

2020 Credit Enhancement Q & A Webinar Report

Is the IBB serving a similar role to a lockbox service?

How does this affect the QE constitutional debt limit by using the conduit?

Is there a lag from when the QE would normally have received the funds?

What documentation would exist between the Bond Bank and borrower?

From a bank's perspective, we would also need to understand the coverage of the specific revenues (LIT) and the debt service.

For the assumptions, how large is the QE borrowing?

For the assumptions, is it a single QE or multiple in a pool?

Will each entity have their own appendix and series?

Does the current legislation allow for the transfer of assets for a sale/lease transaction as allowable by Indiana law? This is a follow up question after hearing the current construct counts against debt limits.

Have you discussed this new structure with a rating agency already? Have you received any insight from them?

Who will review the RFPs?

Will this program be available year-round? Or will there be certain points in the year an entity can apply?

What are the primary 'problems' in the existing market that you most want to solve?

Do you anticipate seeking amendments to the legislation in future years to get outside of debt limit?

Are you looking for responses from banks, underwriters, other MAs, others?

Is the \$250,000 of issuance costs a realistic estimate?

Is the IBB serving a similar role to a lockbox service?

This is more secure than a lock box service in that the QE and the underlying entities are actually legally conveying and assigning all of their right, title and interest in the revenue stream to the Bond Bank. These revenues are then legally owned by the SPV vehicle, which would either be the Bond Bank or an entity created by the Bond Bank. Any remaining revenues after payment of the SPV's debt service would be re-conveyed to the QE.

How does this affect the QE constitutional debt limit by using the conduit?

At this point in time, our view is that an Indiana Court considering this issue would likely conclude that this financing arrangement would count against the QE's constitutional and/or statutory debt limitation. That being said, this would be a case of first impression given the novelty of this structure in Indiana. To the extent that you have ideas or concepts as to how this may not be viewed as debt of the QE, we would welcome that in your response to the RFP.

Is there a lag from when the QE would normally have received the funds?

It is our understanding that this will be a pretty seamless process. We're envisioning that those funds that would be sent from the disbursement agent to the Bond Bank, used to pay debt service on the SPV's bonds, and then reconveyed to the QE within a 1-3 business day period. Based on our conversations with our other partners at the State, there could be a couple day difference on what the normal disbursement process to a QE is accustomed. The Bond Bank will continue to flush out the flow of funds with some of our other State partners. However, we're not thinking there will be any material lag time that would impact a QE's operations and normal day to day operations.

What documentation would exist between the Bond Bank and borrower?

The only document required pursuant to this statute is an assignment agreement between the Bond Bank and the QE. However, we have not drafted any transactional documents at this point, so we have the flexibility to create other agreements and instruments to implement this program as the need arises. If there are other documents that you would want to include in this structure, please note this in your response to the RFP and describe the contents and purpose of any such documents.

From a bank's perspective, we would also need to understand the coverage of the specific revenues (LIT) and the debt service.

Thank you for the feedback. Our initial thought had been not fixing that out as an assumption and leaving as a variable to allow different modeling.

For the assumptions, how large is the QE borrowing?

Thank you for the feedback. Our initial thought had been not fixing that out as an assumption and leaving as a variable to allow different modeling. The thought is different models may

produce a different tipping point of par amount is, where the value to the Qualified Entity exceeds the initial cost, and the time effort and energy to go through a structure like this. We can certainly think through whether it makes sense to give you a plug number par amount. We would do so if we had a live deal in front of us where there is a set borrowing need. Without that, there might be some value in you helping think through sizing.

For the assumptions, is it a single QE or multiple in a pool?

The scenarios that we are looking at providing in the RFP assume these are single entities coming to the Bond Bank. We will consider revising the document to account for a 'wild card scenario' outside of the A-rated and the unrated QE. This would allow you to provide modeling for another type of QE or a pooled scenario or otherwise. We will try to make clear in the document that by picking A and Unrated, we're not intending to exclude other creative solutions. Simply that those seemed to represent two of the widest paths from which to start.

Will each entity have their own appendix and series?

This question goes back to whether these would be stand-alone deals or pooled transactions. At this point in time we had approached as if they would be stand-alone Qualified Entity transactions. That being said, it's not impossible. We will consider this feedback as we craft the RFP.

Does the current legislation allow for the transfer of assets for a sale/lease transaction as allowable by Indiana law? This is a follow up question after hearing the current construct counts against debt limits.

The legislation only talks about the conveyance of "transferred receipts", which is defined as revenues or taxes. It really does not contemplate something beyond that in terms of property interests of a Qualified Entity.

Have you discussed this new structure with a rating agency already? Have you received any insight from them?

We have heard from Rating Agencies that they are aware that the state passed this legislation. At a high level, have heard one feature that may be different between Indiana's HEA1473 and other jurisdictions is that this special purpose entity in Indiana sits at a Bond Bank level. We understand in some jurisdictions the QE can create their own special purpose entity so, again just at a high level, have heard it's different to have that added separation with the Bond Bank being even more divorced from the local situation. We haven't had any specific guidance from Rating Agencies on the tool. It's up to us to come to them with some structures to see what we might make of it.

Who will review the RFPs?

The Indiana Bond Bank staff, Crowe LLP as IBB's municipal advisor and Barnes & Thornburg LLP as IBB's legal counsel.

Will this program be available year-round? Or will there be certain points in the year an entity can apply?

To be determined. Most of our debt issuance programs are open year round, so as an Entity has needs they can come to the Bond Bank and we can help fill those needs. If the tool can be available year round for Entities as they need it, that would fall in line with how we have done things historically.

What are the primary 'problems' in the existing market that you most want to solve?

Enhanced access to credit and Lower borrowing costs.

Do you anticipate seeking amendments to the legislation in future years to get outside of debt limit?

We would be open if a response to the RFP were to suggest that there be tweaks to the statute and it appeared that such amendments would clearly further the purpose and success of the program. A statutory amendment alone, however, cannot overcome the constitutional limitation on indebtedness. We are looking for creativity so if there are other ideas and thoughts about the legal basis upon which we could conclude that something is not debt, we'd be open to considering that.

Are you looking for responses from banks, underwriters, other MAs, others?

We welcome responses from anyone. We will ensure the RFP is clear that it is not exclusive to any group.

Is the \$250,000 of issuance costs a realistic estimate?

Good feedback - this is intended as a plug number to everyone to model on an apples-to-apples basis. This is not intended to reflect true cost of issuance. We do not have a live deal. We will make sure the RFP makes these points clear. We do not want the plug COI to be a reason why someone would not respond. Your response may come back and indicate that the SPV works, but only at certain lower IBB COI.

