

Today's Webinar Presentation:

# Bond Market Update: K12/Charter Schools and Arbitrage Rebate 101

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# Headlines Impact Tax-Exempt Interest Rates



**'Stagflation fears come back with a vengeance'**



**'Affluent Americans are driving US Economy and likely delaying need for Fed rate cuts'**



**'IMF chief warns of emerging market risk with high U.S. interest rates'**

**Bloomberg**

**'Powell's US rates warning means headaches for rest of the world'**



**REUTERS**

**'Fed's Powell says looming US election will not sway rate decisions'**

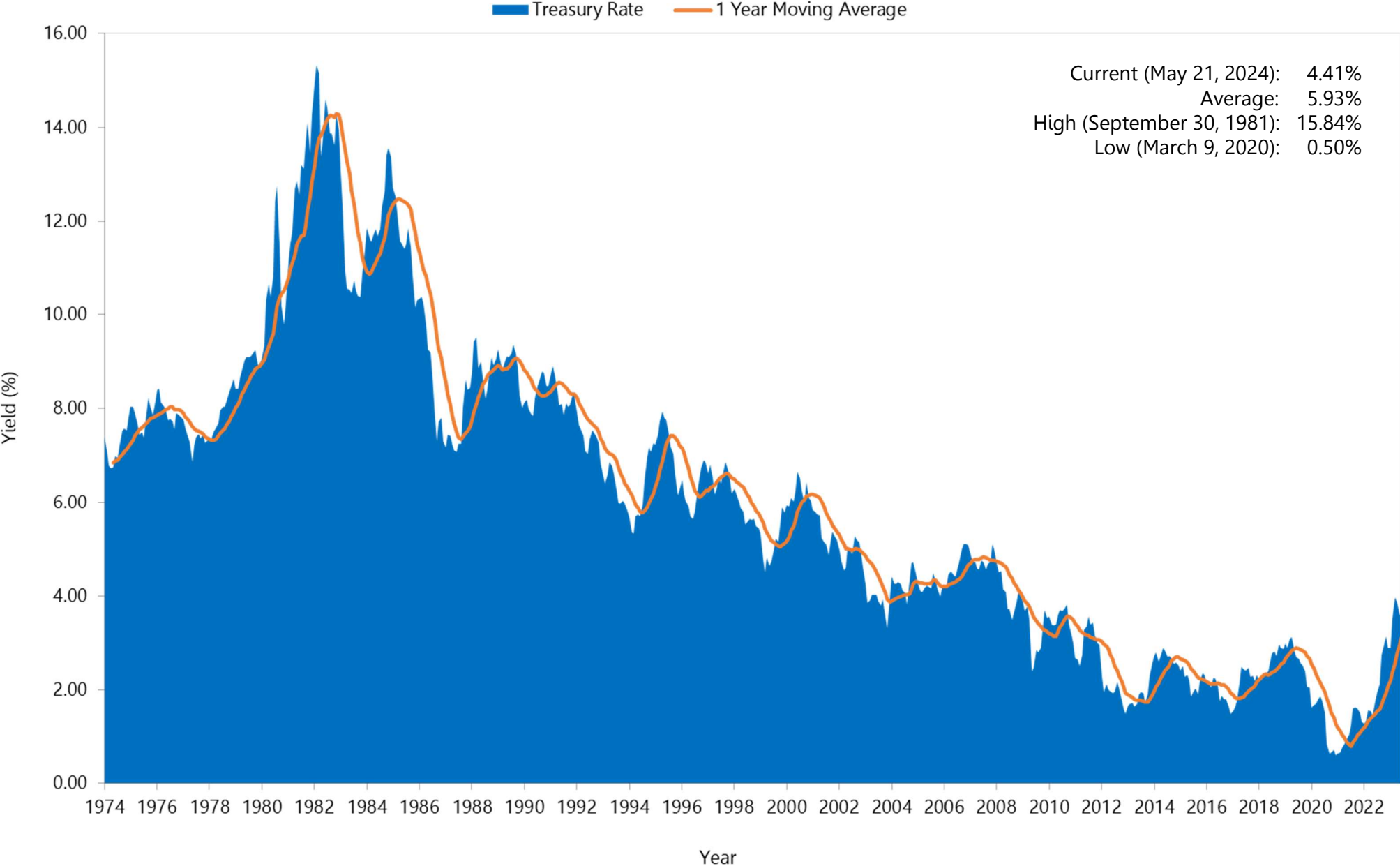


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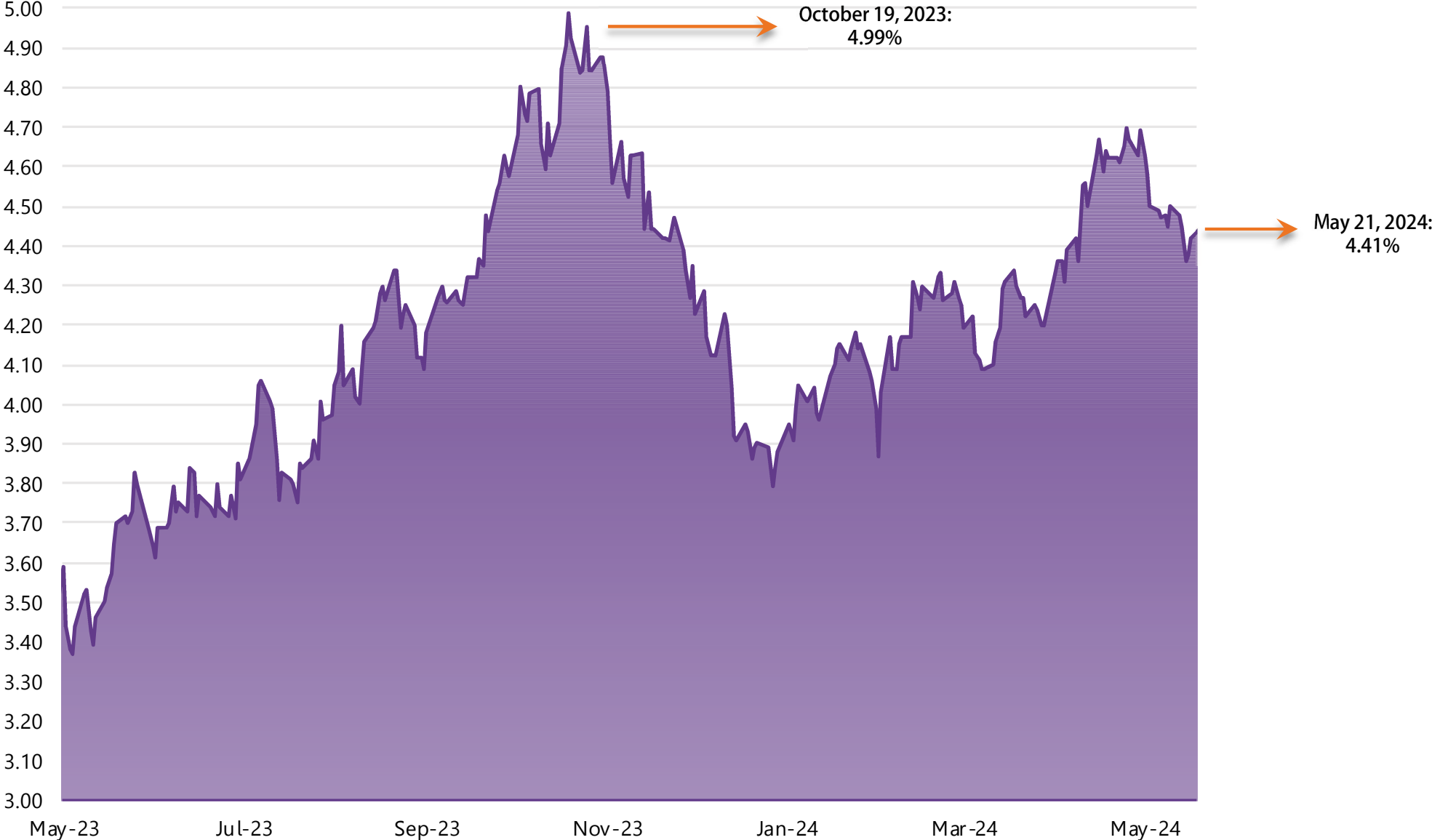
# Bond Market Overview & Interest Rate Discussion

