



**Recent Changes in IRS
Regulations Regarding
Issue Price**

**House and Senate Tax
Proposals and Their
Impact on Tax-Exempt
Financing**

Important Information

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Agenda

- Introduction
- IRS Issue Price Regulations and Their Potential Impact of Borrowing Costs
- Tax Reform and its Potential Impact on Tax-Exempt Financing

IRS Issue Price Regulations

The background of the slide is a blurred, high-angle photograph of a modern building's interior. It shows a staircase with a glass railing on the right side, leading down. The walls and ceiling are light-colored, and there are large windows or glass panels. The overall aesthetic is clean and architectural.

Background

- From 1993 until earlier this year, IRS regulations provided that the issue price of any bonds that you issued was the first price at which substantial amounts of the bonds (10%) were sold
- Issuers and underwriters had been able to use a “reasonable expectations” standard to establish the issue price of bonds in a bona fide public offering
- Generally, this meant that the issue price of each maturity in a bond issue could be assumed to be the initial offering prices of bonds to the public, if...
- The underwriter reasonably expected on the sale date that at least 10% of each of maturity would be sold at or below the initial public offering prices
- In June, new rules went into effect that change the way issue price is determined

Issue Price Rules

- Why do we care about issue price?
 - Potential impact on borrowing cost
 - Bond yield
 - Reserve fund sizing
 - COI limitation in 501(c)(3), private activity bonds

Issue Price Regulations

- New regulations took effect for offerings sold on or after June 7, 2017
 - “Sold” means date of execution of the bond purchase agreement (“BPA”) for negotiated transactions and final award date for competitive transactions
- Four rules, that once agreed upon by the issuer and the dealer, can be used to determine the “Issue Price” of the offered securities
 - A minimum of 10% of each maturity sold to the public
 - First price at which 10% of the maturity is sold to the public
 - The price does not need to be the initial offering price for that maturity
 - The rule does not need to be satisfied by the closing date
 - The “public” does not include underwriters or related parties or dealers with distribution agreements with managers
 - A 50% common control test is used to determine if entities are “related” to an underwriter

Issue Price Regulations, Continued

- Four rules, continued
 - Hold-the-price rule (if the 10% rule is not satisfied for any maturity by the sale date)
 - The issue price of that maturity may be treated as the initial offering price for that maturity
 - Syndicate must agree not to sell any of the bonds of that maturity at a higher price for five business days after the sale date unless the 10% rule is satisfied sooner
 - Competitive sale issue rule (Reasonable expected initial offering price if)
 - Proper notice of sale distribution to reach potential underwriters; equal opportunity to bid; at least 3 reputable bids; issuer awards the bonds to the highest price or lowest interest cost
 - Private placement rule
 - If the bonds are placed with a single buyer or investor that is not an underwriter or related party, the issue price is the price paid by that buyer or investor

Issue Price Regulations

Competitive Sale Considerations

- What happens if a competitive sale fails to meet the competitive sale safe harbor provisions described above? Issuers can:
 - Require bidders to use the 10% sale rule
 - Impose the “Hold-the-Price” rule for those maturities not meeting the 10% sale rule, if necessary
 - Cancel the sale
- Normally, the intent of the bidder is made clear in the Official Notice of Sale
- Size and type of transaction, and the approach to the Hold-the-Price rule, can impact the cost of a transaction and the number of bidders involved

Issue Price Documentation

- Official Notice of Sale
- Bond Purchase Agreement
- Issue Price Certificate
- Agreement Among Underwriters, Selling Group Agreement, Retail Distribution Agreement



