CapitalMarketsAdvisors,LLC

Capital Markets News

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Bob Kerr

May 28, 1951 – April 30, 2018

Bob Kerr, a longtime financial advisor to school districts and municipalities across New York State, succumbed to lung cancer on April 30th after a brief but brave battle.

Bob was well known and highly regarded in the public finance community having worked at three of the state's most active financial advisors over a period of close to 40 years. He started in the industry in the finance department of the Town of Islip from which he was recruited in the late 1970's to join Fiscal Advisors. After almost 20 years at Fiscal, Bob cofounded New York Municipal Advisors ("NYMAC") with partner Larry Turtle, and in the ensuing 20 years built NYMAC into one of the leading advisors in New York State. Following his partner's retirement, Bob merged NYMAC into Capital Markets Advisors, LLC ("CMA") on January 1, 2015 and became a Senior Financial Consultant to that firm. Over the course of his career in public finance, Bob was a trusted advisor on thousands of bond and note financings with a combined par amount in the tens of billions of dollars. It would be impossible to drive along the Long Island Expressway or New York Thruway and not see signs for the hundreds of communities where Bob financed school buildings, fire houses, roads and village halls.

Bob leaves behind his wife Christine, sons Alex and Billy, his two beloved granddaughters and his 101-year old mother whom he dutifully called every day. He will be sorely missed and lovingly remembered by his family, friends, colleagues and clients.

Services will be conducted at Clayton Funeral Home in Kings Park on Thursday, May 3rd at 2-4 p.m. and at 7-9 p.m. followed by a funeral mass on Friday, May 4th at Our Lady Queen of Martyrs in Centerport at 9:30 a.m.

Alternative Call Provisions and Structures

The passage of the Tax Cuts and Jobs Act in December 2017 ended the ability of public jurisdictions to advance refund outstanding bonds on a tax-exempt basis. In an advance refunding bond issue, the proceeds from the sale of the refunding bonds are not used until a date beyond 90 days from their closing date to pay the outstanding bonds that are being called in and refunded. Over the past five years, CMA has identified and successfully executed hundreds of advance refunding bond issues for its clients, and in doing so, helped them to save tens of millions of dollars in interest expense. There have been many ideas developed by bankers and advisors to help counteract the loss of this valuable cost-saving tool for public entities. (*Continued on page 2*)

Recent CMA Client Sale Results

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Buffalo (City)	Bonds	$20,824,050	18-Apr	12 yrs.	2.56%	PNC Capital Markets LLC
Cheektowaga CSD	BAN	$19,910,000	18-Apr	12 mos.	1.96%	Oppenheimer & Co.
Lewisboro Town	Bonds	$3,105,567	12-Apr	14 yrs.	2.71%	FTN Financial Capital Markets
East Ramapo CSD	BAN	$24,595,395	12-Apr	12 mos.	2.16%	Jefferies LLC
Albany County	Bonds	$151,815,085	03-Apr	11 yrs.	2.47%	Raymond James
Suffolk County	RAN	$45,000,000	29-Mar	11 mos.	1.79%	UBS Financial, Citigroup
Glen Cove City	Bonds	$9,048,894	27-Mar	19 yrs.	3.65%	Roosevelt & Cross, Inc.
Valley Stream Village	Bonds	$8,750,000	27-Mar	20 yrs.	3.75%	Roosevelt & Cross, Inc.
North Hempstead Town	Bonds	$20,895,000	22-Mar	14 yrs.	2.61%	FTN Financial Capital Markets
Orchard Park CSD	Bonds	$21,840,000	20-Mar	14 yrs.	2.64%	Mesirow Financial Inc.

