

Investment Yields All But Eliminate Taxable Refundings

While both tax exempt and taxable interest rates are close to historic lows for borrowers, investment yields have also dropped dramatically, severely impacting the viability of advance refunding bond issues. In December 2017, President Trump signed legislation that eliminated the issuance of advance refundings on a **tax-exempt** basis. The opportunity to issue **taxable** bonds to refinance existing debt remained. As interest rates on taxable bond offerings declined over the past few months, it appeared the stage was being set for a flood of taxable refundings. Unfortunately, that has not been the case. Just as interest rates declined for borrowers, so did yields on their invested funds. Proceeds from the sale of refunding bond must be invested in US Treasury securities until they are needed to redeem the refunded debt. As the table below reflects, yields on Treasury securities are down significantly since December 2019.

Average Yield on Treasuries						
	As of					
Term	10-Jan	10-Feb	10-Mar	10-Apr	10-May	10-Jun
3 Months	0.82%	0.68%	0.46%	0.15%	0.14%	0.13%
6 Months	0.83%	0.68%	0.47%	0.18%	0.16%	0.16%
12 Months	0.81%	0.67%	0.46%	0.20%	0.17%	0.16%
24 Months	0.84%	0.69%	0.49%	0.26%	0.19%	0.17%

While issuers can sell 10-year advance refunding bonds at taxable rates below 2.25%, the proceeds from those sales generate negative arbitrage while they sit in escrow for months or years until the refunded bonds can be called. These losses in the escrow account can offset most or all of the savings in the transaction. Accordingly, it's important for issuers to remember that for a successful advance refunding bond issue, not only must prevailing interest rates on the refunding bonds be lower than the rates on the existing bonds, but investment yields on escrowed funds must be high enough so as not to generate so much negative arbitrage that the debt service savings from the transaction are eliminated.

Additional Financial Flexibility Proposed by State Legislature

NYS legislative bills number S. 8417 and A. 10492 relating to bond anticipation notes issued from 2015 through 2021 are in the process of being amended in adherence to the State's Local Finance Law. The two bills seek to approve use and transfer of reserved funds for expenses as well as authorization of an extension for inter-fund repayment, both in response to COVID-19. The transfer from reserve funds must be reimbursed within five fiscal years, with at least twenty percent of the transferred money being reimbursed each year. Also proposed is for local jurisdictions to extend the total term that bond anticipation notes can be outstanding from the existing five years to seven years. Both bills passed the State Senate and Assembly unanimously and are awaiting Governor Cuomo's signature.

MMD GENERAL OBLIGATION INTEREST RATES

Term	Today - June 1, 2020					1 Month Ago - May 1, 2020					1 Year Ago - June 3, 2019				
	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	0.16%	0.21%	0.24%	0.35%	1.35%	0.77%	0.82%	0.85%	0.91%	1.70%	1.36%	1.37%	1.51%	1.48%	1.78%
5	0.38	0.48	0.60	0.75	1.75	1.04	1.14	1.26	1.36	2.16	1.40	1.46	1.68	1.69	2.01
10	0.84	0.99	1.11	1.25	2.30	1.35	1.50	1.62	1.71	2.56	1.63	1.75	1.98	1.96	2.30
15	1.23	1.43	1.53	1.72	2.80	1.74	1.94	2.04	2.16	3.04	1.92	2.1	2.28	2.32	2.62
20	1.44	1.65	1.74	1.93	3.01	1.95	2.16	2.25	2.37	3.25	2.12	2.30	2.46	2.52	2.82

RECENT CMA CLIENT SALE RESULTS

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Croton-Harmon UFSD	Bonds	\$ 18,320,000	28-May	14 yrs.	0.79%	Janney Montgomery Scott LLC
Williamsville CSD	BAN	\$ 15,000,000	27-May	12 mos.	0.39%	TD Securities (USA) LLC
Sag Harbor UFSD	Bonds	\$ 10,073,500	21-May	15 yrs.	1.35%	Fidelity Capital Markets
Orangetown Town	Ref. Bonds	\$ 3,805,000	14-May	6 yrs.	0.91%	Roosevelt & Cross, Inc.
Island Trees UFSD	BAN	\$ 20,000,000	14-May	12 mos.	0.64%	JP Morgan Securities LLC
Watertown City	BAN	\$ 1,972,500	7-May	12 mos.	1.33%	BNY Mellon Capital Markets