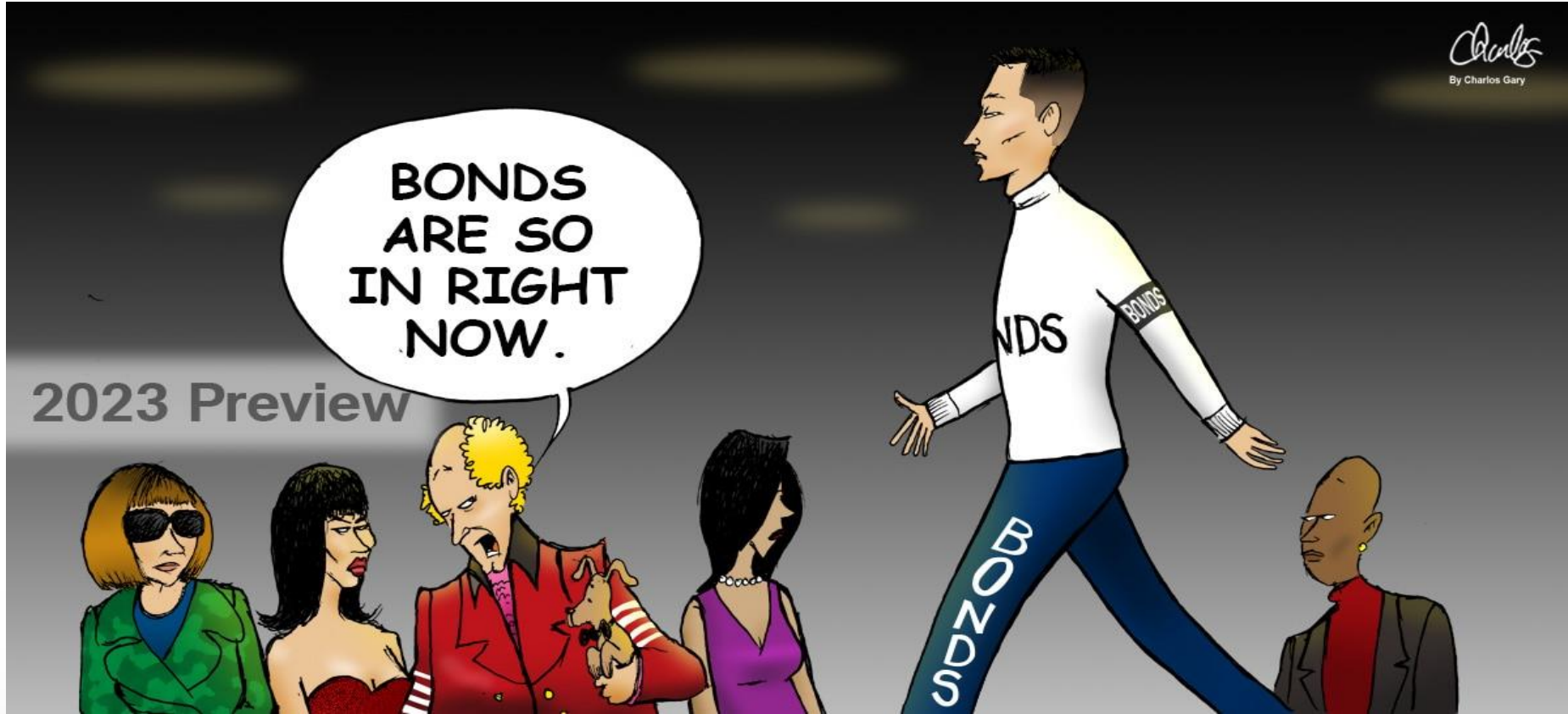


TRENDS IN TAX-EXEMPT DEBT

Nathan S. Fronk

March 27, 2023

The logo for Quarles, featuring the word "Quarles" in a dark grey sans-serif font. The letter "Q" is stylized with a red diagonal line through it.



ECONOMIC TRENDS

- Tax Cuts and Jobs Act – January 1, 2018
 - Led to a number of taxable deals and Cinderella bonds
- Historically low interest rates
 - Led to large number of refundings, higher volume and forward transactions

COVID-19

- Volume periodically decreased and then resumed to normal levels
- TONS of government funding propped up balance sheets
- Labor shortage and supply chain issues



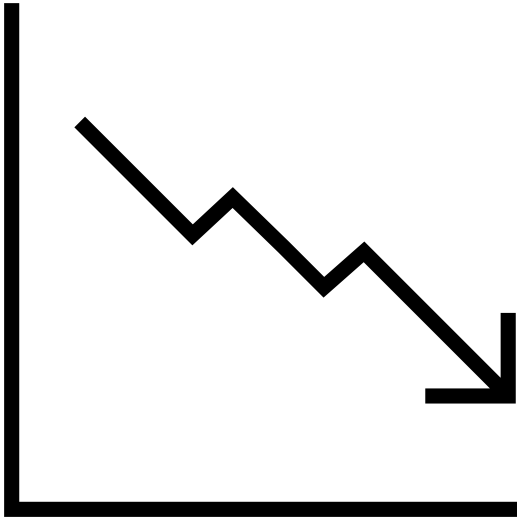
... And now???

- Rising interest rates stymied refundings and taxable issuances.
 - Midwest – taxable issues down 42.9% in 2022
 - Midwest – refundings down 49.2% in 2022
- Total 2022 volume plunged by 21% from 2021
 - Midwest municipal bond sales slid by 17.4%
 - New money down 34.4%
- 2023 YTD
 - January down 19.5% from 2021
 - February down 42% from 2021
 - Lowest volume since 2018.

Gary Varvel
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What's Next?



- Higher labor costs and less government funding
 - covenant pressure across the nonprofit sector (education, senior living and health systems)
 - more mergers/affiliations
 - building IL > SNF
 - more deals with guarantors/liquidity support
 - more deals seeking investment portfolio as collateral
- Positive arbitrage – ability to invest above bond yield
- Impact of collapse of Silicon Valley Bank and Signature Bank
 - Anomalies or system-wide issues???
 - Effect?



LEGAL & LEGISLATIVE TRENDS

Carson v. Makin, 2022



- Facts
- Holding: If a State chooses to subsidize private education, it cannot disqualify some private schools solely because they are religious.
- Effect: Makes clear that generally available conduit financing programs cannot exclude religious borrowers no matter how pervasively sectarian and no matter how closely their ties.

TEFRA

- On April 8, 2022, the IRS released Rev. Proc. 2022-20 which permanently allows telephonic public approval hearings

Reimbursement Resolutions

- IRS taken position in recent bond examinations that 1.150-2 not met unless word "reimburse" or some form thereof is used

End of LIBOR

- Transition of documentation to SOFR or another alternate index

Inflation Reduction Act

- Provides a direct payment subsidy from U.S. Treasury in amount equal to 30% of the qualified costs of renewable energy projects, including wind, solar, biomass, geothermal, that are owned by most tax-exempt entities, including 501(c)(3) organizations.
- Direct payment applies only to tax years after 12/31/2022 and requires an election to be made to receive the credit.
- IRA also includes a new limited corporate AMT that is effective for tax years after 12/31/2022.
 - updates to bond counsel opinion

WASHINGTON D.C.



- Bring Back Advance Refundings
- Increase and Modify Small Issuer Exception

- **Ratings:** negative rating actions 

- **Audits and Enforcement:** 

Environmental, Social and Governance

- Current area of debate in public finance
 - Labeling aspect
 - Heightened risk assessment and disclosure
- Rapidly developing issue with many nuances and complexities
- Often becomes political . . .

