



Market Madness

Borrowing and Capital Planning in a Volatile Economic Environment

April 2024



Holland & Knight

Truist Securities

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Presenter Bios



KayDee Hoard

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KayDee Hoard is a Director on the Public Finance team at Truist Securities. Ms. Hoard joined Truist in 2021 as a public finance banker covering municipal clients throughout Florida. Prior to joining Truist, Ms. Hoard was a member of the Capital Solutions and Tax-exempt groups at PNC Capital Markets LLC covering clients throughout the bank's footprint. Ms. Hoard's experience includes work with cities, counties, municipal utilities authorities, airports, school districts, and not-for-profits. Ms. Hoard has extensive experience working with governmental issuers throughout the Southeast. Ms. Hoard has worked on over \$8 billion of negotiated issuances for municipal clients.



Brian Orth

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Brian Orth, NFP/Government Banking Leader of Central Florida Market, boasts more than 22 years of experience in Government banking, with a noteworthy 12-year tenure in the Central Florida Market. His dedicated focus lies in providing clients with a unique and advisory banking experience, leveraging the comprehensive resources of the entire bank to effectively address their needs. As so many of his Truist teammates, Mr. Orth is active in the community serving as a board member and past Chairman of the Board of Goodwill Industries of Central Florida as well as sitting on the advisory board for Valencia College's Take Stock in Children.



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Michael L. Wiener is a partner with Holland & Knight. He practices in the area of public finance law, concentrating on public debt offerings and direct placements for local governments in Florida. Mr. Wiener has worked as bond counsel, bank counsel and disclosure counsel for numerous bond offerings for counties, cities and conduit bond issuers.

Current Market Environment and Forecast



Interest Rate Movements Over the Past Year

Market Commentary

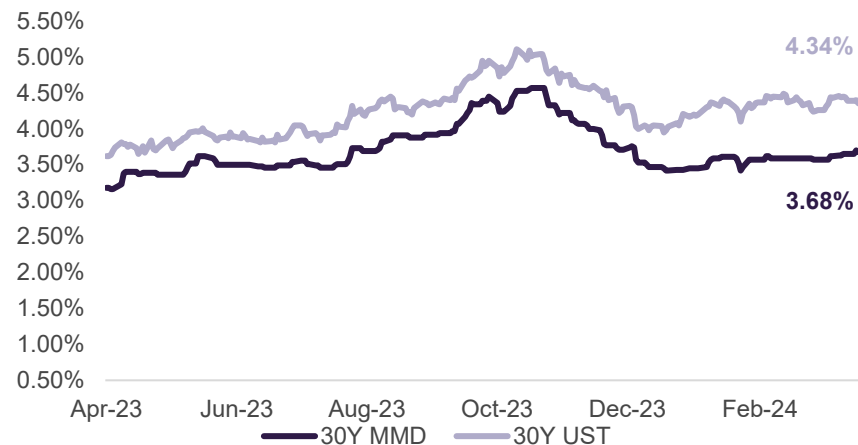
The **U.S. Consumer Sentiment Index** increased to 79.4 on 3/28 from 76.5 earlier in the month, the largest intramonth increase since August 2022. This is the index's highest level since July 2021.

March municipal supply was up 3.69% year-over-year, totaling \$35.3 billion, with \$33.0 billion issued as tax-exempt bonds. Negotiated issuance totaled \$31.3 billion while \$4.0 billion came to market on a competitive basis.

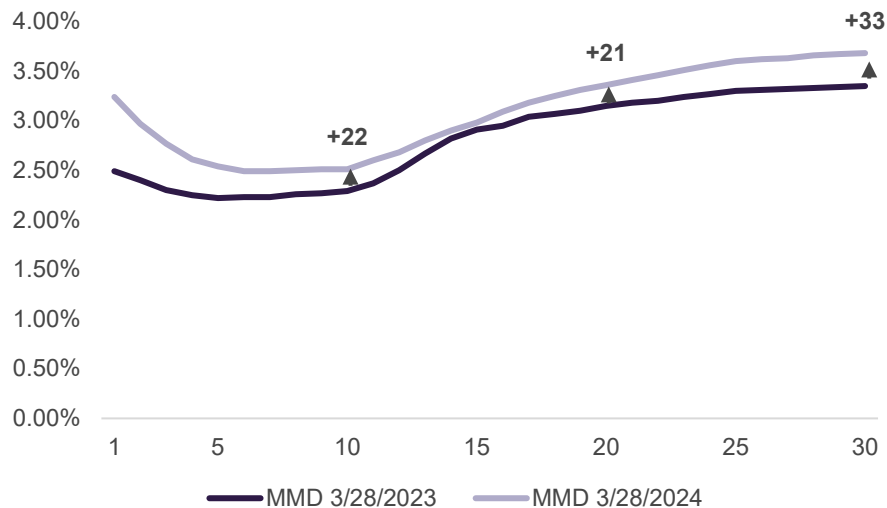
Municipal yields increased week-over-week, as a correction in the short end saw 1-year MMD rise 17 bps and the 2-yr spot up by 13 bps.

