SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17

(as of February 2, 2021)

**Variable Rate Remarketed Obligations**

[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. Variable rate remarketed obligations generally will be treated as a complex municipal securities financing. DELETE ANY DRAFTER’S NOTES/FOOTNOTES BEFORE SENDING.]

The following is a general description of the financial characteristics of Variable Rate remarketed Obligations (VROs), 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 VROs. 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 particular VRO issue.] [ADD THE FOLLOWING SENTENCE IF THE VROs ARE STRUCTURED WITH AN INTEREST RATE SWAP: If you are contemplating entering into an interest rate swap in connection with your VROs, you should consider the financial risk considerations discussed in the *SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17 related to Interest Rate Swaps*.]

*VRO Mode is New and the Market for VROs are Developing.* You should understand that, although VROs shares characteristics of Variable Rate Demand Obligations (VRDOs), soft-put FRNs, extendable commercial paper and Windows mode, VROs are a new product. As such, the market is still developing for VROs and there can be no assurance that the market will grow. You should consider that VROs may reset at higher rates then similarly rated VRDOs as investors value the structure and liquidity relative to other product alternatives. [IF APPROPRIATE FOR A PARTICULAR ISSUER OR TRANSACTION, PORTIONS OF *SIFMA Model Risk Disclosures Pursuant to MSRB Rule G-17 for Fixed Rate Bonds* MAY BE INSERTED, SUCH AS, FOR EXAMPLE, EXCERPTS FROM THE “SECURITY” SECTION TO DESCRIBE THE RELEVANT SECURITY FOR THE VROs.]

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**

*Maturity and Interest*. VROs are debt securities with nominal long-term maturities (often 20 to

30 years) in which the interest rate is reset by a remarketing agent on a periodic basis and provides for, among other modes, multiple variable rate modes for the issuer (e.g.,

daily, weekly, monthly, annually, or commercial paper (CP) periods (with or without a call option) up to 270 days). For each interest reset, subject to any maximum interest rate stated in the VROs, the remarketing agent is required to set the interest rate at the rate necessary, in its judgment, as the lowest rate that permits the sale of the VROs at 100% of their principal amount (par) on the interest reset date if they were all available for sale. The maximum interest rate for the VROs generally will range between 9% per annum and 15% per annum, depending on, among other factors, the structure of the VROs, your credit risk and rating and whether interest is intended to be taxable or tax-exempt. Interest on the VROs is typically paid semiannually. VROs typically are offered to investors in minimum authorized denominations of not less than $100,000.

*Redemption*. Optional redemption of VROs generally is more flexible than with fixed rate

bonds and is usually at a redemption price of par, without redemption premium. In VRO mode, securities may be subject to optional redemption on any business day, in whole or in part prior to maturity, including following a failed remarketing. You will be required to send out a notice of optional redemption to the holders of the bonds, usually not less than 15 to 30 days prior to the redemption date.

*Optional and Mandatory Tender.* For securities in VRO mode, in a daily, weekly, monthly, or annual mode, the owner of the VROs generally will have the option to tender (or “put”) its VROs for purchase at par at a specified time (typically any business day) with a specified amount of advance notice (e.g., 7 days’ notice). VROs also may be subject to mandatory tender for purchase upon the occurrence of certain events, including certain conversions from one interest rate mode to another. As described below, the remarketing agent is obligated to use its best efforts to remarket VROs subject to optional or mandatory tender.

*VRO Tender Provisions.* In the ordinary course, assuming a successful remarketing, the source of funds to pay owners of tendered VROs will be the proceeds of the remarketing of the VROs by the remarketing agent to new investors. As described below, you will be required to ensure a source of funds to pay the purchase price when it is due to the tendering owners in the event that the remarketing agent is unable to successfully remarket the VROs. If for any reason any tendered VROs are not successfully remarketed, all tendered VROs will remain held by their respective holders. All VROs become subject to mandatory redemption on a specified term-out date (e.g., typically one to three years following the failed remarketing) and all the VROs will bear interest at a defined step-up rate, which may be a significant increase from ordinary VRO rates, until the mandatory redemption date, optional redemption date, or a successful remarketing occurs. A successful remarketing would occur if the remarketing agent is able to find buyers for all VROs on that date all VROs would be subject to mandatory tender for purchase and subsequent sale by the remarketing agent to new investors. If no successful remarketing occurs, you will be required to provide funds for purchase on the term-out date. In the absence of a purchase of VROs when due an event of default would occur.

*Role of Remarketing Agent*. The remarketing agent is a broker-dealer or municipal securities

dealer appointed and paid by you to set the periodic interest rate on the VROs and to use its best efforts to sell VROs that have been tendered (optionally or mandatorily) for purchase. Often, the underwriter or senior managing underwriter of the VROs is the remarketing agent. The remarketing agent’s annual fee is based on the outstanding principal amount of the VRO issue and the interest mode then in effect. [STATE THE REMARKETING FEE IF IT HAS BEEN DETERMINED: The remarketing fee for the VROs during the initial [\_\_\_\_\_\_] mode will be [\_\_] basis points per year.]

In some cases, the remarketing agent, in its sole discretion, may acquire tendered VROs for

its own inventory to achieve a successful remarketing (i.e., because there otherwise are

not enough buyers to purchase the VROs or for other reasons), thereby avoiding a failed remarketing event and subsequent increase in the VRO rate to a step-up rate. The remarketing agent, however, is not obligated to purchase VROs and may cease doing so at any time without

notice. Although not required to do so, the remarketing agent also may make a market in the

VROs by purchasing and selling VROs outside of the formal tender process. Any such

purchases and sales may be at prices other than par. The remarketing agent also may sell

VROs that it owns to one or more affiliated investment vehicles or enter into derivative

arrangements with affiliates or others to reduce its exposure to the VROs. The purchase of VROs by the remarketing agent may create the appearance that there is greater

demand for the VROs in the market than is the case.

