerome Powell, is expected to raise short-term rates another 3 times in 2018.