SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17

(as of February 2, 2021)

**Convertible Advance Refunding (Cinderella) Bonds**

[BACKGROUND INFORMATION – DELETE BEFORE SENDING: Under MSRB Rule G‐17, underwriters must provide an issuer with disclosures about complex municipal securities financings that they recommend to the issuer for a negotiated offering. Convertible Advance Refunding Bonds may be considered a complex municipal securities financing. Note: This should be added to the Fixed Rate Structure Disclosure; it is not sufficient by itself. DELETE ANY DRAFTER’S NOTES/FOOTNOTES BEFORE SENDING.]

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

Convertible Advance Refunding Bonds, or Cinderella 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 to issue Cinderella Bonds. If you have any questions or concerns about these disclosures, please make them 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.

[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 the 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**

Several structures are still available to issuers to refinance outstanding bonds in advance of the optional redemption date, even though tax reform in 2017 eliminated the ability for an issuer to advance refund outstanding obligations on a tax-exempt basis. One such structure is “taxable exchangeable bonds” or a “Cinderella Bonds.” Cinderella Bonds are bonds that are issued more than 90 days prior to the call date of the refunded bonds. They are issued because a tax-exempt advance refunding is not an available option. These bonds are issued with taxable interest rates. On the call date of the refunded bonds, the interest rates convert to predetermined tax-exempt rates. The bonds then pay the tax-exempt rates through their maturity. Because the taxable rates are usually set as if the bonds were not to convert, the rates are generally long-term rates. The tax-exempt rates are based on the current market and include a premium based on the number of months to the conversion date. This premium is the risk adjustment required for locking in rates today. The issuer (or obligor) pays the taxable rates through the call date of the refunded bonds. At the call date, bond counsel must provide a tax-exempt bond opinion to allow the bonds to convert to the tax-exempt rates. If no opinion is issued, the bonds remain in the taxable mode.

**Financial Risk Considerations**

In addition to the risks associated with Fixed Rate Bonds, risks specific to Cinderella Bonds may arise in connection with your issuance of Cinderella Bonds, including some or all the following:

*Tax Compliance Risk*. Unless a tax reissuance is triggered at the call date of the refunded bonds, which may not happen for various reasons, bond counsel may not be able to deliver a tax-exempt bond opinion with respect to the (reissued) Cinderella Bonds on the call date. For example, a change in tax law between the time of issuance and the reissuance could prevent bond counsel from rendering the required opinion. You would continue to pay interest at the taxable rate and savings from the refunding will be lower than anticipated.

*Cost Considerations*. The tax-exempt rate on Cinderella Bonds is typically higher than current market tax-exempt rates. In addition, you bear the cost of paying interest on the Cinderella Bonds at the taxable rate until the outstanding tax-exempt refunded bonds are eligible to be currently refunded (i.e., within 90 days of the redemption or call date of the refunded bonds). Tax-exempt market rates may be lower at the conversion date. A current refunding later may result in greater savings.

*Reinvestment Risk*. You would also bear the additional cost that would be incurred if the investment yield earned on the proceeds of the Cinderella Bonds until applied to redeem the refunded bonds turns out to be less than the interest costs payable on the Cinderella Bonds during this period (often called “negative arbitrage”).