Under certain circumstances, you may remove the remarketing agent or the remarketing agent may resign or cease its remarketing efforts. The authorizing documents for the VROs will set forth any required notice and will require appointment of a successor remarketing agent.

**Financial Risk Considerations**

Certain risks may arise in connection with your issuance of VROs, including some or all the

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

bonds):

*Interest Rate Risk*. Interest rate risk is the possibility that the interest rate that you pay on the VROs may increase, which can be triggered by various factors, such as a general increase in short-term interest rates, a decrease in marginal income tax rates, credit concerns relating to you or your market sector or industry or a reduction in the market’s perceived liquidity of the product. On a tender by a holder or VROs, the remarketing agent may have to raise the rate on the VROs to successfully remarket all VROs. If any of these events occur, the debt service costs associated with the VROs will increase, which may negatively affect your coverage ratios and reduce the amount of your available cash. In the event of a failed remarketing, the interest rate will increase, likely substantially, to a defined step-up rate until the VROs can be successfully remarketed or the VROs are optionally redeemed or otherwise paid in full. The period interest rate on the VROs may be capped at a maximum rate, which generally will range between 9% per annum and 15% per annum. In addition, VROs introduces a degree of remarketing and performance risk because it is a new product. See “Financial Characteristics *– Maturity and Interest*” above.

*Liquidity Risk*. You may face liquidity risk since VROs may be subject to optional and mandatory tender for purchase by their owners. If the remarketing agent is unable to successfully remarket the tendered VROs to pay the tendering owners, the tender agent or trustee will demand

funds from you at the end of a failed remarketing term-out period. Thereafter, unless and until the VROs are successfully remarketed, you will pay interest at a step-up rate, which could be substantially higher, to investors than the rate otherwise borne by VROs. In addition, you may be required to pay the principal of the unremarketed VROs by the mandatory tender date, which is likely to be earlier than the stated maturity date of the VROs. Failure to remarket any portion of the VROs will cause a failed remarketing event, and if the failed remarketed event is uncured, you may be obligated to repay the entire principal amount of the VROs on the mandatory tender date, and you may have to refinance the VROs by securing alternative funding, liquidity, or potentially changing modes on the VROs. There can be no assurance that you will be able to access the market in a timely fashion. The failure to pay amounts due on such mandatory tender date will result in a default.

*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 VROs, the trustee and any credit and/or liquidity 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, including ratings on the VROs. If the ratings on the

VROs are decreased, holders of VROs that are subject to optional tender may elect to put

their VROs, the remarketing agent may have difficulty remarketing the VROs and the

VROs likely will bear a higher interest rate after any applicable interest reset. Further, a

default may effectively limit your ability to publicly offer bonds or other securities at market

interest rate levels. If you are unable to provide sufficient funds to remedy the default, subject to

applicable state law and the terms of the authorizing documents, it may be necessary for you 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.

*Reinvestment Risk*. You may have proceeds of the bonds 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 the tax-exempt bonds. A breach of your representations or your failure to comply with certain tax-related covenants may cause the interest on the bonds (if issued as tax-exempt obligations) 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 the VROs are declared taxable, or if you are subject to audit, holders of VROs that are subject to optional tender may elect to put their VROs, the remarketing agent may have difficulty remarketing the VROs and the VROs likely will bear a higher interest rate after any applicable interest reset. 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.

*Basis Risk*. To the extent a multi-modal VRO has an existing and related interest rate swap, there can be a degree of basis risk between the floating rate received under the swap and the variable rate paid on the VRO. You should contact your tax, accounting, and legal professionals to address any potential adverse effects of a conversion between modes in a multi-modal VRO.

*Money Market Reforms; Potential Risks from Changes to the Investor Base for VROs.* Since 2010, the U.S. Securities and Exchange Commission has been adopting reforms designed to reduce investor runs on money market funds in times of financial crisis. Reforms adopted in July 2014 caused money market fund managers to make significant changes to their fund structures and families related to the money market reforms. The reforms have had a significant impact on all money market funds, but particularly institutional prime money market funds, including the portion thereof that invest in municipal securities, such as VROs. Changes for such funds included the implementation of a floating net asset value, the implementation of liquidity fees and redemption gates, changes in the use of amortized cost accounting and increased disclosure requirements. Certain money market fund rule changes do not apply or are optional for retail and government money market funds. Though most money market fund families have generally made their changes in connection with incorporating the money market reforms (including some managers moving certain investors into funds not subject to such reforms), changes related to money market funds that invest in VROs are still possible. Any further money market reform related changes which reduce the amount of money market fund assets available to purchase VROs could result in (i) reduced market demand for VROs, (ii) increased rates for VROs as investors value the structure relative to other product alternatives or in connection with remarketing tendered VROs in order to try to access different investors, (iii) increased optional tenders of VROs due to investor changes, and/or (iv) liquidity draws in connection with increased tenders of VROs. Additionally, to the extent that further changes occur by the money market fund managers which reduce money market fund assets available to purchase VROs, remarketing agents of VROs could have a more difficult time remarketing and/or rolling such securities if the universe of potential investors is materially reduced or changed. You should discuss these changes and potential changes and effects with your advisors as you consider whether to issue VROs.