

City of Gallup, NM

Environmental Surcharge Loan Financing Overview and Market Update

May 10, 2022

STRICTLY PRIVATE AND CONFIDENTIAL



Capital
Markets

Environmental Surcharge Loan Estimated Retirement Schedule

Sources:		Date	Total Debt Service			2021 Env. Surcharge Rev. Coverage		
	Principal		Coupon	Interest				
Bond Proceeds:		06/01/2023	\$205,000	2.61%	\$195,123	\$400,123	\$1,645,437	4.11x
Par Amount	\$5,485,000	06/01/2024	200,000	2.88%	198,848	398,848	1,645,437	4.13x
	\$5,485,000	06/01/2025	210,000	2.99%	193,088	403,088	1,645,437	4.08x
Uses:		06/01/2026	215,000	3.03%	186,809	401,809	1,645,437	4.10x
Fund Deposits		06/01/2027	220,000	3.12%	180,295	400,295	1,645,437	4.11x
Project Fund	\$5,000,000	06/01/2028	230,000	3.18%	173,431	403,431	1,645,437	4.08x
Debt Service Reserve Fund	403,431	06/01/2029	235,000	3.26%	166,117	401,117	1,645,437	4.10x
Cost of Issuance	80,000	06/01/2030	240,000	3.32%	158,456	398,456	1,645,437	4.13x
Deposit to Debt Service Fund	1,569	06/01/2031	250,000	3.38%	150,488	400,488	1,645,437	4.11x
	\$5,485,000	06/01/2032	260,000	3.44%	142,038	402,038	1,645,437	4.09x
		06/01/2033	270,000	3.63%	133,094	403,094	1,645,437	4.08x
		06/01/2034	280,000	3.79%	123,284	403,284	1,645,437	4.08x
		06/01/2035	290,000	3.92%	112,684	402,684	1,645,437	4.09x
		06/01/2036	300,000	4.02%	101,324	401,324	1,645,437	4.10x
		06/01/2037	310,000	4.11%	89,258	399,258	1,645,437	4.12x
		06/01/2038	325,000	4.19%	76,508	401,508	1,645,437	4.10x
		06/01/2039	340,000	4.27%	62,878	402,878	1,645,437	4.08x
		06/01/2040	350,000	4.32%	48,373	398,373	1,645,437	4.13x
		06/01/2041	370,000	4.38%	33,239	403,239	1,645,437	4.08x
		06/01/2042	385,000	4.43%	17,052	402,052	1,645,437	4.09x
			\$5,485,000		\$2,542,385	\$8,027,385		

Time Schedule

May 10th – Council meeting to consider Bond Ordinance

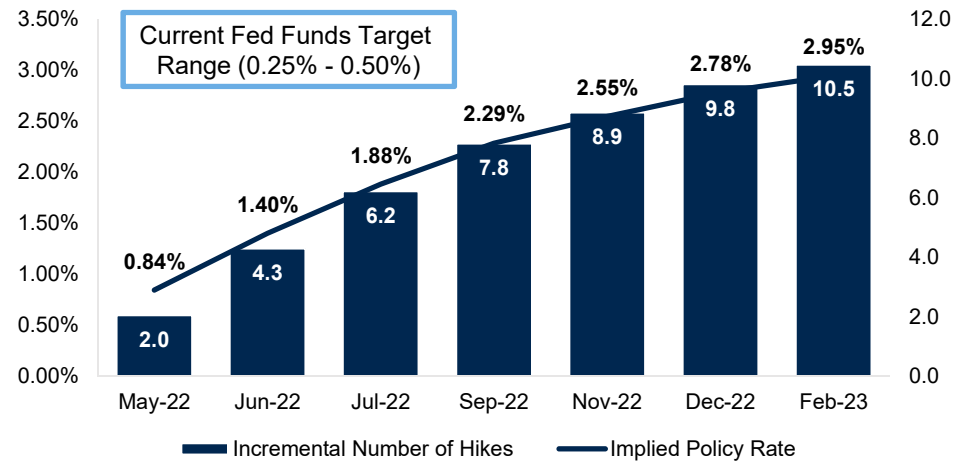
May 26th – NMFA Board meeting to approve Loan Application

June 2nd – Pricing (rates locked)

June 17th – Closing (funds available to begin expenditures on project)

