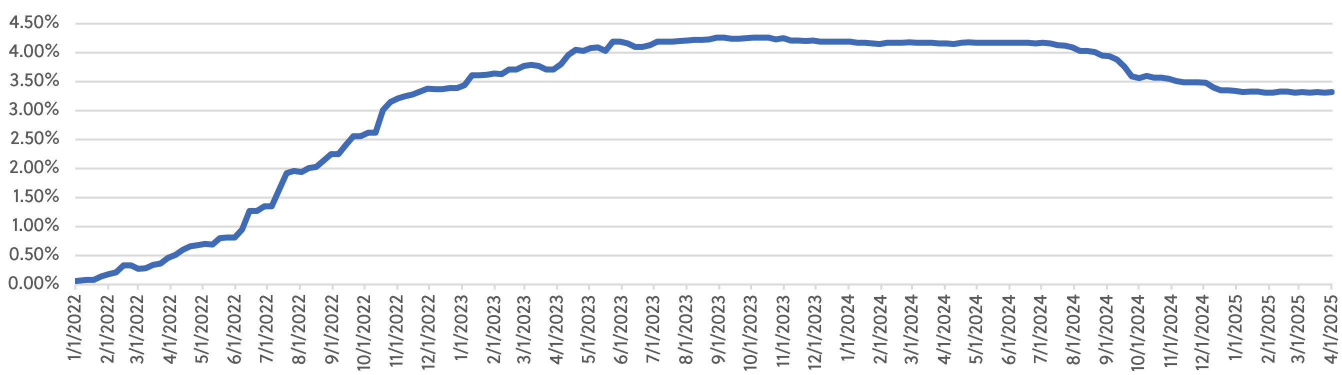
Update on the Unique Potential of Demand Deposit SLGS

Overview

Demand Deposit State and Local Government Series (SLGS) securities may provide a compelling investment opportunity for certain issuers of tax-exempt bonds. Key features of Demand Deposit SLGS include:

- A form of U.S. Treasury security backed by the federal government.
- Earnings exempt from both yield restriction and arbitrage rebate.
- Creates opportunity to potentially earn and keep positive arbitrage.
- Required redemption notice is between 1 to 5 business days, providing a liquid investment.
- Partial or full drawdowns can be made even during a SLGS suspension.
- Yields are based on Treasury Bill auctions and adjusted down to reflect tax-exempt status.
- Available for investment of proceeds of tax-exempt bond issues.

Demand Deposit SLGS Since 2022[1]



[1] Source: SLGS Daily Rate Table, TreasuryDirect, as of April 3, 2025.

Market Dynamics

Over the past several months, the yield of Demand Deposit SLGS has dropped, but it is still 3.32% as of April 3, 2025, which is higher than many tax-exempt bond arbitrage yields related to issuances from the past decade. As a result, issuers may have an opportunity to earn positive arbitrage that can be kept. Consultation with your legal and tax advisors is strongly recommended.

Demand Deposit SLGS could be appropriate for many types of accounts including:

- Project funds
- Cash defeasance escrows
- Capitalized interest funds
- Reserve funds

Careful consideration should be given to whether any funds may otherwise be subject to exceptions to the arbitrage rebate rules such as spending exceptions for project funds. Issuers should also keep in mind that the Federal Reserve may continue cutting interest rates such that immediate attention to this opportunity is warranted.

Hypothetical Analysis

Below is an analysis of a hypothetical example in which an issuer is contemplating investment strategies of bond proceeds that are restricted to an arbitrage yield below the current yield of Demand Deposit SLGS. The base case scenario assumes the issuer invests in a money market fund for one year. Since this fund is yielding higher than the arbitrage yield, the issuer will have to make rebate payments. Scenario 2 demonstrates the benefit of investing the funds in Demand Deposit SLGS and retaining all of the interest earnings. The assumptions and calculations below are for illustrative purposes only and subject to change.

Scenario 1 – Base Case

Bond Proceeds:	$40,000,000
Yield Limit*:	2.25%
Current Money Market Fund Yield*:	4.25%
Total Earnings**:	$40,000,000 * 4.25% = $1,733,509
Maximum Allowable Earnings**:	$40,000,000 * 2.25% = $905,063
Less Rebate Payment:	-$828,446
Estimated Net Earnings Retained**:	$905,063

Scenario 2 – Demand Deposit SLGS vs Base Case

Bond Proceeds:	$40,000,000
Yield Limit*:	2.25%
Current Demand Deposit SLGS Yield*:	3.32%
Total Earnings**:	$40,000,000 * 3.32% = $1,348,395
Less Rebate Payment:	N/A
Estimated Net Earnings Retained**:	$1,348,395
Net Benefit of DD SLGS vs MMF:	$1,348,395 - $905,063 = $443,333

* *Market yield estimates as of April 3, 2025, which are preliminary and subject to change.*
** *Estimated earnings are computed based on day basis and compounding factors for each respective investment.*

Our Services

PFM Financial Advisors LLC (PFM) stands ready to assist our clients by carefully evaluating bond proceeds investments alternatives while considering both arbitrage rebate and yield restriction rules. If beneficial, we can help facilitate an investment in Demand Deposit SLGS and also provide monitoring services over time. Please contact your local PFM representative to discuss how we can best assist you.[2]

[2] *PFM does not provide tax advice. You should seek the advice of tax and bond counsels regarding this opportunity.*