Municipal inflows continued for the fifth consecutive week as investors added about \$447 million into bond funds for the week ended 3/27.

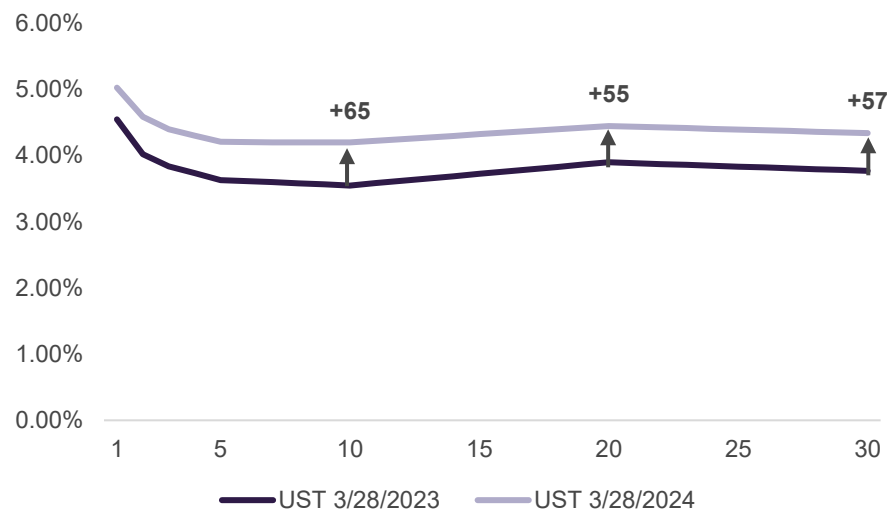
30-Year Tax-Exempt & Taxable Interest Rates



MMD Yield Curve Progression



UST Yield Curve Progression

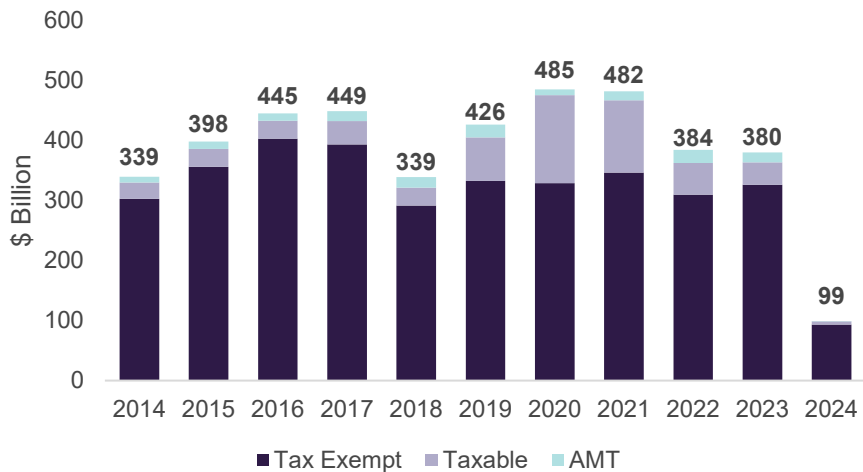


Source: Thomson Reuters TM3 and U.S. Department of Treasury; Market Rates as of 3/28/2024; UST rates without a Treasury auction represented by interpolated rates

