

Market Conditions Present Opportunity for Debt Defeasance

A recent article in The Bond Buyer noted the ongoing surge in debt defeasance by issuers of municipal bonds across the country. New Jersey Governor Phil Murphy touted his state's defeasement activity in a presentation before the Municipal Analysts Group in New York City last month stating that defeasement "marks a significant step in our administration's commitment to strengthening our state's finances". New Jersey has defeased a total of \$3.69 billion of bond principal in recent years which state officials say has saved \$1.358 billion of interest expense. Florida and Wisconsin have also employed this practice and, most recently in New York, so has Nassau County.

In a defeasance, an issuer uses available cash to purchase a portfolio of open market Treasury securities that mature on the specific days and in the specific amounts necessary to pay scheduled debt service on select, outstanding bonds of the issuer. Issuers that have debt outstanding that bear interest coupons of 2% and 3% can take advantage of current Treasury yields, some of which come close to 5.50%, to defease their bonds. In a *legal* defeasance (which is not permitted by local jurisdictions in New York State), the Treasury portfolio purchased by the issuer would have a yield that can't exceed the arbitrage yield on the defeased bonds, would be held in an irrevocable escrow account by a trustee and be designated to pay off specific, outstanding bonds which would then come off the books of the issuer once the securities are placed in escrow. In an *economic* defeasance, the yield on the Treasury portfolio is **not** limited, the portfolio is not designated, the funds could be held by a trustee and the issuer's debt remains on its books until the bonds are actually paid off. For issuers with available funds and outstanding bonds with low interest coupons, defeasance is a financing technique worth considering to lower debt service costs while a bond refunding is unavailable or unattractive. For more information, please contact your Financial Advisor at CMA.

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>
Long Beach City (A3)	Bonds	\$18,055,000	31 – Jan.	23 yrs.	3.78%	Roosevelt & Cross, Inc.
Islip Town (Aaa)	BAN (Txb.)	\$360,000	30 – Jan.	1 yr.	5.40%	Roosevelt & Cross, Inc.
Lloyd Town (N/A)	BAN	\$3,991,000	25 – Jan.	1 yr.	3.82%	Oppenheimer & Co.
West Seneca Town (A1)	BAN	\$4,097,000	25 – Jan.	1 yr.	3.57%	Piper Sandler & Co.
Corning CSD (A3)	BAN	\$845,000	24 – Jan.	4 mos.	4.07%	Greene County Commercial Bank
Rockland County SWMA (Aa3)	BAN	\$10,000,000	Neq.	1 yr.	5.50%	Bank of America, N.A.