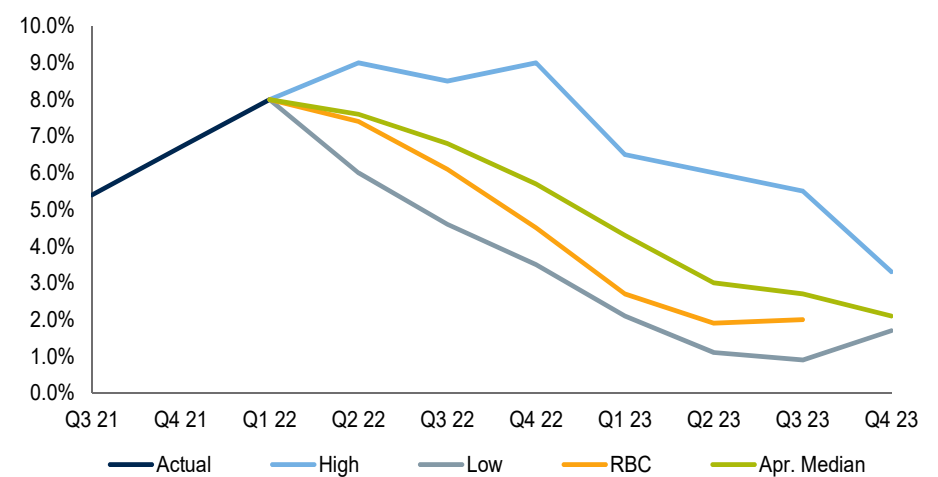
Economic Overview Reflects Increased Volatility – Invasion of Ukraine and Monetary Policy Focus

Futures Market – Fed Funds Rate Hike Probability



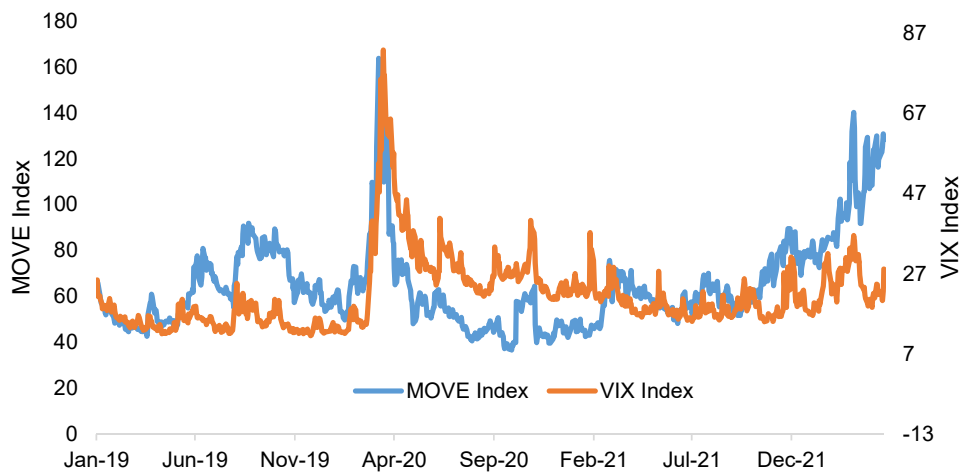
Source: Bloomberg, as of market close April 22, 2022

Inflation (Headline CPI – YOY%)



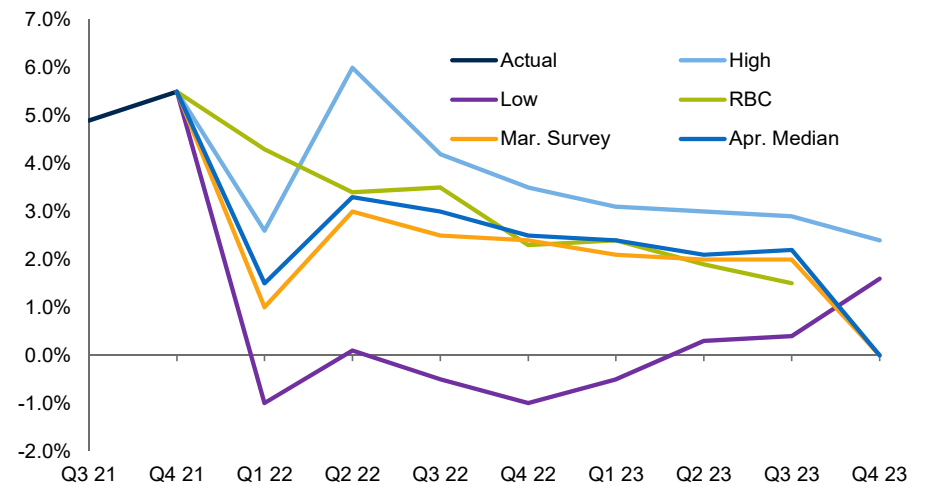
Source: Bloomberg, latest data for week ending April 22, 2022