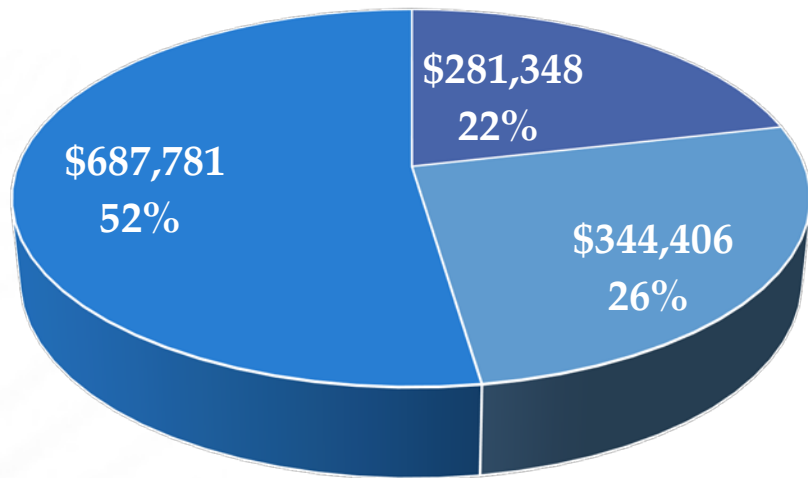
Tax Reform: Key Tax-Exempt Debt Provisions

Background

- The House Ways and Means Committee approved the “Tax Cuts and Jobs Act” on November 9
- Senate Republicans introduced their own bill on the same day and plan to consider it this week
- Republicans will attempt to approve the House bill before Thanksgiving, with the Senate acting on their version shortly thereafter. Their goal is to enact a bill before Christmas
- Republicans are using a budget reconciliation process that allows a simple majority to move the process forward
- Both the House and the Senate versions contain provisions that will alter the landscape for the issuance of tax-exempt debt

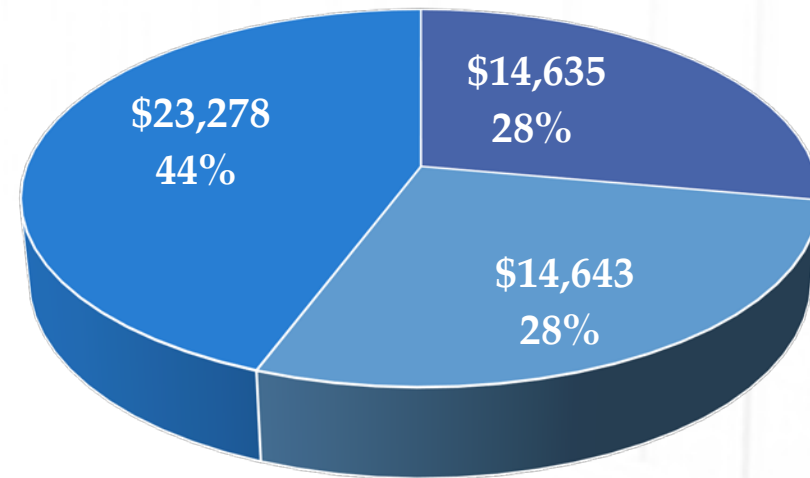
Issuance of Tax-Exempt Debt January 1, 2015 to November 10, 2017

National Issuance (millions)