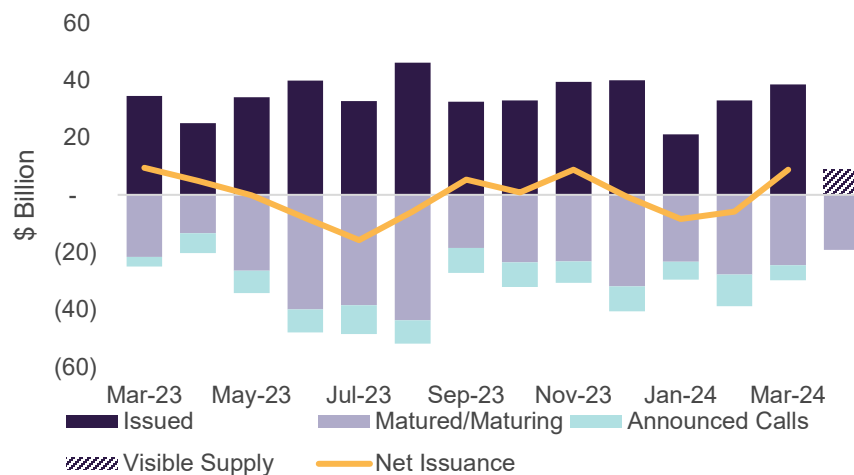


Municipal Market Technicals

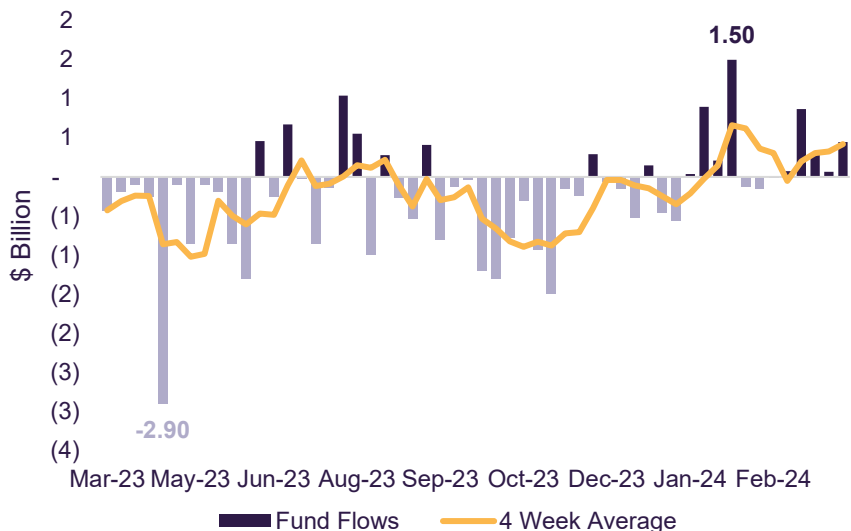
Municipal Issuance⁽¹⁾



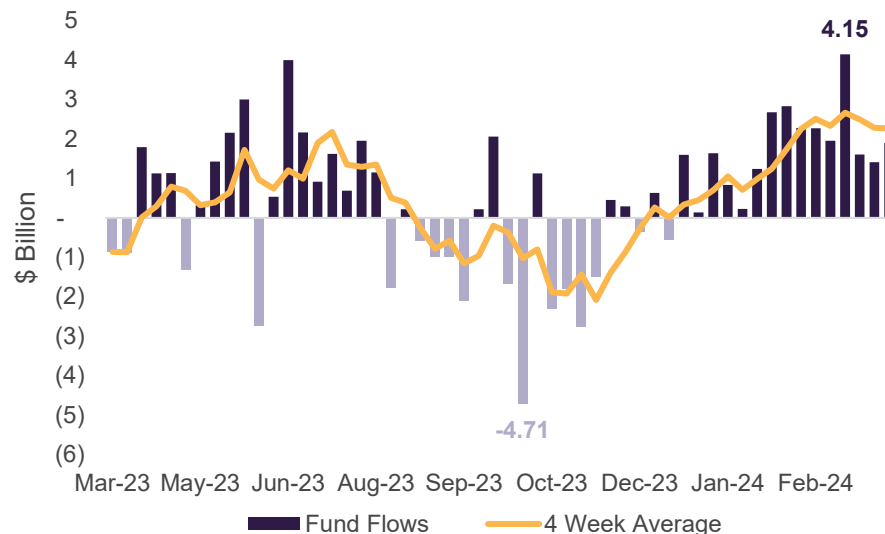
Net Municipal Issuance



Municipal Bond Fund Flows – Weekly⁽²⁾



