Speer Financial, Inc.

INDEPENDENT MUNICIPAL ADVISORS ESTABLISHED 1954

NEWS FLASH

January 16, 2018

A. The Tax Cuts and Jobs Act

The Tax Cuts and Jobs Act was adopted and signed into law as H.R.1 in December of 2017. This new law, among other things, now prohibits tax-exempt advance refundings of previously issued tax exempt bonds. Prior to 2018, issuers could advance refund a tax exempt bond issue on a tax-exempt basis one time prior to the call date. An advance refunding is when refunding bonds are issued more than 90 days prior to the call or debt service payment date on an outstanding bond issue. Current refundings (under 90 days) and taxable refundings continue to be permitted.

In Illinois some issuers have been issuing non-referendum general obligation bonds annually and using the refunding bond proceeds to make upcoming debt service payments due on outstanding long-term bonds of the issuer. The refunded debt service payments often include an interest payment on the outstanding bonds which is six or seven months from the date of issuance of the non-referendum bonds. Refunding this interest payment is an advance refunding and can no longer be done on a tax-exempt basis. The 2017 non-referendum bond issues, where bond proceeds were budgeted to make the mid-year 2018 interest payments are grandfathered as the law was enacted after those issues were sold and closed permitting the mid-year 2018 interest payments to still be made from 2017 non-referendum bond proceeds.

Bond counsel advises that issuers have some options on how to make such mid-year interest payments in the future:

A. **Taxable Issue-**The issuer can issue taxable bonds to make the mid-year interest payments if the interest payments due cannot be made from operating funds due to budget constraints.
B. **Substitution**-The issuer can take operating funds that were budgeted for capital projects and use a portion of such funds to pay the mid-year interest payments and in turn have the non-referendum bond proceeds that were going to be used to make the mid-year interest payments to now be allocated to capital instead of utilizing operating budget revenues for capital. This substitution allows operating cash to be used for the mid-year interest payments and bond proceeds to be used for capital projects,
C. **Absorb**- Should insufficient capital be budgeted from operations to allow for such substitution and should the mid-year interest payments be too small to issue a taxable bond, unfortunately the issuer will have to absorb the mid-year interest payments from operations or fund balance.

Many special districts like Illinois Park Districts and some non-home rule municipalities that utilize annual non-referendum general obligation bonds to retire long term debt, will need to consider which of the above three options is appropriate to make the mid-year 2019 interest payments.

Speer Financial, Inc. officers will discuss with each of their affected clients which option best suits each client's situation as you contemplate the next issuance cycle. Feel free to contact us with any questions you may have. You may wish to begin to consider the amount of your mid-year interest payments starting in 2019 as well as identify the capital presently being paid from operations in your current budget to explore whether the substitution option could be most appropriate in your next budget cycle.

B. 2018 Debt Service Extension Base (DSEB) Grows By 2.10%

The Consumer Price Index (CPI) from the prior year is utilized to determine the next year's DSEB. The 2017 CPI has been released and has been determined to be 2.10%, the same as the 2016 CPI that created the 2017 DSEB. Issuers in a tax-capped county can now incorporate the 2.10% CPI to generate the 2018 DSEB.