■ Adv/Fwd Ref. ■ Current Ref. ■ New Money

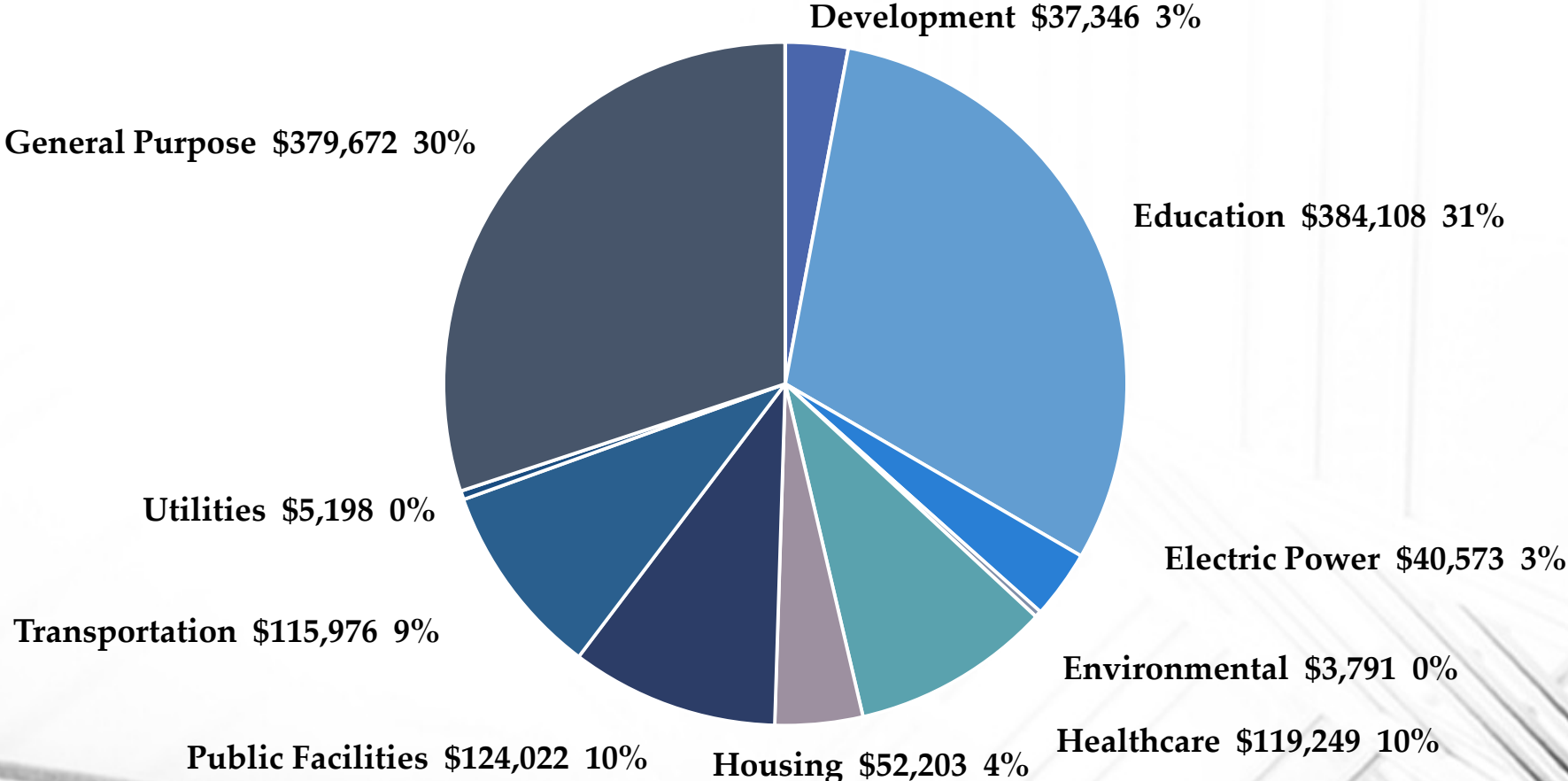
Florida Issuance (millions)