Treasury and Equity Volatility has Increased Over the Last Several Months



Source: RBC Economics

GDP (YOY%)



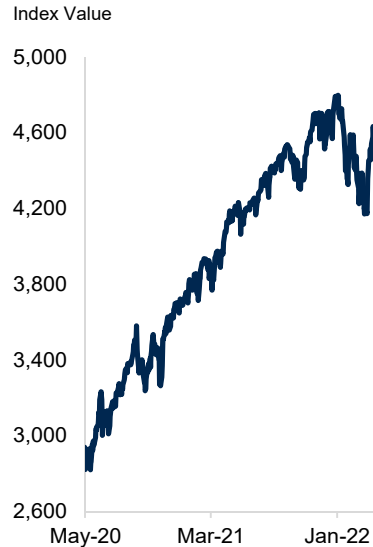
Source: Bloomberg, latest data for week ending April 22, 2022

Recent Performance of Major Asset Classes

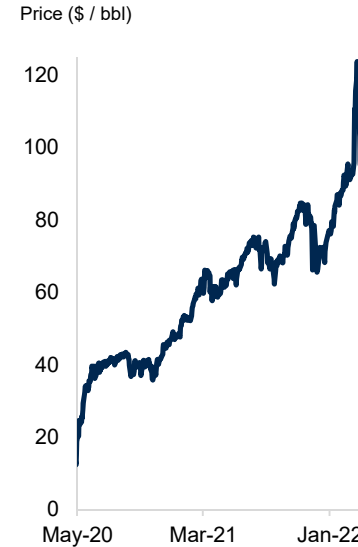
Commentary

- US shares posted steep declines last week, with the DJIA, S&P, and Nasdaq falling 1.9%, 2.8%, and 3.8%, respectively
- COVID lockdowns in China and commodity supply disruptions from the Ukraine war are exacerbating inflationary pressures
- Fed Chair Powell signaled a 50bp rate hike is likely next week
 - Mester said she supports 50bp “in May, and a few more”
 - Powell reiterated that the Fed could hike rates above neutral “if necessary,” fanning fears that economic growth could falter
 - Bullard suggested a 75bp hike may be warranted in the future, but other Fed officials downplayed that approach
- Fed funds futures are pricing in 238bp of hikes for the rest of 2022, suggesting more than three hikes each of 50bp and 25bp
- GDP data are expected to show annualized growth of 1.1% for the first quarter, down from 6.9% in the fourth quarter of 2021
- Other highlights include durable goods, home sales, Richmond/Dallas/KC Fed, jobless claims, and personal income/spending
- US IG/corporate issuance topped \$55bn last week, driven by banks
 - This week’s supply is expected to total \$25bn

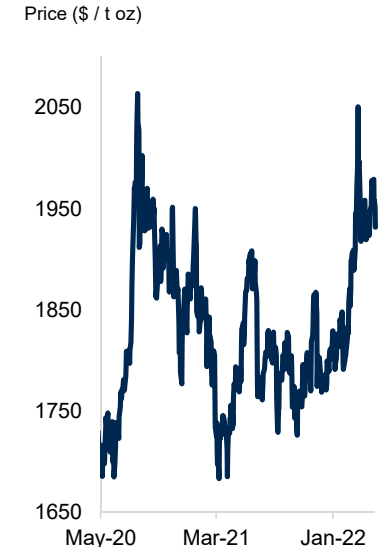
S&P 500 Index



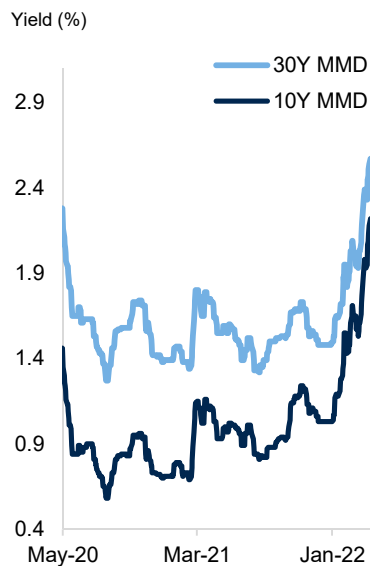
Oil (WTI)



