SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17

(as of January 13, 2021)

**Fixed Rate Bonds**

[BACKGROUND INFORMATION – DELETE BEFORE SENDING: Although Fixed Rate Bonds generally are not “complex municipal securities financings” for purposes of MSRB Rule G‐17, underwriters nevertheless may wish to provide disclosures regarding Fixed Rate Bonds in certain circumstances, depending on the level of sophistication and experience of the issuer and its personnel. Under MSRB Rule G‐17, the underwriters must provide an issuer with disclosures about complex municipal securities financings that they recommend to the issuer for a negotiated offering. DELETE ANY DRAFTER’S NOTES/FOOTNOTES BEFORE SENDING.]

The following is a general description of the financial characteristics and security structures of

fixed rate municipal bonds (“Fixed Rate Bonds”), as well as a general description of certain

financial risks that are known to us and reasonably foreseeable at this time and that you should

consider before deciding whether to issue Fixed Rate Bonds. If you have any questions or

concerns about these disclosures, please make those questions or concerns known

immediately to us. In addition, you should consult with your financial and/or municipal, legal,

accounting, tax, and other advisors, as applicable, to the extent you deem appropriate. [DELETE

THE FOLLOWING SENTENCE IF THE ISSUER HAS DETERMINED THE STRUCTURE OF

THE FINANCING: [If you decide that you would like to pursue this financing alternative, we may

provide you with additional information more specific to your issue.]]

[IF A CONDUIT ISSUE, ADD THE FOLLOWING (MODIFY AS NECESSARY TO REFLECT THE TERMS OF THE TRANSACTION): [As the issuer of the Bonds, you will be a party to the bond purchase agreement and certain other legal documents to be entered into in connection with the issuance of the Bonds, but the material financial risks described below will be borne by the obligor, as set forth in those legal documents. A copy of our disclosure letter is also being sent to the obligor. In such case, any reference below to “you” or “your” shall refer to the obligor, unless otherwise noted because of transaction’s terms.] [DRAFTER’S NOTE: change a “you” or “your” depending on whether the issuer or the obligor bears the obligation under the transaction’s terms, particularly in the *Financial Characteristics* section below.]]

**Financial Characteristics**

*Maturity and Interest*. Fixed Rate Bonds are interest-bearing debt securities issued by state and

local governments, political subdivisions and agencies and authorities, whether for their benefit or as a conduit issuer for a nongovernmental entity. Maturity dates for Fixed Rate Bonds are fixed at the time of issuance and may include serial maturities (specified principal amounts are payable on the same date in each year until final maturity) or one or more term maturities (specified principal amounts are payable on each term maturity date) or a combination of serial and term maturities. The final maturity date typically will range between 10 and 30 years from the date of issuance. Interest on the Fixed Rate Bonds typically is paid semiannually at a stated fixed rate or rates for each maturity date.

*Redemption*. Fixed Rate Bonds may be subject to optional redemption, which allows you, at

your option, to redeem some or all the bonds on a date prior to scheduled maturity, such as in

connection with the issuance of refunding bonds to take advantage of lower interest rates.

Fixed Rate Bonds will be subject to optional redemption only after the passage of a specified

period, often approximately ten years from the date of issuance, and upon payment of the redemption price set forth in the bonds, which may include a redemption premium. You will

be required to send out a notice of optional redemption to the holders of the bonds, usually not

less than 30 days prior to the redemption date. Fixed Rate Bonds with term maturity dates also

may be subject to mandatory sinking fund redemption, which requires you to redeem specified

principal amounts of the bonds annually in advance of the term maturity date. The mandatory

sinking fund redemption price is 100% of the principal amount of the bonds to be redeemed.

**Security**

Payment of principal of and interest on a municipal security, including Fixed Rate Bonds, may

be backed by various types of pledges and forms of security, some of which are described

below.[[1]](#footnote-2)

*General Obligation Bonds*. “General obligation (GO) bonds” are debt securities to which your full faith and credit is pledged to pay principal and interest. If you have taxing power, generally you will pledge to use your ad valorem (property) taxing power to pay principal and interest. The debt service on “unlimited tax” GO bonds are paid from ad valorem taxes which are not subject to state constitutional property tax millage limits, whereas “limited tax” GO Bonds are subject to such limits.

General obligation bonds constitute a debt and, depending on applicable state law, may require

that you obtain approval by voters prior to issuance. In the event of default in required

payments of interest or principal, the holders of general obligation bonds generally will have certain rights under state law to compel you to impose a tax levy.

*Revenue Bonds.* **“**Revenue bonds” are debt securities that are payable only from a specific source or sources of revenues. Revenue bonds are not a pledge of your full faith and credit, and you (or, if you are a conduit issuer, the obligor, as described in the following paragraph) are obligated to pay principal and interest on your revenue bonds only from the revenue source(s) specifically pledged to the bonds. Revenue bonds do not permit the bondholders to compel you to impose a tax levy for payment of debt service. Pledged revenues may be derived from operation of the financed project or system, grants or excise or other specified taxes. Generally, subject to state law or local charter requirements, you are not required to obtain voter approval prior to issuance of revenue bonds. If the specified source(s) of revenue become inadequate, a default in payment of principal or interest may occur. Various types of pledges of revenue may be used to secure interest and principal payments on revenue bonds. The nature of these pledges may differ widely based on state law, the type of issuer, the type of revenue stream and other factors.

