Bob & Jay –

**This is new since you issued your bonds last year. This is a new rule that came into effect as of June 7, 2017 so you have not seen this information before. Please review this information as you will also have a discussion about this with your bond attorney at Ahlers & Cooney eventually.

Securities regulators have recently changed some [more] rules surrounding the sale of municipal bonds. These are nationwide changes, not specific to Iowa or schools or G.O. Bonds, etc. You will have to make a determination between a couple of options and then we will work with Ahlers to use the correct language that matches your desire into the POS / Offering Document. The choice you will have to make pertains to a component of the sale process that you will likely find difficult to understand why one option is better or worse than the other option.

Ahlers & Cooney will be reaching out to you to discuss this.

I also need to have a discussion with you about it so that you can hear the options from both sides – your attorney and your financial advisor. While Ahlers & I have similar opinions about the options we may not have the exact same ultimate recommendation. I'm not sure of that.

The "Issue Price" of your new bonds is basically for a layperson to understand it an average interest rate assigned to the new bonds. This issue price is important – not so much now, but later – as it becomes a limit potentially used by the Internal Revenue Service to determine if the district has violated any interest-earning limitations. In the current interest rate environment it's hard to imagine that anyone could earn "too much" interest, but the rules were devised not specifically for the current environment, but for all environments moving forward. The issuer price may impact you later in one of the following ways:

1. As your bond proceeds sit in the bank during the construction phase you will earn interest on the bond proceeds. If you spend 95% or more of the proceeds within the first three years (two years in some instances) of receiving the proceeds then there is no limit to what rate of interest you can earn on the bond money. But, if for some reason you were to still have 5%+ of the bond proceeds still sitting in your bank account after those initial three years you would then be restricted to how much you can earn, and the limitation is the "issue price" or "bond yield". For example, if the issue price of your new bonds is 3.15678% then you cannot have earned in excess of 3.15678% IN AGGREGATE over the period of time it was sitting idle and invested…..unless you spent all of the money (which is the most likely scenario) within the 3 year spend down period. If you did you must then rebate any overage to the I.R.S. and pay a CPA to calculate the exact amount and provide the required proofs in writing. Again, this is unlikely in the current interest rate environment, but it's one of the uses of the issue price.

2. If you ever refinance the new bonds at some point in the future, and you do so prior to the initial call date of those bonds an escrow is required to hold the new [refinancing] bond proceeds while you wait for the initial call date of those bonds to arrive when the refinancing proceeds can then be used to pay off the old bonds. While such refinancing (also called 'refunding') bond proceeds sit idle in an escrow you are also restricted to how much interest you can earn, and that limit is the issue price or bond yield; in the above example it would be the 3.15678%. Even if you never end up refinancing the bonds you still must be cognizant of this important figure during the issuance of the original bonds.

So, what's the new rule? In the past when the winning bidder/underwriter bought your bonds they simply signed off on a verification that stated their GOOD FAITH INTENTION to sell at least 10% of each bond maturity at the bond yield they used when the priced the bonds. But, after the sale date sometimes those underwriters then marked up the bonds significantly to where the ultimate purchasing client was not receiving the same yield that was used when the municipality (i.e. YOU) sold the bonds. Regulators believe that some underwriters were abusing this 'good faith' allowance, and overcharging purchasers of municipal bonds. In order to circumvent that the regulators are now requiring the underwriter to report the yield on each bond maturity for that amount that the ACTUALLY SELL to a real client/investor. The problem becomes that sometimes the underwriter doesn't actually sell 10% or more on the very first day the bonds become available, and sometimes it takes several hours, days or even weeks to get to the 10% threshold depending on what occurs in the bond market during the ensuing days as well as how accurately to "the market" they priced your issue originally. Now YOU must determine which method you will require the underwriter to utilize in calculating the issue price, and you must notify the potential bidders in the initial offering document called the Preliminary Official Statement (POS).

Your options:

I. The "Special Rule for Competitive Sales": Allows the Issuer (i.e. YOU) to establish the issue price as equal to the underwriter's reasonably expected initial offering price at the time of the sale IF A MINIMUM OF THREE BIDS ARE RECEIVED. This is what we EXPECT to happen, as we expect you will receive three or more bids. However, on any given day we can't be certain you will receive three bids for a variety of reasons.

II. The "General Rule" or "10% Rule": Calculates the issuer price as the first price at which 10% of the maturity is ACTUALLY SOLD to the public (not "expected" to be sold). Using this method means that the issue price may not be determined for several hours, days or weeks after the initial pricing. This isn't a big deal, except that if the issue price is not determined by the time the issue closes, and at that time it could cause issues for your bond attorney with tax filings, etc.

III. The “Hold the Offering Rule”: Allows the issue price to be calculated based upon the initial offering price determined on the date of the sale (same as “Special Rule” above), but only if the underwriter agrees to ‘hold the offering price’ for 5 business days or until 10% of each maturity is actually sold; which is the shorter period of time.

Why do you care?

We expect that the “special rule” will be used because we expect for you to receive three competitive bids. However, we cannot guarantee that.

The ‘general rule’ is just fine, but if might cause some delays in filings by your bond attorney.

The ‘hold the offering rule’ may (MIGHT; we don’t know) cause some underwriters to determine they will not bid on your issue because if they must hold the initial price for 5 days, and the bond yields in the open market turn against them they would then be in a position to realize substantial losses. It seems reasonable to assume this could cause bidders to ignore your issue. Reasonable, but not for sure….we still don’t know how each different underwriter will factor these new requirements in. Might they also initially price your bonds more expensively (i.e. at higher yields) than “the market” just go give themselves some room in case the market moves away from them during that possible 5-day holding period? We don’t know.

YOU must make the ultimate decision, and your bond attorney will also discuss this with you. We believe using the “special rule” combined with the “general rule” is most prudent. This allows everything to move ahead without any delay or change from past practice so long as you get three bids. And, should you not receive three bids it still allows for the underwriter (purchaser of your bonds) to adjust prices in the following days if the market itself changes….and, any such changes do not impact your project or borrowing TODAY; only potentially impacting your maximum earning rate on bond funds invested and/or escrow funds related to a bond refinancing later. You may have a different opinion once you’ve had a similar discussion with your bond attorney.

Let me know if you have any questions. Ultimately, you will need to let me and/or the bond attorney know which of the options above you are choosing so that the pertinent language can be used in the offering document (POS).

Matt
**Matthew R. Gillaspie**