# 10-Year Treasury (1974-2024)



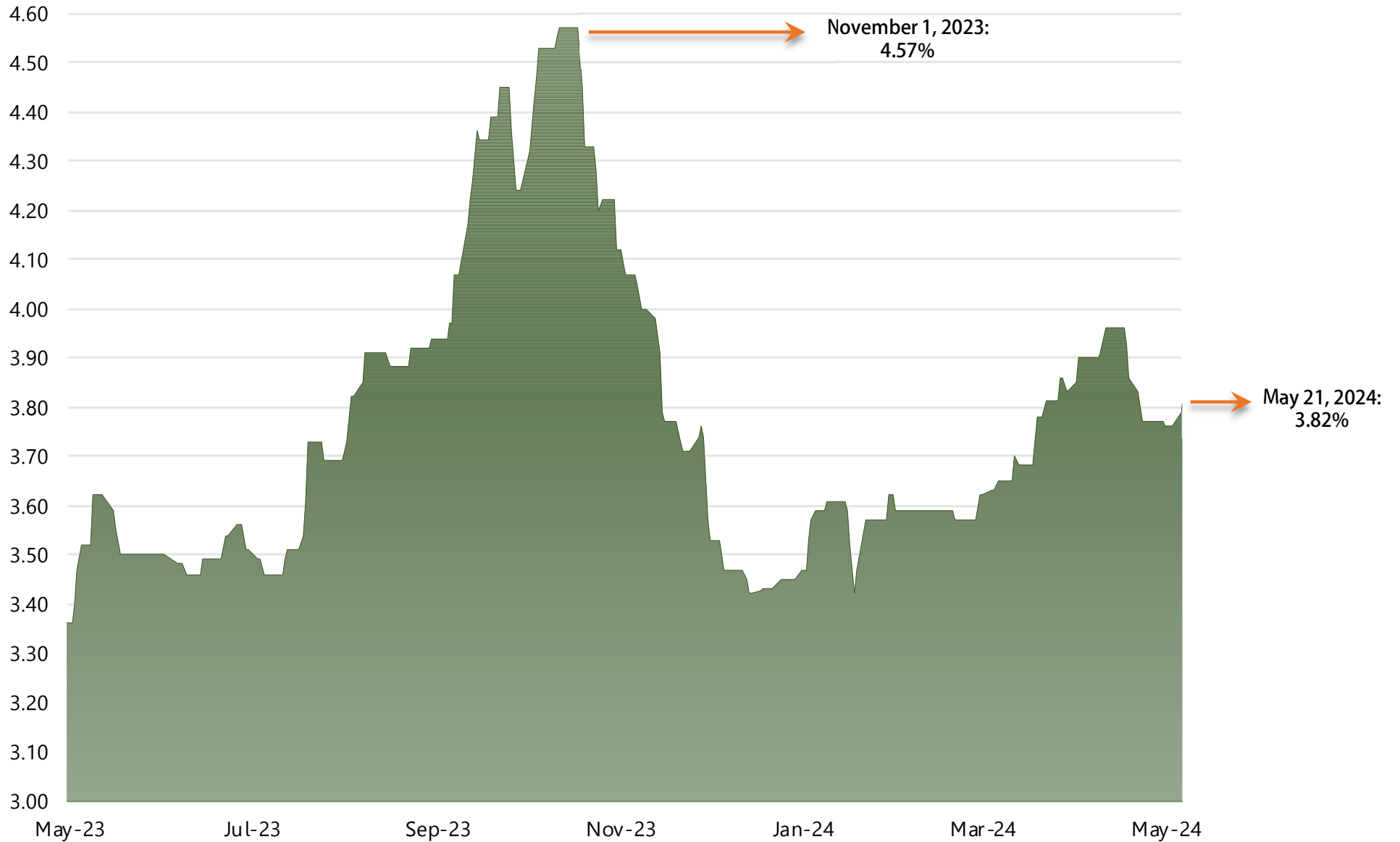
Source: LipperFM data service