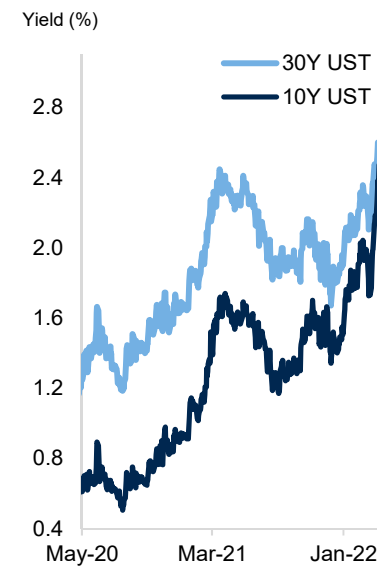
Gold



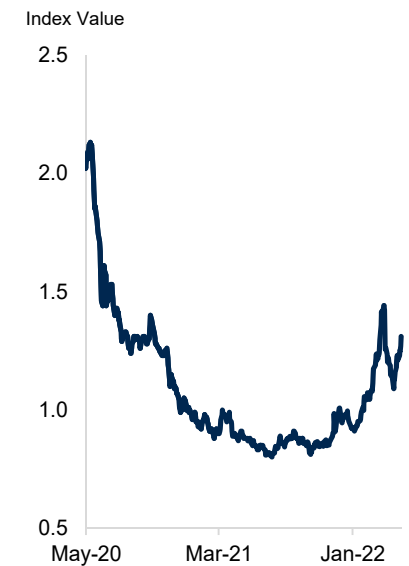
MMD Yields



U.S. Treasury Yields



IG Corporate Bond Spreads



Source: Bloomberg, RBC Capital Markets as of April 22, 2022. For more sources, see disclaimer slide.

Overview of Key US Market Themes

Municipal Markets Commentary

- Hawkish comments by numerous Federal Reserve officials, including Fed Chair Powell, pushed rates in the fixed income markets noticeably higher last week
- The short end of the yield curve was particularly hard hit with the Treasury curve flattening materially as a result
 - The spread between 2yr and 10yr Treasury yields fell to 23 basis points on Friday from 37 basis points a week earlier
 - By the close of the week, US Treasuries were 14 basis points higher in the five year range, seven basis points higher in the ten year range, and three basis points higher in the thirty year range
- While municipals generally followed the lead of Treasuries last week, they underperformed despite a light new issue calendar
 - Continued large mutual fund outflows have been pressuring municipals for weeks and have pushed 30yr municipal/Treasury yield ratios past 100%
 - The Municipal Market Data AAA yield closed 19 basis points higher week/week in the five year range and 22 basis points higher in the ten and thirty year ranges
- Municipal supply totaled \$5.3bn last week and is expected to top \$12bn this week, marking the heaviest calendar of 2022
- New issues have been pressured by volatility in the Treasury market, sizable fund outflows, and secondary selling pressure
 - Transactions continue to price with concessions in order to appeal to an investor base with limited cash
- Secondary market bid-wanted volumes topped \$8.4bn last week, averaging \$1.7bn on a daily basis
- Municipal bond funds reported net outflows of \$3.548bn last week, marking the 10th straight week of outflows
 - Outflows have been reported in 13 of the last 14 weeks, with cumulative outflows totaling \$26bn during that period

Short-Term Market Commentary

- Rates in the short-term municipal market were mixed last week
- Daily rates increased moderately while weekly rates were flat
 - The general market high grade daily average rose ten basis points to close the week at 0.38%, compared to the 0.28% closing rate set on April 14, 2022
 - Weekly rates held steady last week
 - The SIFMA index reset at a rate of 0.46% on April 20, 2022, equal to the rate set on April 13, 2022
- Tax-exempt money market funds posted their first week of outflows in six weeks last week
 - These funds reported \$1.276 billion in net outflows in the week ended April 20, 2022 compared to the \$1.715 billion in net inflows reported in the week ended April 13, 2022 according to the Lipper US Fund Flows service