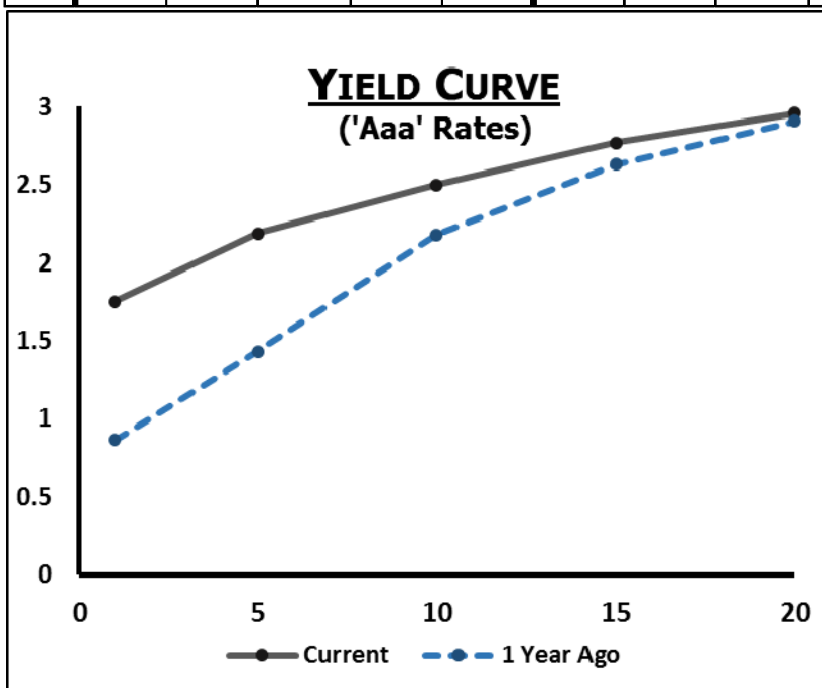
(*From page 1*) The vast majority of buyers of municipal bonds are interested in bonds with shorter call provisions (8-years or less), and in fact, in the 4 months following the enactment of tax reform on January 1, 2018, issuance of shorter call bonds rose by 50% as compared to the previous 4 months. While an attractive option to buyers and sellers of municipal bonds, these ***shorter call bonds*** can be more expensive in the long term in a rising interest rate environment if the bonds are not refunded on their initial call date. Longer duration, ***non-callable bonds*** are also of interest to issuers as they can receive more proceeds at closing in exchange for relinquishing the opportunity to refund those bonds in the future. A third, but somewhat mixed choice among bond investors, is a ***make-whole to par call option***, which allows an issuer to call and redeem bonds at any time by paying a call premium equal to a market rate. This option gives an issuer flexibility but would typically not generate much savings by virtue of the costly call premium. Some investors don't like this structure because of the uncertain timing of the potential redemption.

Another option that some municipal bond investors have appetite for is a ***delayed*** or ***forward delivery*** refunding structure. This permits issuers to lock-in current market rates and savings opportunities in advance of the call date in exchange for paying a forward premium to the investor. The premium could cost the issuer as much as 20 basis points for each month that the delivery of the bonds is delayed beyond 30 days of the closing date. Most of the interest in the term of forward deliveries extends out to 3 months but a good portion of that interest extends out to 12 months. This demand could indicate that investors are willing to accept these longer settlements to secure bonds in a market with low volume.

While there are ongoing efforts taking place on an ongoing basis by various players in the market to bring back advance refunding bonds, creative structures and call options may lessen the sting resulting from the elimination of this valuable and much used financing tool.

MMD General Obligation Interest Rates

	May 1, 2018					April 2, 2018					May 1, 2017				
Term	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	1.75%	1.78%	1.86%	1.96%	2.23%	1.55%	1.58%	1.66%	1.76%	2.03%	0.86%	0.88%	0.96%	1.05%	1.32%
5	2.19	2.29	2.49	2.61	2.92	2.04	2.15	2.35	2.47	2.78	1.43	1.53	1.74	1.83	2.14
10	2.50	2.69	2.86	2.99	3.34	2.41	2.61	2.78	2.91	3.26	2.18	2.37	2.63	2.72	3.07
15	2.77	2.99	3.15	3.28	3.64	2.66	2.88	3.04	3.17	3.53	2.63	2.86	3.10	3.19	3.55
20	2.96	3.18	3.32	3.47	3.81	2.82	3.04	3.18	3.33	3.67	2.91	3.14	3.35	3.46	3.78



Short-term interest rates rose 20 basis points (bps) over the prior month, a blistering pace. The same 'AAA', 1-year rates rose 89 bps from May 2017 to May 2018, while the 10-year rates rose a more modest 32 bps and the 20-year rates only 5 bps during this time. This spike in short-term rates has led the difference in yields between long-term and short-term maturities (see *Yield Curve*, left) to decrease substantially, which in the past, has not been a good omen for our nation's economy.

Questions? Comments?

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