■ Adv/Fwd Ref. ■ Current Ref. ■ New Money

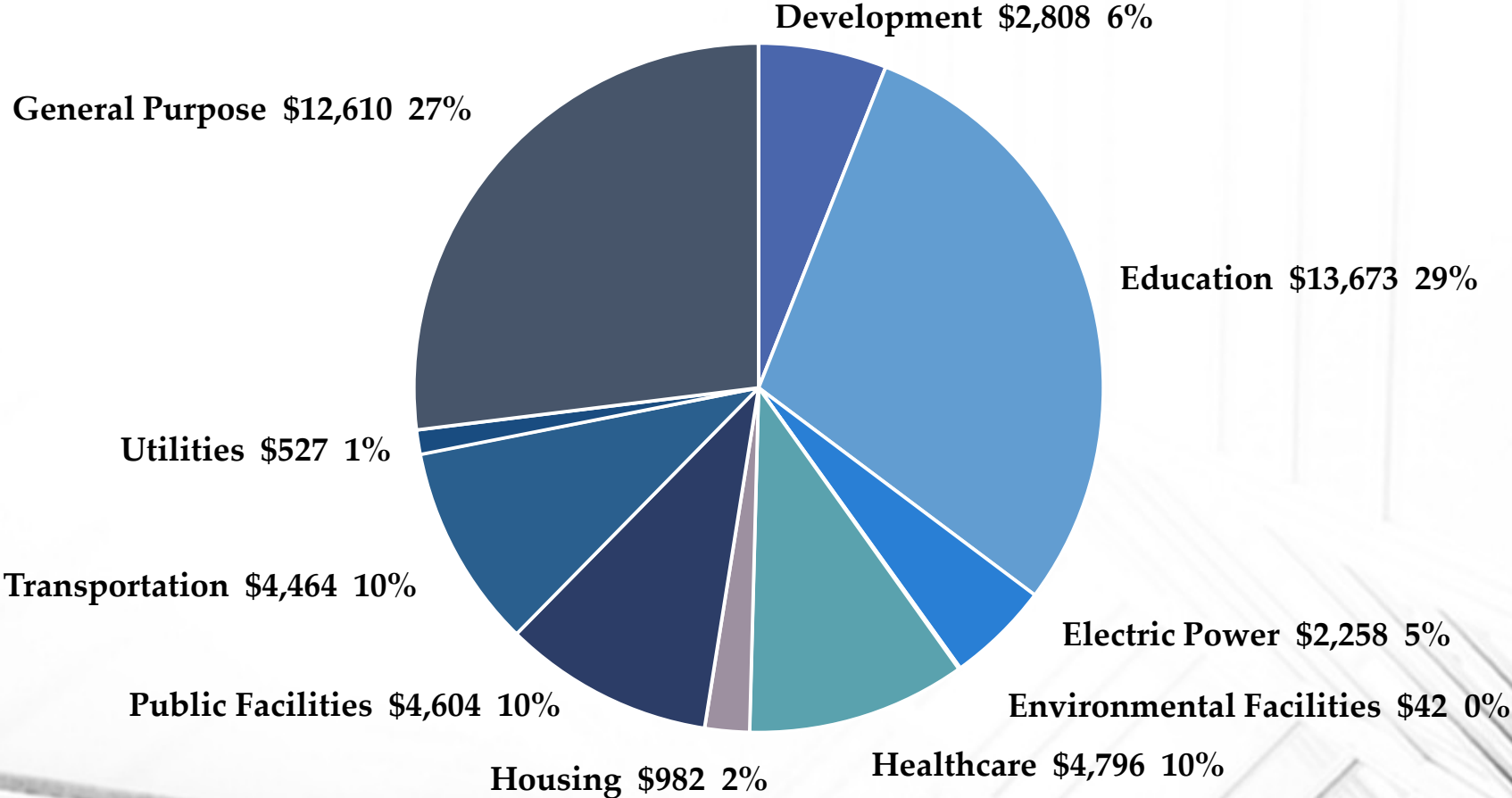
National Issuance by Sector

Issuance Since January 1, 2015 (millions)



Florida Issuance by Sector

Issuance Since January 1, 2015 (millions)



Tax Exempt Bond Provisions Impact & Timing

Advance Refundings

- House and Senate eliminate advance refundings starting 12/31
- Advance refundings issued before 12/31/17 are not affected

Tax Credit Bonds QZABs, QSCBs, ect.

- House eliminates, Senate is silent
- Cannot use remaining volume caps after 2017

Private Activity Bonds

- House eliminates, Senate is silent
- Could end bonds for all 501(c)3s, airports, ports, solid waste

Stadium Bonds

- House eliminates, Senate is silent
- Effective retroactively to November 2, 2017