# 10-Year Treasury: Last 12 Months



Source: Federal Reserve

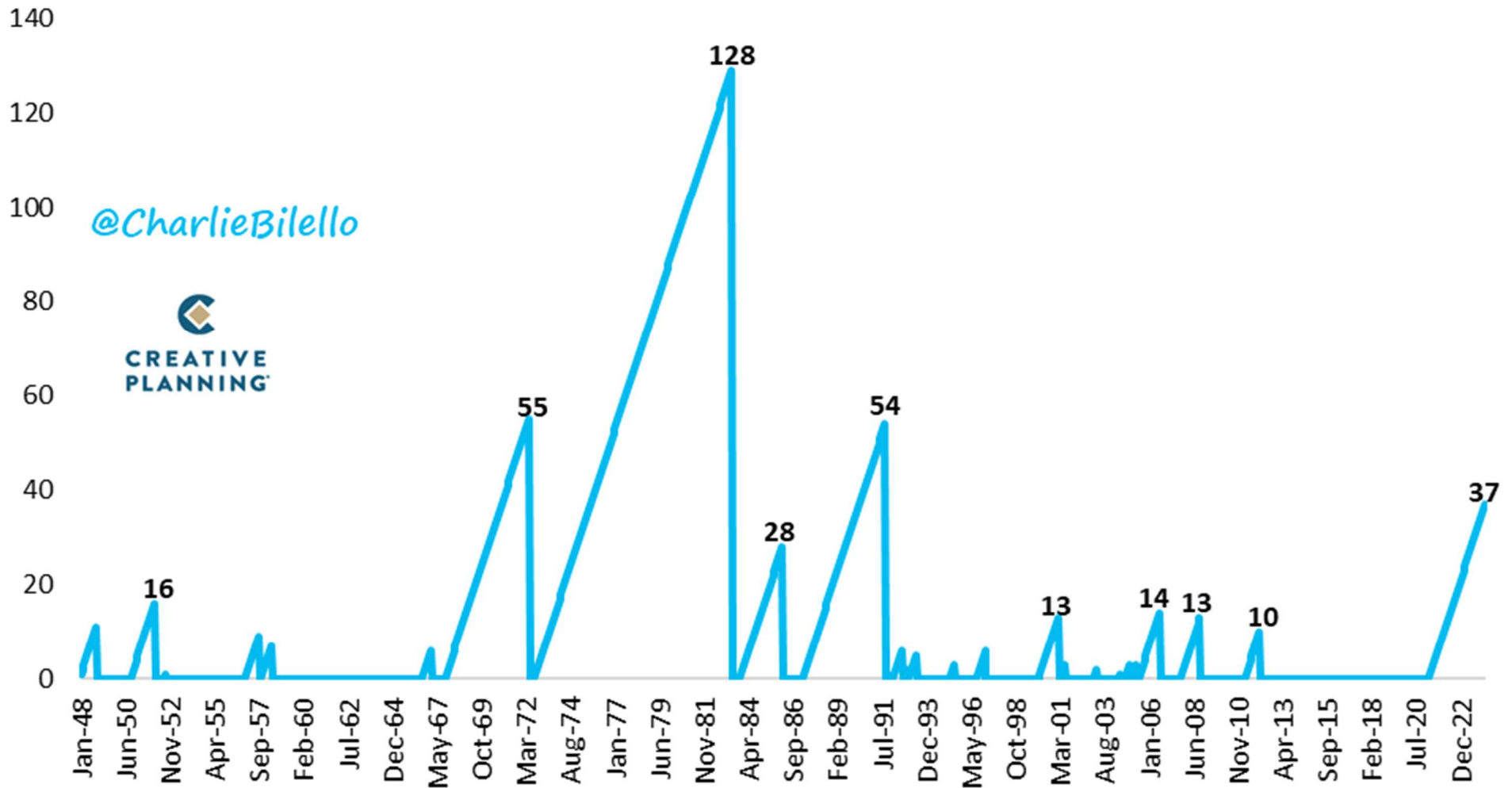
# 30-Year MMD (Last 12 Months)





