

## American Rescue Plan Act – Reporting and Accounting Update

Join us on Wednesday, January 12<sup>th</sup> from 2:00pm to 3:00pm for a timely reporting and accounting update on the American Rescue Plan Act (ARPA), co-hosted by Capital Markets Advisors and PKF O'Connor Davies. Our leading experts will share their insights on legislative updates relating to State, Local, Tribal, and Territorial Fiscal Recovery, Infrastructure and Disaster Relief Flexibility Act. Also discussed will be best practices on spending, reporting and compliance for ARPA funds and U.S. Treasury Final Rule release date expectations. January 31<sup>st</sup> is an important filing deadline for Entitlement Units under ARPA. **To register for the webinar use this link:** <https://attendee.gotowebinar.com/register/3528847805038818830?source=Capital+Markets+Advisors>

## Did Your TIC Go Up After You Sold Bonds? Not Really

On the day of a competitive bond sale, an issuer receives bids from a number of firms interested in buying its debt. Each bidder proposes a scale of fixed interest rates for each maturity comprising the bond issue. For each annual maturity of the bonds, there are effectively two interest rates:

- the **coupon rate**: the interest rate bid and printed on each maturity of bonds that the issuer will pay to the bondholder, and
- the **reoffering yield**: the effective market rate an investor in those bonds will receive after factoring in the price it paid for the bond.

Under current market conditions in which interest rates are low and expected to rise, the proposing firms usually bid an interest rate scale along with a **premium**, which is an additional amount above the face value or par amount of the bonds being sold, that the issuer will receive from the winning bidder at closing. The **true interest cost (TIC)** for the issue is determined by using a present value calculation to discount the debt service payments on the bonds back to their purchase price. This is the industry standard used by CMA to compare bids between proposing firms that bid a wide range of interest rates and premiums. The bidder with the lowest TIC is awarded the bonds because it has submitted a bid which provides the lowest cost of capital to the issuer.

**But this is not the end of the story...**

Following the selection of the winning bidder, CMA will review such bidder's proposal to ensure compliance with all State and Federal laws, including NYS Local Finance Law requirements, which require the bonds be structured with substantially level or declining debt service on an annual basis, and IRS guidelines governing over-issuance. Since prevailing market conditions offer historically low interest rates and sizeable premiums, over-issuance is a concern of the IRS. Accordingly, when an issuer receives a large premium at a competitive sale, it is typically required to downsize the par amount of its bond issue to comply with IRS regulations such that the new principal amount plus the adjusted premium do not exceed a certain threshold. When these adjustments are made, the individual interest rates (coupons and reoffering yields) never change; however, the issuer's TIC will often increase by a couple of basis points. This does not mean that the issuer is being swindled and paying a higher rate. It is simply because the TIC for those same individual interest rates are now being calculated on a lower par amount, resulting in a higher TIC. Complicated? Yes, but fair and reasonable.

## MMD GENERAL OBLIGATION INTEREST RATES

Term	Today - January 3, 2022					1 Month Ago - December 1, 2021					1 Year Ago - January 4, 2021				
	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa	Aaa	Aa	Insured	A	Baa
1 yr.	0.17%	0.19%	0.20%	0.21%	0.39%	0.15%	0.17%	0.18%	0.19%	0.37%	0.13%	0.18%	0.20%	0.25%	0.76%
5	0.60	0.65	0.65	0.70	0.93	0.60	0.65	0.65	0.70	0.93	0.22	0.34	0.39	0.52	1.11
10	1.04	1.16	1.19	1.26	1.61	1.03	1.15	1.18	1.25	1.60	0.72	0.85	0.95	1.05	1.71
15	1.18	1.34	1.34	1.45	1.77	1.14	1.30	1.30	1.41	1.73	1.01	1.17	1.25	1.40	2.09
20	1.33	1.53	1.54	1.64	1.96	1.29	1.49	1.50	1.60	1.92	1.21	1.38	1.46	1.60	2.29

## RECENT CMA CLIENT SALE RESULTS

Issuer	Issue Type	Par Amount	Sale Date	Term	Rate	Purchaser
Suffolk County (A-/BBB+)	Ref. Bonds	\$ 39,120,000	Negot.	12 yrs.	1.75%	JP Morgan Securities; FHN Financial
Buffalo MWFA (A+)	Ref. Bonds	\$ 13,435,000	Negot.	30 yrs.	2.85%	D.A. Davidson & Co.
Irvington UFSD (Aa2)	Bonds	\$ 17,155,000	8-Dec.	17 yrs.	1.67%	Roosevelt & Cross, Inc.
East Greenbush CSD (Aa3)	BAN	\$ 26,654,697	2-Dec.	12 mos.	0.31%	Oppenheimer & Co.
Westchester County (Aa1/AA+)	Bonds	\$ 118,080,000	1-Dec.	13 yrs.	1.27%	Citigroup Global Markets, Inc.