IG Corporate Fund Flows – Weekly⁽²⁾

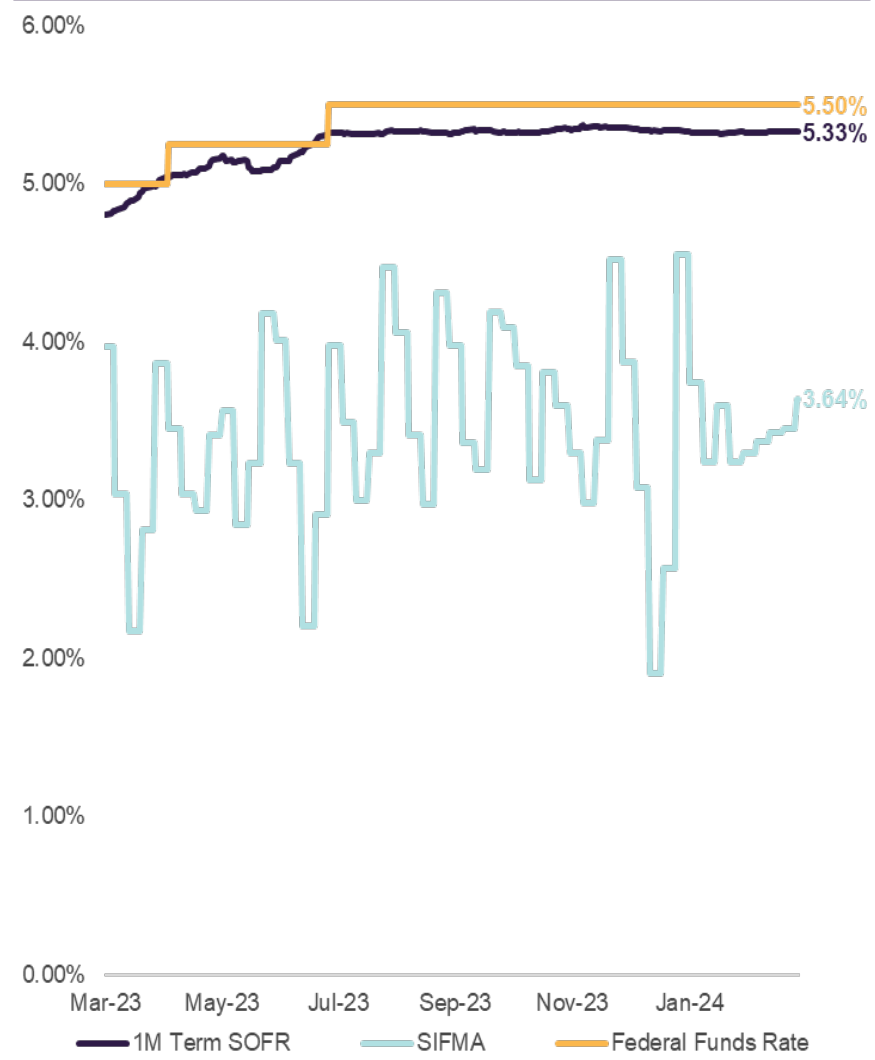


Source: Bloomberg and Bond Buyer; As of 3/28/2024 (1) Data reports monthly; As of 3/28/2024 (2) Data labels indicate maximum and minimum values