SIFMA

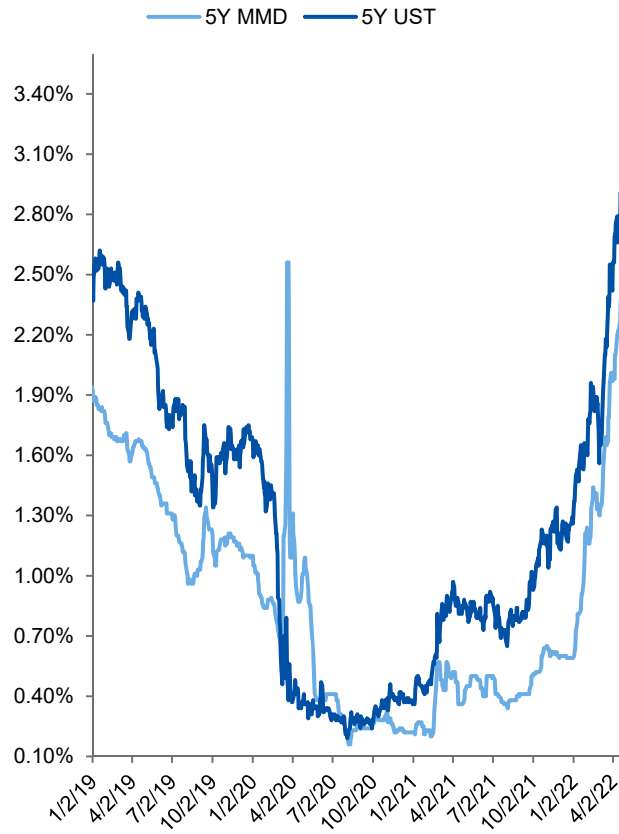


Source: RBC Capital Markets, Thomson Reuters and Bloomberg. For more sources, see disclaimer slide.

Interest Rate Movements

Relative Performance of Municipal Yields Versus Treasury Yields

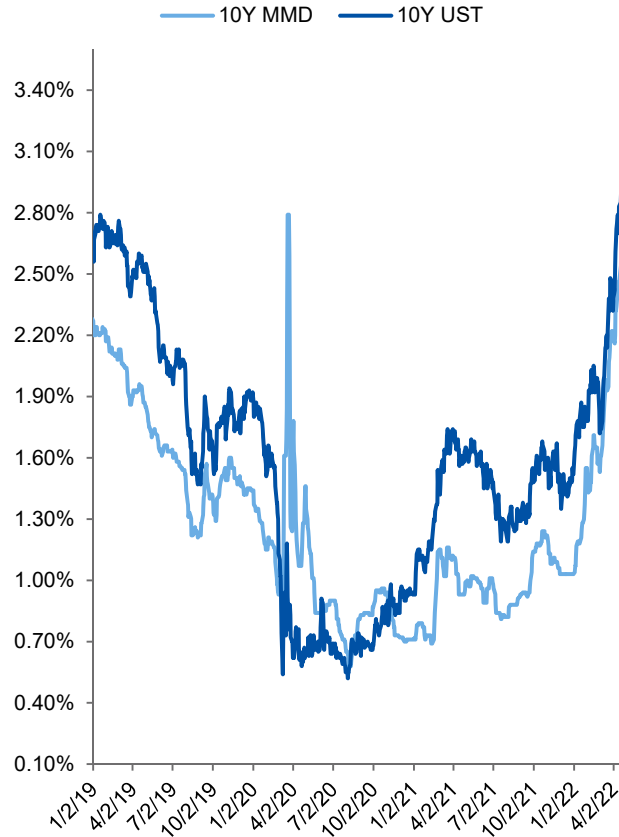
5 Year MMD⁽¹⁾ and 5 Year UST



Change in 5 Year MMD and UST

	Current Values	2.41 Δ MMD (bps)	Current Values	2.94 Δ UST (bps)
3 Months	0.91	150	1.54	140
6 Months	0.6	181	1.22	172
1 Year	0.36	205	0.81	213
2 Years	0.94	147	0.37	257