National Advance Refunding Issuance 2012-2016

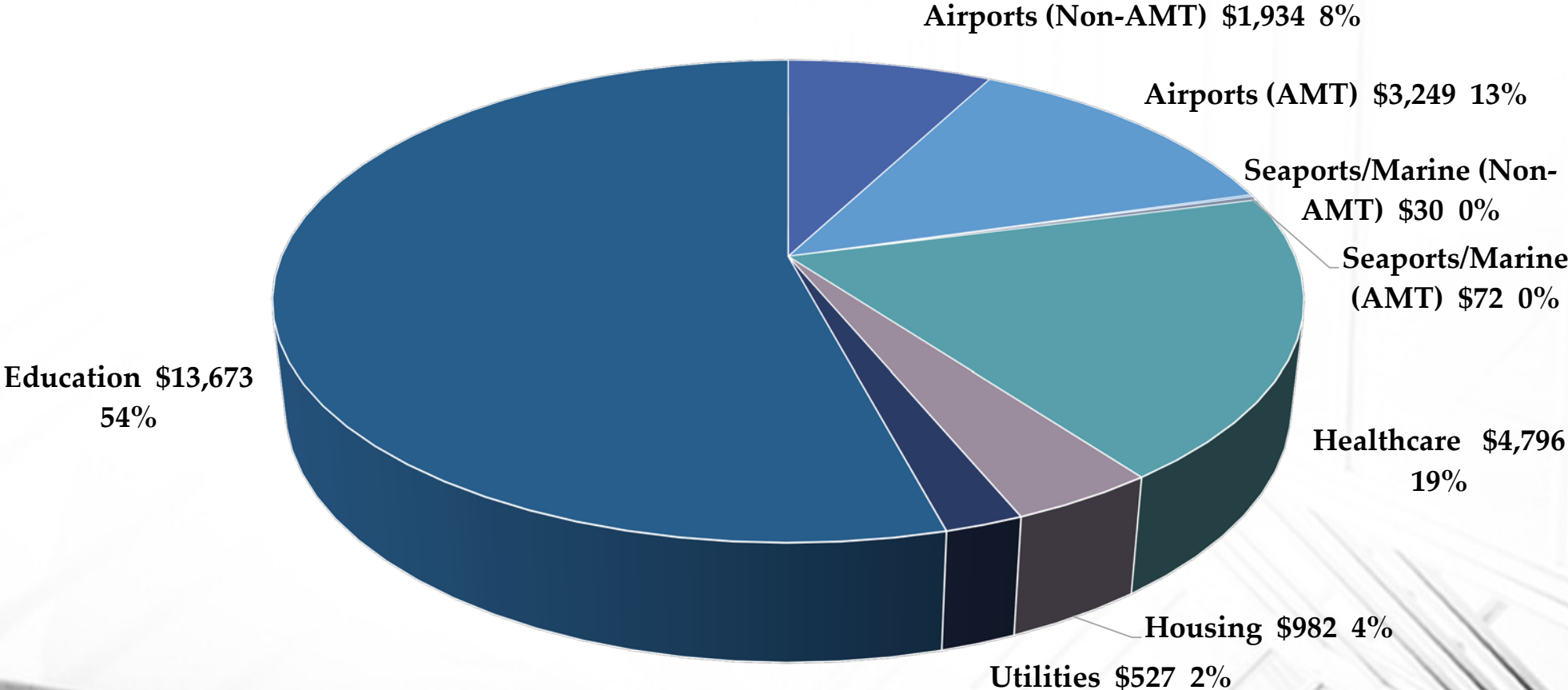
Year	Par (millions)	Number of Issues
2012	\$ 73,205.0	1,989
2013	49,418.4	1,424
2014	59,211.9	1,265
2015	91,825.8	1,792
2016	120,083.3	2,019

National Private Activity Bond Issuance 2012 – 2016

Year	Private Activity Bonds (AMT)		Private Activity Bonds (Non-AMT)	
	Par (millions)	Number of Issues	Par (millions)	Number of Issues
2012	\$13,035.1	144	\$56,583.9	1,078
2013	10,315.0	124	48,683.9	1,028
2014	9,345.0	119	40,951.1	842
2015	12,015.9	144	56,805.7	993
2016	12,257.4	137	72,386.1	1,064

Florida PAB Issuance

Issuance Since January 1, 2015 (millions)



Additional Provisions That May Impact the Tax Exempt Market

- Elimination of the Alternative Minimum Tax
- Change in the corporate tax rate from the current 35% to the proposed 20%
 - Could lessen the attractiveness of munis to taxable investments
 - Could trigger “yield maintenance,” or “gross up” provisions of some bank loan documents causing an increase in interest rates on some already existing debt
- Potential changes in the deductibility of state and local taxes
 - Could disproportionately impact the attractiveness of munis in areas with high state and local taxes
 - Could eliminate the muni market distinction between “specialty states”, like New York, and others like Florida