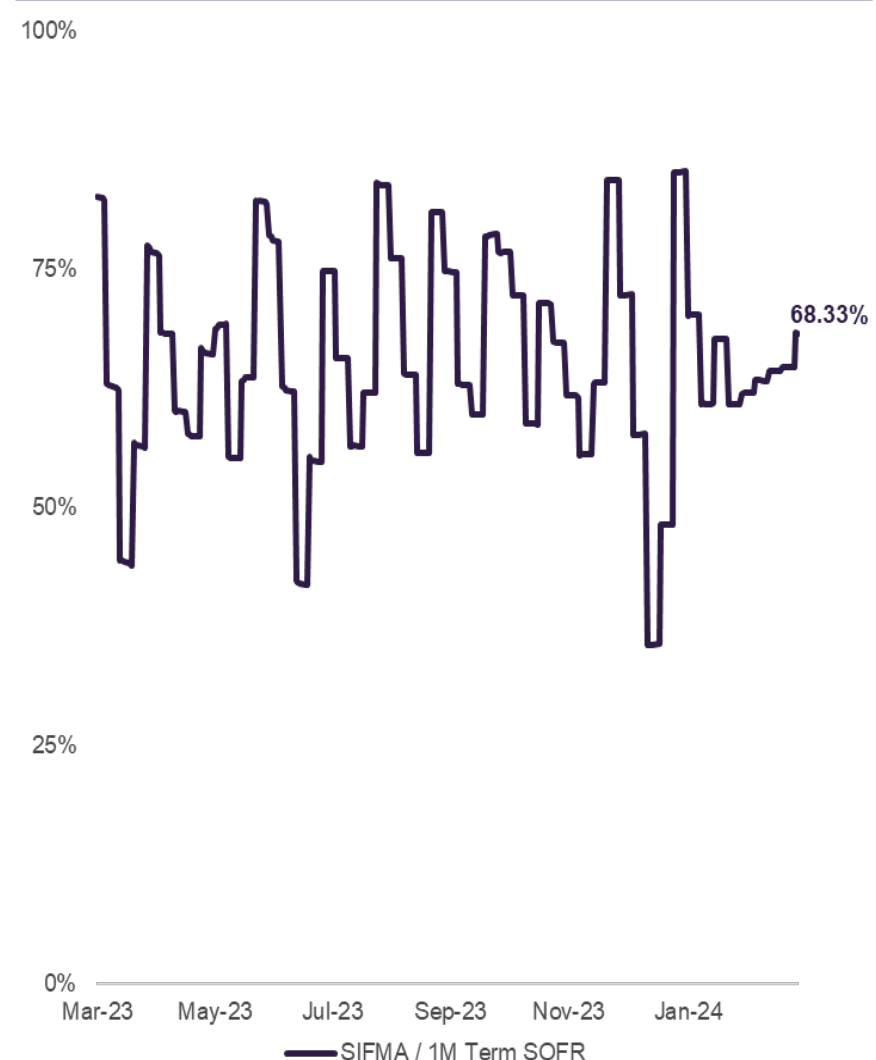


Short-Term Market Trends and the Introduction of SOFR

Short-Term Rates⁽¹⁾



Short-Term Ratios⁽¹⁾



Source: Bloomberg, As of 3/27/2024 (1) Data labels indicate current value

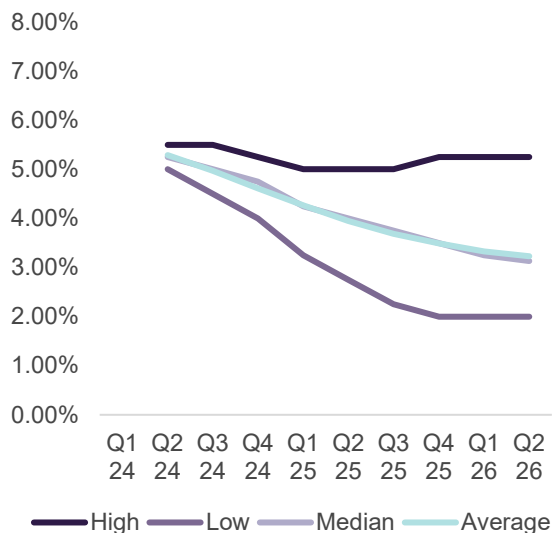


Short-Term and Long-Term Interest Rate Forecast

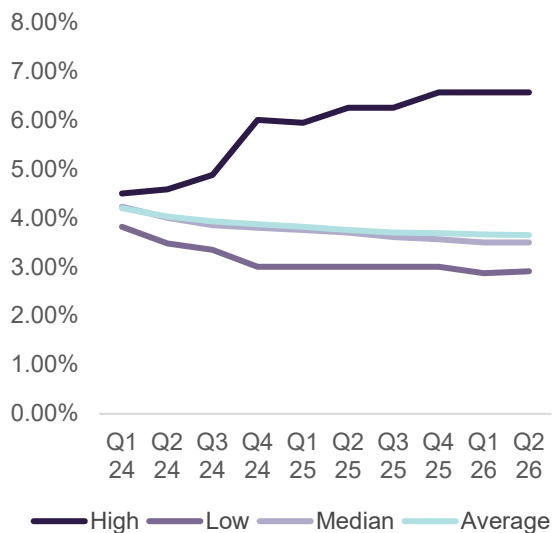
Economist Interest Rate Projections

	Current	2024				2025
		Q1	Q2	Q3	Q4	Q1
Fed Funds Rate	5.50%	5.50%	5.30%	4.95%	4.60%	4.25%
3-Month Term SOFR	5.30%	5.30%	5.08%	4.82%	4.44%	4.12%
5-Year UST	4.21%	4.18%	3.98%	3.84%	3.73%	3.66%
10-Year UST	4.20%	4.20%	4.03%	3.93%	3.87%	3.82%
30-Year UST	4.34%	4.40%	4.23%	4.14%	4.11%	4.06%