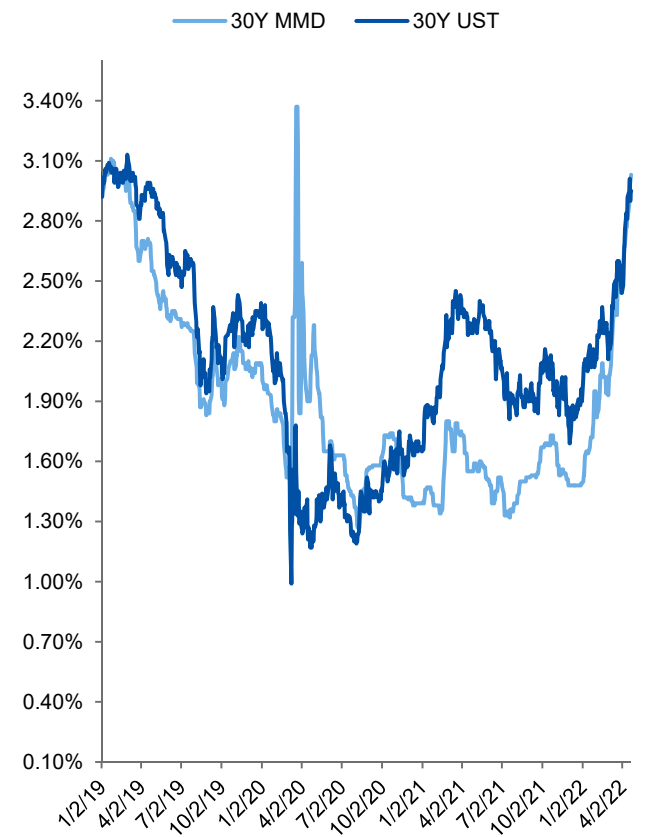
10 Year MMD and 10 Year UST



Change in 10 Year MMD and UST

	Current Values	2.68 Δ MMD (bps)	Current Values	2.9 Δ UST (bps)
3 Months	1.28	140	1.75	115
6 Months	1.24	144	1.66	124
1 Year	0.93	175	1.57	133
2 Years	1.18	150	0.63	227

30 Year MMD and 30 Year UST



Change in 30 Year MMD and UST

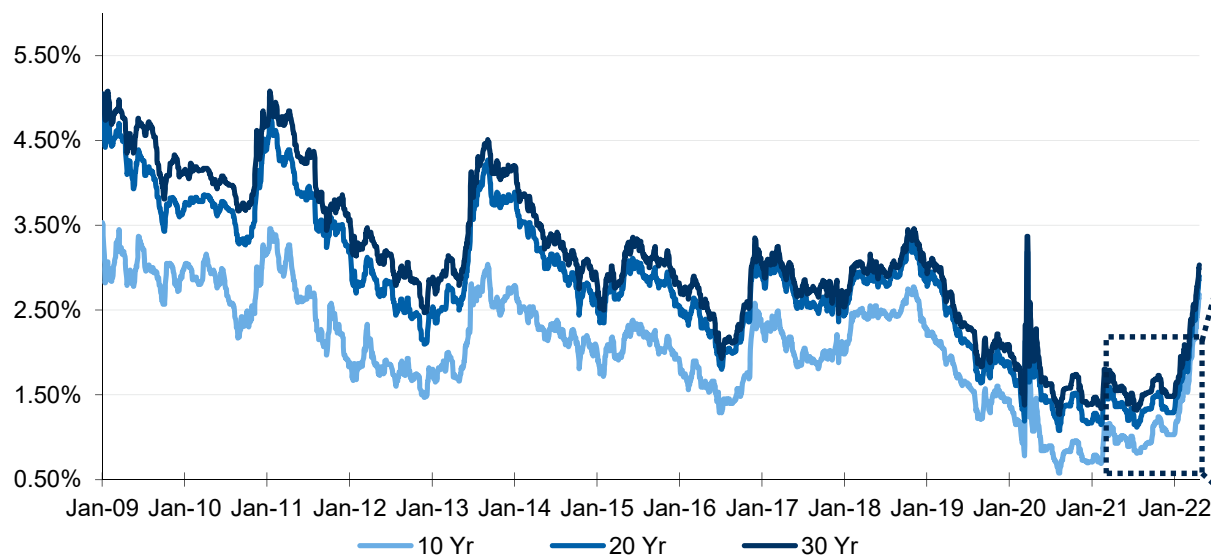
	Current Values	3.03 Δ MMD (bps)	Current Values	2.95 Δ UST (bps)
3 Months	1.72	131	2.07	88
6 Months	1.73	130	2.08	87
1 Year	1.55	148	2.24	71
2 Years	2.03	100	1.22	173