# Inflation Rate Historic 1948-2024

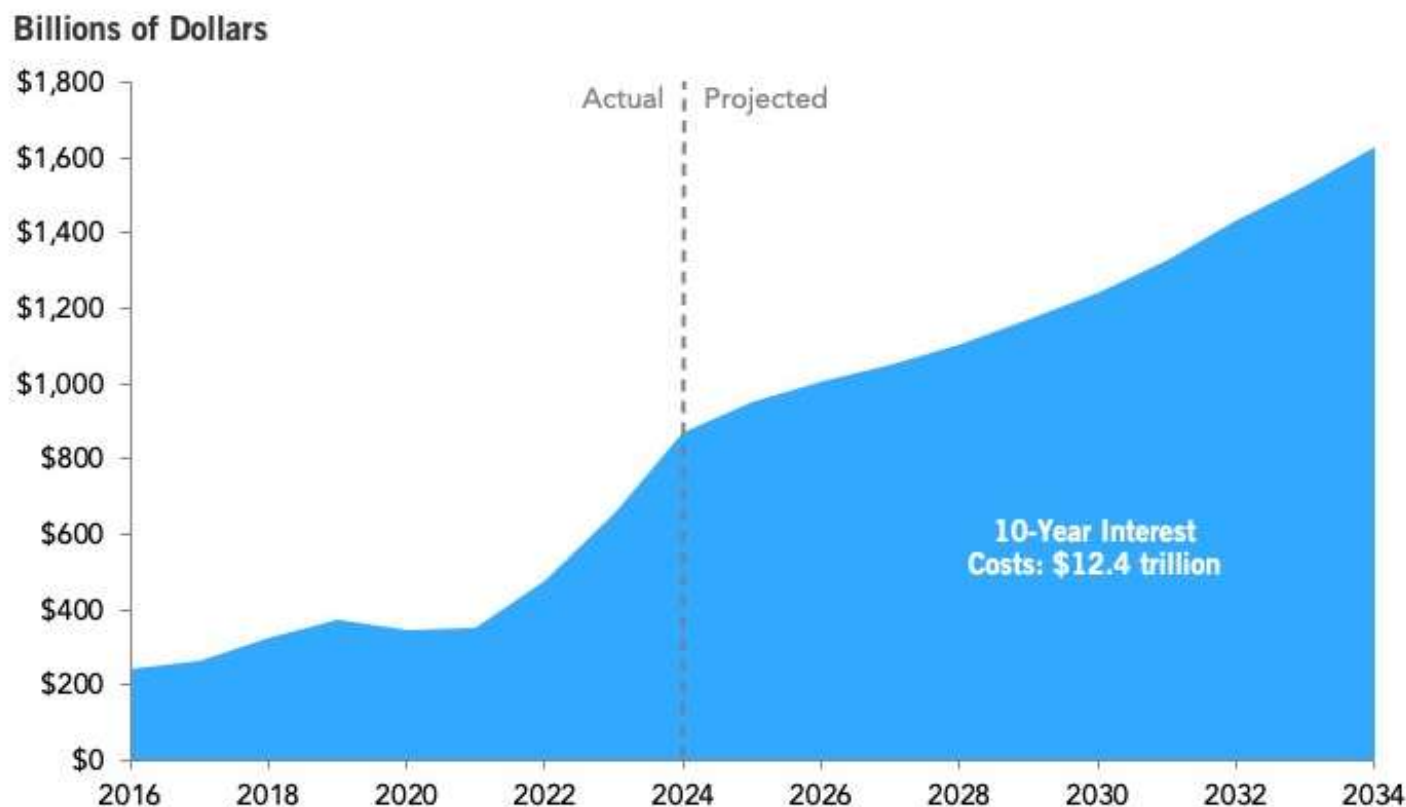
**US CPI Inflation (YoY % Change): Consecutive Months Above 3%  
(Seasonally Adjusted, Jan 1948 - Apr 2024)**