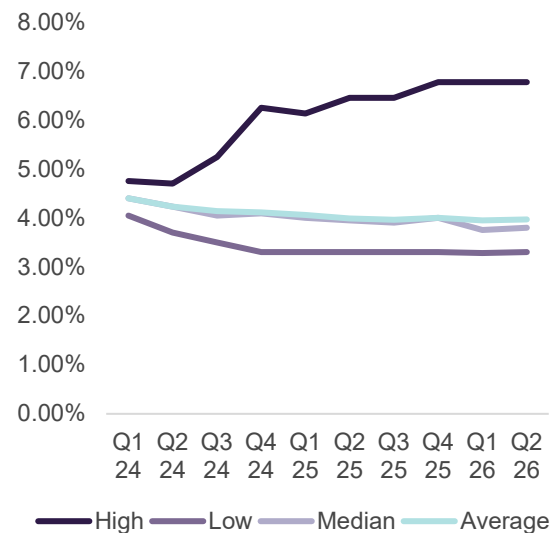
Fed Funds Rate Projection



10-Year UST Rate Projection



30-Year UST Rate Projection



Source: Bloomberg Economic Forecasts, 41 Industry Analysts and U.S. Department of Treasury; As of 3/28/2024

Recent Market Impacts on Borrowing Vehicles

Shifts in Market Borrowing Structure

Bank Market

- Shorter Tenors:
 - Pre-Silicon Valley Bank (“SVB”) Collapse, tenors for bank loans were significantly longer
 - Post-SVB Collapse, many banks have shortened tenors for bank loans
- Cost of funds:
 - Significant increase in cost of capital for banks, which has driven up borrowing costs, particularly in 1-5 year range
- Tighter Covenants
- Focus on profitability and relationship

Bond Market

- Push for shorter call features
- Resurgence in publicly issued BANs and VRDBs
- Greater differential between Taxable and Tax-exempt rates
- Increased efficiency for insurance policies
- Decrease in refunding issuance
- Popularity of tenders
- Stable to slightly tighter covenants
- Increased investor focus on construction contracts (GMPs) and disclosure
- Increased efficiency for smaller transactions due to favorable market rates



\$50MM Project Fund - Tax-Exempt New Money Statistics and Indicative Pricing

Public Market Transaction

		AAA	AA	A
20-Year New Money Issue	All-in True Interest Cost	3.68%	3.75%	3.86%
	Avg. Annual Debt Service	\$3,567,101	\$3,589,241	\$3,625,870
30-Year New Money Issue	All-in True Interest Cost	4.20%	4.26%	4.35%
	Avg. Annual Debt Service	\$2,959,152	\$2,980,347	\$3,012,910

Bank Direct Placement Transaction

		AAA	AA	A
20-Year New Money Issue	All-in True Interest Cost	4.83%	4.88%	4.95%
	Avg. Annual Debt Service	\$3,949,629	\$3,966,788	\$3,987,231

Assumptions: Interpolated AAA MMD Rates as of 3/21/2024; subject to 10-year par call; assumes delivery date of 5/1/2024; interest rates used are based off a midpoint in a range of rates achievable in the current market environment as of 3/21/2024; \$50,000,000 Project Fund; 300k COI; \$3/bond UWD; \$150k all in COI for bank direct placement; Level Debt Service



\$50MM Project Fund - Taxable New Money Statistics and Indicative Pricing

Public Market Transaction

		AAA	AA	A
20-Year New Money Issue	All-in True Interest Cost	5.32%	5.52%	5.82%
	Avg. Annual Debt Service	\$4,114,685	\$4,184,368	\$4,284,374
30-Year New Money Issue	All-in True Interest Cost	5.45%	5.65%	5.95%
	Avg. Annual Debt Service	\$3,419,248	\$3,496,053	\$3,611,395

Bank Direct Placement Transaction

		AAA	AA	A
20-Year New Money Issue	All-in True Interest Cost	6.12%	6.17%	6.23%
	Avg. Annual Debt Service	\$4,391,567	\$4,413,117	\$4,431,275

Assumptions: UST Rates as of 3/21/2024; subject to 10-year par call; assumes delivery date of 5/1/2024; interest rates used are based off a midpoint in a range of rates achievable in the current market environment as of 3/21/2024; \$50,000,000 Project Fund; 300k COI; \$3/bond UWD; and all-in \$150k COI for bank direct placement; Level Debt Service