(1) MMD stands for Municipal Market Data; which is the daily index off of which all municipal bonds are priced.
Source: Thomson Reuters

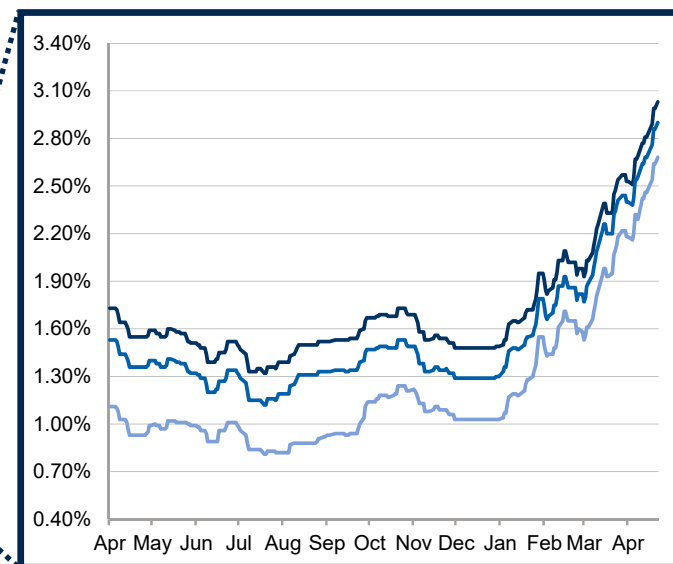
Current Municipal Market Conditions: “AAA” MMD

After closing at 2.81% the previous week, 30-year “AAA” MMD increased 22 bps on the week

“AAA” MMD January 1, 2009 to Present



Shift in “AAA” MMD Since April 2021



January 1, 2009 to Present

	10 Year	20 Year	30 Year
Maximum	3.53%	4.89%	5.08%
Minimum	0.58%	1.08%	1.27%
Current	2.68%	2.90%	3.03%

Shift in 30-year “AAA” MMD

	2014	2015	2016	2017	2018	2019	2020
	-1.34%	-0.01%	0.27%	-0.51%	0.47%	-0.93%	-0.68%