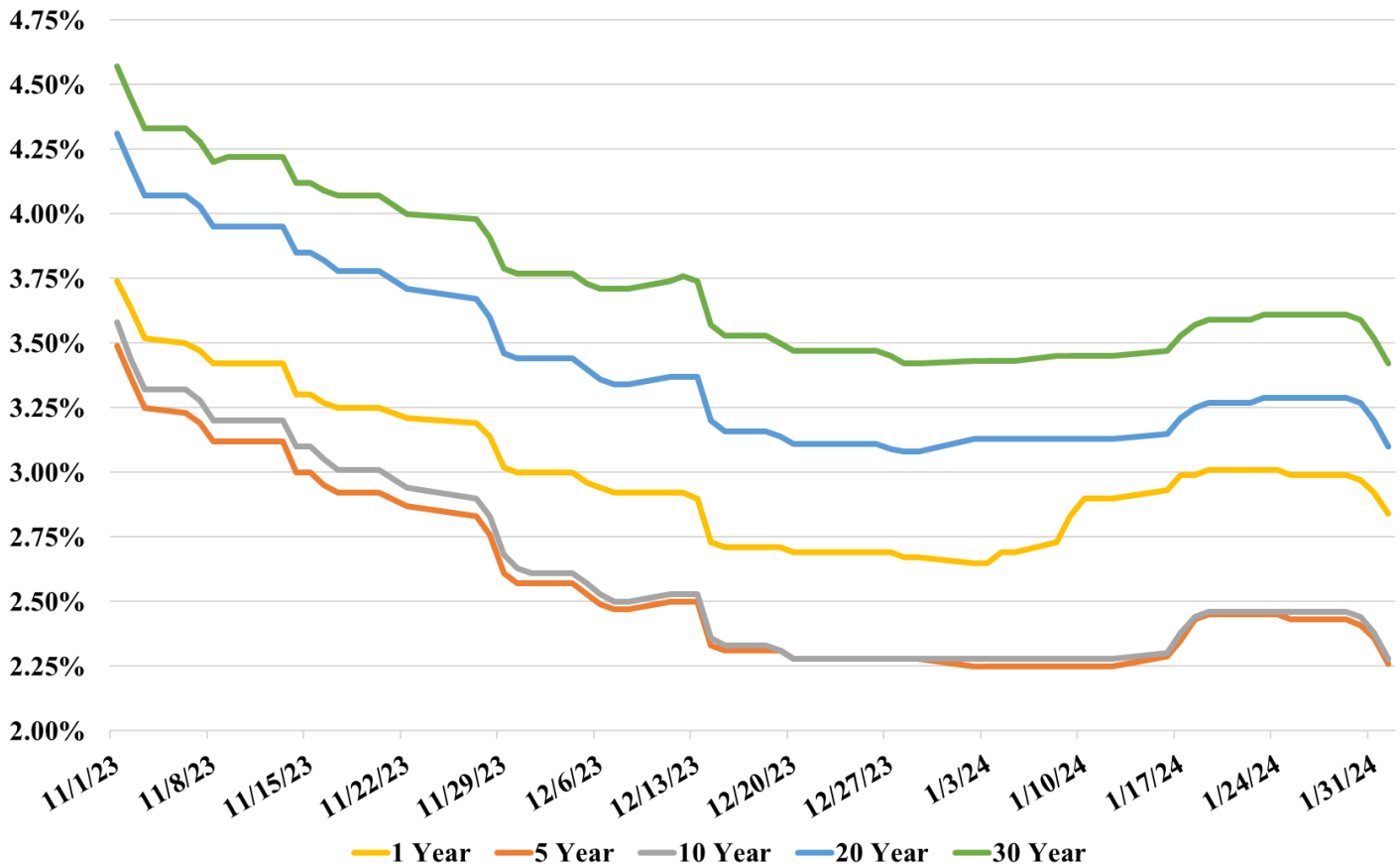
GENERAL OBLIGATION INTEREST RATES

<u>Term</u>	<u>February 1, 2024</u>					<u>1 Month Ago - January 2, 2024</u>					<u>1 Year Ago - February 1, 2023</u>				
	<u>Aaa</u>	<u>Aa</u>	<u>Insured</u>	<u>A</u>	<u>Baa</u>	<u>Aaa</u>	<u>Aa</u>	<u>Insured</u>	<u>A</u>	<u>Baa</u>	<u>Aaa</u>	<u>Aa</u>	<u>Insured</u>	<u>A</u>	<u>Baa</u>
1 yr.	2.84%	2.85%	2.93%	2.91%	3.30%	2.65%	2.66%	2.74%	2.72%	3.11%	2.27%	2.32%	2.42%	2.43%	2.76%
5	2.26	2.28	2.40	2.41	2.84	2.25	2.28	2.39	2.40	2.81	2.03	2.13	2.22	2.27	2.62
10	2.28	2.35	2.53	2.59	3.11	2.28	2.35	2.53	2.55	3.11	2.19	2.37	2.50	2.57	3.09
15	2.82	2.97	3.15	3.20	3.69	2.85	3.00	3.18	3.23	3.72	2.82	3.12	3.22	3.33	3.77
20	3.10	3.27	3.46	3.50	4.00	3.13	3.30	3.49	3.53	4.03	2.99	3.33	3.44	3.54	3.98

Interest Rate Commentary

After climbing steadily throughout much of 2023, interest rates began to decline in all maturities in November of last year and continued that trend into January but for a mid-month bump. With the expectation that the Fed will begin to reduce the Fed funds rate in the second quarter, most industry pundits see municipal rates lower in the months ahead. The inverted yield curve continues with short term rates remaining below long-term rates through the first 10 years of the curve.

Daily 'AAA' Rates November 1, 2023 - February 1, 2024*



*As of October 20, 2023, rates are based on an interest rate scale devised by CMA.

For further information, please contact the following Municipal Advisor Representatives at CMA:

Municipal Advisor	Email	Phone Number	Municipal Advisor	Email	Phone Number
Richard Tortora	rtortora@capmark.org	(516) 487-9815	Tom Vouzakis	tvouzakis@capmark.org	(516) 487-9818
Rick Ganci	rganci@capmark.org	(716) 662-3910	Madeline Reid	mreid@capmark.org	(716) 662-3910
Anthony Nash	anash@capmark.org	(516) 487-9817	Alex LoCascio	alocascio@capmark.org	(516) 274-4502
Janet Morley	jmorley@capmark.org	(516) 570-0340	Morgan Reid	mreid1@capmark.org	(716) 662-3910
Alex Kerr	akerr@capmark.org	(516) 274-4501	Jack Annitto	jannitto@capmark.org	(516) 274-4503
Diana Castañeda	dcastaneda@capmark.org	(516) 274-4504			