Recent Florida Transactions

**State of Florida
(Competitive)
Public Education Capital Outlay Refunding Bonds
\$113,220,000
Aaa/AAA/AAA
Sale Date: 3/7/2024 Call Date: Noncallable**

Maturity (6/1)	I-MMD (3/6)	Par (\$000)	Coupon (%)	Spread (bps)	Yield (%)
2025	2.900	11,210	5.000	0	2.900
2026	2.680	11,780	5.000	2	2.700
2027	2.520	12,370	5.000	3	2.550
2028	2.420	12,980	5.000	4	2.460
2029	2.400	13,630	5.000	3	2.430
2030	2.400	14,315	5.000	3	2.430
2031	2.400	6,685	5.000	3	2.430
2032	2.410	7,020	5.000	0	2.410
2033	2.420	7,370	5.000	0	2.420
2034	2.430	7,735	5.000	0	2.430
2035	2.530	8,125	5.000	-8	2.450

Use of Proceeds: Refunding prior bonds

Source: Bloomberg and EMMA as of 3/19/2024



**The School Board of St. Johns County, FL
(Negotiated)
Certificates of Participation
\$150,800,000
AGM Insured: NR/AA/NR Underlying: NR/AA-NR
Sale Date: 3/5/2024 Call Date: 7/1/2033**

Maturity (7/1)	I-MMD (3/4)	Par (\$000)	Coupon (%)	Spread (bps)	Yield (%)
2028	2.460	960	5.000	21	2.670
2029	2.440	5,740	5.000	20	2.640
2030	2.440	6,025	5.000	22	2.660
2031	2.440	6,325	5.000	27	2.710
2032	2.450	6,640	5.000	32	2.770
2033	2.460	6,975	5.000	32	2.780
2034	2.480	4,980	5.000	31	2.790
2035	2.580	5,230	5.000	32	2.900
2036	2.650	5,490	5.000	31	2.960
2037	2.770	5,765	5.000	27	3.040
2038	2.830	6,055	5.000	27	3.100
2039	2.910	6,355	5.000	29	3.200
2040	3.020	6,675	5.000	35	3.370
2041	3.110	7,010	5.000	39	3.500
2042	3.170	7,360	5.000	44	3.610
2043	3.220	7,725	5.000	47	3.690
2044	3.270	8,115	5.000	48	3.750
2046	3.370	17,485	5.250	40	3.770
2049	3.510	29,890	5.500	33	3.840

Use of Proceeds: Construction of two new K-8 schools



**Sarasota County, FL
(Negotiated)
Capital Improvement Revenue Bonds
\$23,535,000
NR/AA+/AA+
Sale Date: 3/5/2024 Call Date: 10/1/2033**

Maturity (10/1)	I-MMD (3/4)	Par (\$000)	Coupon (%)	Spread (bps)	Yield (%)
2026	2.670	570	5.000	5	2.720
2027	2.510	605	5.000	8	2.590
2028	2.460	645	5.000	11	2.570
2029	2.440	690	5.000	8	2.520
2030	2.440	740	5.000	12	2.560
2031	2.440	785	5.000	13	2.570
2032	2.450	830	5.000	14	2.590
2033	2.460	880	5.000	15	2.610
2034	2.500	935	5.000	17	2.670
2035	2.600	1,340	5.000	18	2.780
2036	2.670	1,410	5.000	23	2.900
2037	2.800	1,475	5.000	21	3.010
2038	2.830	1,550	5.000	23	3.060
2039	2.910	1,630	5.000	25	3.160
2040	3.020	1,710	5.000	30	3.320
2041	3.110	1,795	5.000	29	3.400
2042	3.170	1,885	5.000	33	3.500
2043	3.220	1,980	5.000	32	3.540
2044	3.270	2,080	5.000	31	3.580

Use of Proceeds: Acquisition of Planning and Development Services One Stop Center and a Natural resources Administration Facility



Capital Planning and Positive Arbitrage

Changes in Capital Planning

How have strategies shifted to accommodate market

- Lines of credit with unused fees vs. Fully funded BANs with invested proceeds
- Preference for shorter facilities in light of interest rates and volatile construction cost environment
- Increased contingencies for Construction Projects
- Multi-phased financings