Some revenue bonds (conduit revenue bonds) may be issued by a governmental issuer acting

as a conduit for the benefit of a private sector entity or a 501(c)(3) organization (the obligor).

Conduit revenue bonds commonly are issued for not-for-profit hospitals, educational institutions,

single and multi-family housing, airports, industrial or economic development projects, and

student loan programs, among other obligors. Principal and interest on conduit revenue bonds

normally are paid exclusively from revenues pledged by the obligor. Unless otherwise specified

under the terms of the bonds, you are not required to make payments of principal or interest if

the obligor defaults.

The description above regarding “Security” is only a summary of certain possible security provisions for the bonds and is not intended as legal advice. You should consult with your bond

counsel for further information regarding the security for the bonds.

**Financial Risk Considerations**

Certain risks may arise in connection with your issuance of Fixed Rate Bonds, including some

or all the following (generally, the obligor, rather than the issuer, will bear these risks for conduit

revenue bonds):

*Issuer Default Risk*. You may be in default if the funds pledged to secure your bonds are not enough to pay debt service on the bonds when due. The consequences of a default may be serious for you and, depending on applicable state law and the terms of the authorizing documents, the holders of the bonds, the trustee and any credit support provider may be able to exercise a range of available remedies against you. For example, if the bonds are secured by a general obligation pledge, you may be ordered by a court to raise taxes. Other budgetary adjustments also may be necessary to enable you to provide sufficient funds to pay debt service on the bonds. If the bonds are revenue bonds, you may be required to take steps to increase the available revenues that are pledged as security for the bonds. A default may negatively impact your credit ratings and may effectively limit your ability to publicly offer bonds or other securities at market interest rate levels. Further, if you are unable to provide sufficient funds to remedy the default, subject to applicable state law and the terms of the authorizing documents, you may find it necessary to consider available alternatives under state law, including (for some issuers) state-mandated receivership or bankruptcy. A default also may occur if you are unable to comply with covenants or other provisions agreed to in connection with the issuance of the bonds.

This description is only a summary of issues relating to defaults and is not intended as legal advice. You should consult with your bond counsel for further information regarding defaults and remedies.

*Redemption Risk*. Your ability to redeem the bonds prior to maturity may be limited, depending on the terms of any optional redemption provisions. If interest rates decline, you may be unable to take advantage of the lower interest rates to reduce debt service.

*Refinancing Risk*. If your financing plan contemplates refinancing some or all the bonds at maturity (for example, if you have term maturities or if you choose a shorter final maturity than might otherwise be permitted under the applicable federal tax rules), market conditions or changes in law may limit or prevent you from refinancing those bonds when required.

*Reinvestment Risk*. You may have proceeds from the issuance of the bonds available to invest prior to the time that you are able to spend those proceeds for the authorized purpose. Depending on market conditions, you may not be able to invest those proceeds at or near the rate of interest that you are paying on the bonds, which is referred to as “negative arbitrage”.

*Tax Compliance Risk*. The issuance of tax-exempt bonds is subject to several requirements under the United States Internal Revenue Code, as enforced by the Internal Revenue Service (IRS). You must take certain steps and make certain representations prior to the issuance of tax-exempt bonds. You also must covenant to take certain additional actions after issuance of tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on bonds to become taxable retroactively to the date of issuance of the bonds, which may result in an increase in the interest rate that you pay on the bonds or the mandatory redemption of the bonds. The IRS also may audit you or your bonds, in some cases on a random basis and in other cases targeted to specific types of bond issues or tax concerns. If tax-exempt bonds are declared taxable, or if you are subject to audit, the market price of your bonds may be adversely affected. Further, your ability to issue other tax-exempt bonds also may be limited.

This description of tax compliance risks is not intended as legal advice and you should consult

with your bond counsel regarding tax implications of issuing the bonds.

[ADD IF APPLICABLE] [*Extended Settlement Risk*. In a typical issuance of fixed rate bonds, the bonds are issued and delivered within [ADD DEFINITION OF TIME PERIOD YOUR FIRM USES] of the date of the Bond Purchase Agreement (BPA), which is typically the date the bonds are priced. The proposed transaction, however, is expected to include a longer than typical period between the date that the bonds are priced and the date that the bonds are issued and delivered, otherwise known as an extended settlement. There are certain risks associated with extended settlements. Investors may require a premium above the then current market interest rates, affecting the pricing of the bonds, and the universe of potential investors may be limited as a result of the additional risks associated with extended settlements. An extended settlement also increases your exposure to the conditions to settlement contained in the BPA, including the risk that you may be unable to satisfy those conditions.]

1. The discussion of security characteristics is limited to general obligation and revenue bond structures. This summary should be expanded and modified, as necessary, for other security structures, such as bonds that are secured by a double‐barreled pledge (general obligation and revenues), annual appropriations or a moral obligation of the issuer or another governmental entity. If the security for the bonds is known at the time this disclosure is provided to the issuer, include only those portions relevant to the actual security for the bonds. [↑](#footnote-ref-2)