# Rising National Debt and Growing Share of Interest Payments

- In 2024, interest payments on the national debt are projected to total \$870 billion, with this amount expected to increase to \$1.6 trillion by 2034. Over the next 30 years, net interest payments on the national debt could surge to nearly 7.5% of GDP, further exacerbating the fiscal challenges facing the United States
- By 2025, federal interest payments are expected to account for 19% of federal revenues, rising to 22% by 2034. This could limit the government's ability to fund essential programs and respond to economic challenges
- The average interest rate on federal debt held by the public rose to 2.5% in 2023 and is projected to reach 3.1% in 2024. Over the longer term, interest rates on public debt are expected to average 3.5% from 2025 to 2054, significantly higher than the average of 1.9% from 2014 to 2023



Source:

- 1) Peter G. Peterson Foundation. "What Is the National Debt Costing Us?" February 9, 2024. <https://www.pgpf.org/blog/2024/02/what-is-the-national-debt-costing-us>.
- 2) Council on Foreign Relations. "The U.S. National Debt Dilemma." Last modified March 10, 2024. <https://www.cfr.org/backgrounder/us-national-debt-dilemma>



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# Recent Ziegler Activity

# Case Study: St. Mary's School (CA) — Priced May 7, 2024

\$32,040,000 Revenue Bonds, Series 2024



## Series 2024 Bond Pricing

Rating: Nonrated | Pricing Date: 5/7/2024

Term Bonds	Par	Coupon	Yield to Call	MMD*	Spread to MMD
2030 (TEMPS)	\$9,900,000	4.650%	4.650%	2.700%	+195
2034	\$2,670,000	5.000%	4.500%	2.690%	+181
2044	\$4,465,000	5.500%	5.370%	3.470%	+163
2054	\$7,715,000	5.750%	5.570%	3.770%	+180
2059	\$7,290,000	5.875%	5.650%	3.820%	+183