Creative Solution to WIFIA Reset

Polk Regional Water Cooperative

- PRWC was created pursuant to an Interlocal agreement between 16 local Cities, Towns and Polk County, to create an essential alternative water supply for the region.
- In July 2023, Truist Bank closed an interim loan facility for the Polk Water Cooperative (“PRWC”). Truist provided a \$154M bridge loan to the Cooperative which ultimately will be used to fund a portion of the beginning stages of the water projects, but that also provides the PRWC a flexible low-cost option to begin construction.
- Ultimately the Truist loan will be repaid in three years from a federal loan program, but because of the Truist loan, PRWC was able to lower the effective borrowing costs over the next three years, considerably (which in turn benefits the residents of the region by sidestepping unnecessary water rate increases).
- Preserving the flexibility of a client to act in multiple market conditions. WIFIA loans allow for a borrower to reset the rate for a period of time, if the loan is not drawn. In a low interest rate environment, like we’ve seen for some period of time now, a client could use this structure to fund construction through borrowing at the short-term rates (1-3 years). Essentially, saving money on interest costs during the construction period and locking in a long-term funding source for planning purposes.
- In the WIFIA case, in a then rising rate market, the value proposition was a bit different. The client still had locked in the long-term interest rate via the WIFIA program, but the bank provided a short-term funding at a rate, that while perhaps higher than historical, was generally offset by the higher investment return on the loan proceeds, which we funded and placed into a project fund, which offset or lowered their overall costs of funding the construction project. Importantly, under both scenarios, the bank loan provided the client the flexibility to lower their long-term rate if rates decrease during the construction period or keep the rate they had if long term rates weren’t low enough to allow for an interest rate decrease on the WIFIA loan.

Rebate and Arbitrage Rules

What is Rebate and arbitrage?

- Arbitrage refers to the investment of bond proceeds at a rate that is higher than the bond yield.
- The issue date of the bonds starts the clock for measuring arbitrage.
- Temporary Periods. Proceeds of a bond sale may be invested at a higher yield for permitted temporary periods without causing tax-exempt bonds to be “arbitrage bonds.”
- Earnings from the investment of bond proceeds may be required to be rebated to the U.S. Treasury *if* such earnings are earned at a rate that exceeds the yield on the tax-exempt bonds.
- The amount required to be rebated is based on the difference between the amount actually earned and the amount that would have been earned if the investment had a yield equal to the yield on the issue.
- If rebate is required, such amount must be rebated to the federal government within sixty days of the computation date for that period.

Positive Arbitrage Rules

When can you invest without a restriction on yield?

Temporary Periods. During temporary period the bonds may be invested without restriction on the yield, subject to possible rebate.

Instances where this can occur include:

- Proceeds used for **capital projects** qualify for a temporary period of three years post-issuance, if the Issuer reasonably expects that:
 - (i) 85% of the sale and investment proceeds will be spent within that period,
 - (ii) substantial binding commitments to spend 5% of said proceeds are made within 6 months after issuance, and
 - (iii) completion of the capital projects financed with bond proceeds will proceed with due diligence.The three-year period may be extended to up to five years if both the Issuer and a licensed architect or engineer certify that a longer period is necessary to complete the capital project.
- Bond proceeds deposited in an escrow fund to **refund** another issue of bonds generally qualify for a temporary period of 90 days from the issue date.
- Bona fide **debt service funds** qualify for a temporary period of 13 months. “Bona fide debt service fund” is defined in the Treasury Regulations as a fund that (1) Is used primarily to achieve a proper matching of 3 revenues with principal and interest payments within each bond year; and (2) Is depleted at least once each bond year, except for a reasonable carryover amount not to exceed the greater of: (i) the earnings on the fund for the immediately preceding bond year or (ii) one-twelfth of the principal and interest payments on the issue for the immediately preceding bond year
- **Investment proceeds** have a temporary period of one year beginning on the date of receipt, and replacement proceeds and other gross proceeds have a temporary period of 30 days beginning on the date of receipt.

Positive Arbitrage Rules

Can you keep the arbitrage earnings?

- Arbitrage earnings are not required to be rebated to the U.S. Treasury, if:
 - 6 Month Exception – 100% of proceeds are allocated for the governmental purpose of the issue within six months from issuance.
 - 18 Month Exception - 100% of proceeds are allocated for the governmental purpose of the issue within a defined spending schedule ending eighteen months after issuance.
 - 2 Year Exception - Only available for “construction issues” where all “available construction proceeds” are expended within two years following issuance and a defined spending schedule must be met.
 - Amounts earned on a debt service fund if the total earnings do not exceed \$100K per year.
- Even if an issue meets one of these exceptions, the amounts held in a Reasonably Required Reserve or Replacement Fund are still subject to Rebate.



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