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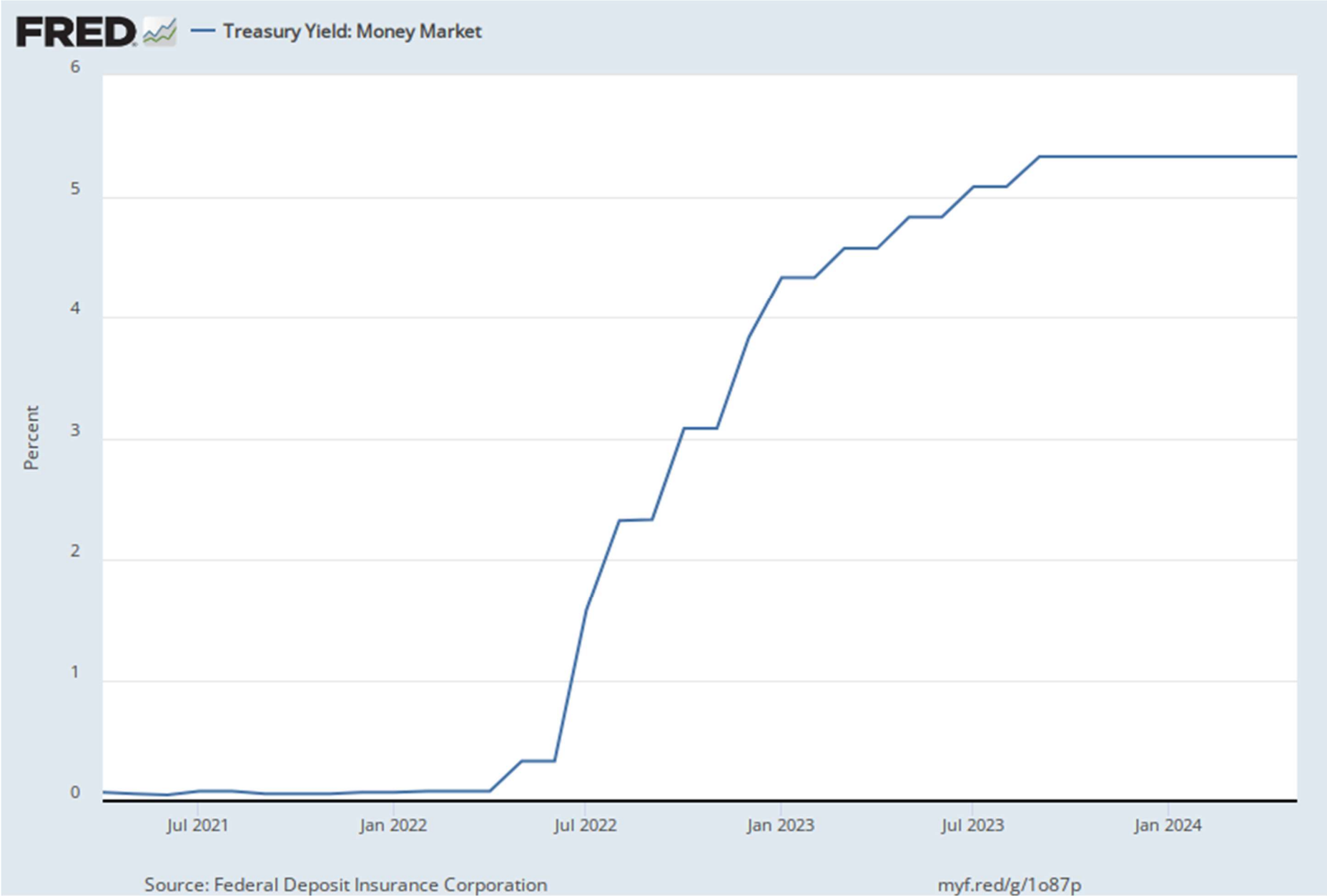
# Arbitrage Rebate

# Chris Berens - Introduction



Chris Berens is the President and owner of the Berens-Tate Consulting Group, which specializes in arbitrage rebate and escrow verification services. Since 1991 the Consulting Group has served a significant number of public sector entities throughout the country. Chris' work has encompassed 6,000 bond issues in excess of \$150 billion dollars. He holds a Certified Public Accountant's Certificate, and prior to joining BTCG he was the Public Sector Industry Director for the Nebraska/Iowa practice of an international accounting firm.

# Money Market Rates 2021 to 2024



# ABC's of Arbitrage

WHO	Tax-exempt debt (bonds, notes, bank loans, leases, etc.) issued since 8/31/86
WHAT	"Arbitrage" is the profit from investing the bond proceeds at a yield (i.e. interest rate) that is higher than the yield on the debt  "Rebate" is the process of returning these profits back to the IRS
WHERE	All IRS Forms are filed with the Odgen, Utah service center
WHEN	Completion of the arbitrage rebate calculation, payment of any rebate owed, and filing of the IRS forms must be done within 60 days after the end of each fifth bond year, and upon retirement of the bonds. If no rebate is owed nothing has to be filed with the IRS
WHY	Failure to comply with the regulations could result in the debt losing their tax-exempt status

# Spending Exceptions

Six-month exception	100% spent within six months
Eighteen-month exception	15% within 6 months 60% within 12 months 100% within 18 months
Two-year exception (must meet “construction bond” definition)	10% within 6 months 45% within 12 months 75% within 18 months 100% within 24 months
Reasonable expectation	Bond documents state there is a “reasonable expectation to spend 85% of the bond proceeds within 3 years”  Not a spending exception



# Other

Investments not subject to rebate	Certain tax-exempt bonds Demand deposit SLGS
Yield restriction	Project funds after 3 years. Debt service funds if not bona fide. Cinderella conversions and defeasance escrows
IRS Audits of tax-exempt debt	

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