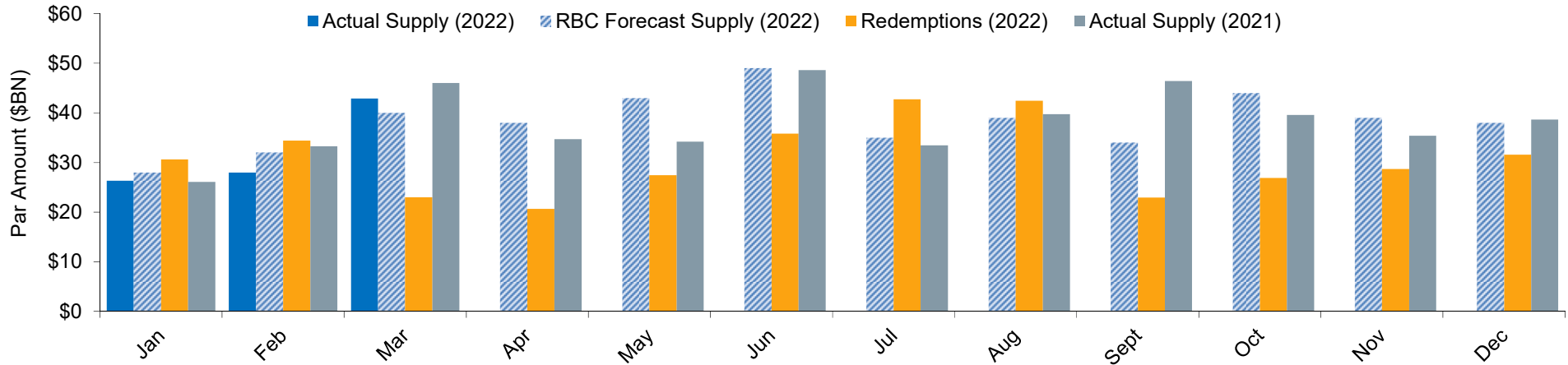
April 1, 2021 to Present

	10 Year	20 Year	30 Year
Maximum	2.68%	2.90%	3.03%
Minimum	0.81%	1.12%	1.32%
Average	1.22%	1.53%	1.71%

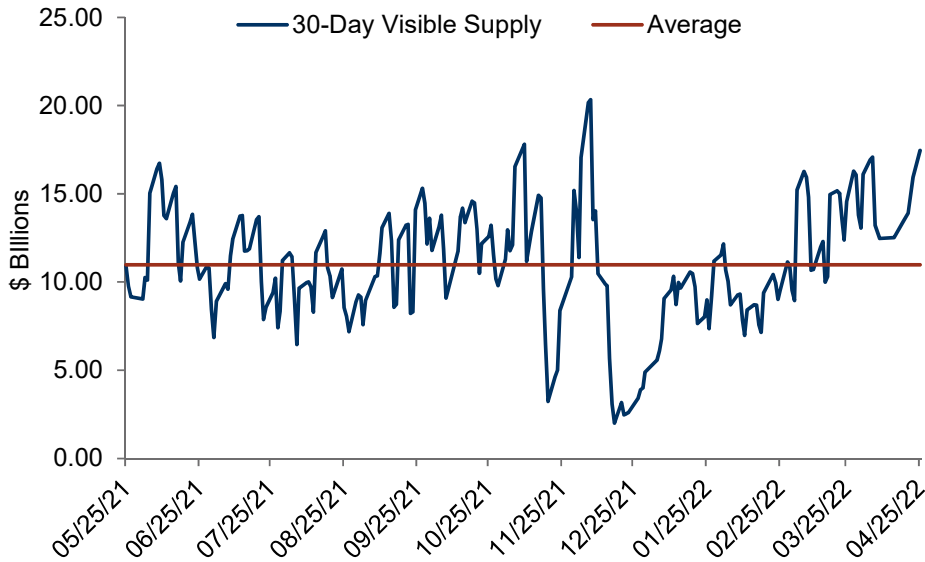
Source: TM3, Thomson Reuters
10, 20, and 30 year “AAA” MMD shown to represent different average lives of municipal transactions
Rates as of April 22, 2022

Overview of Municipal Supply

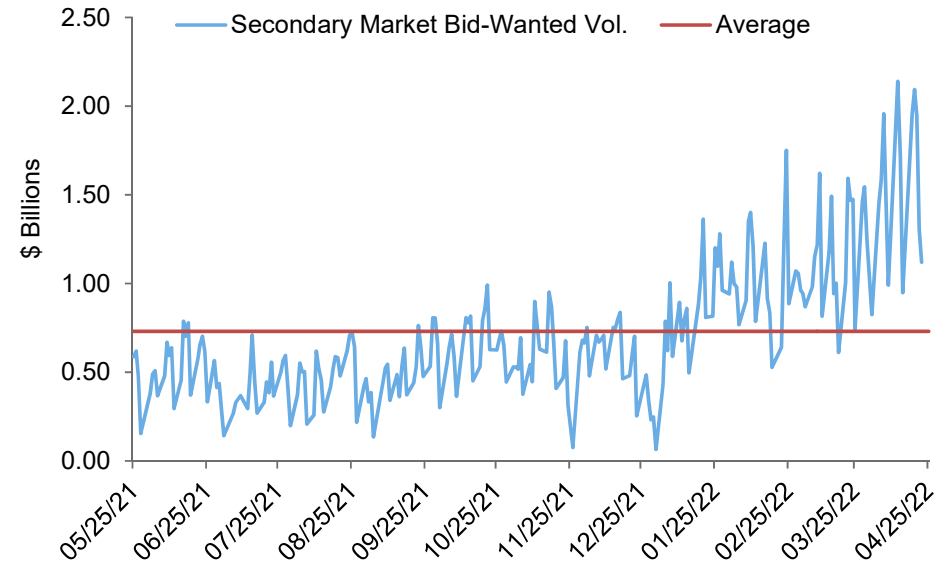
Monthly Projected Supply and Redemptions



30-Day Visible Supply



Secondary Market Bid-Wanted Volume



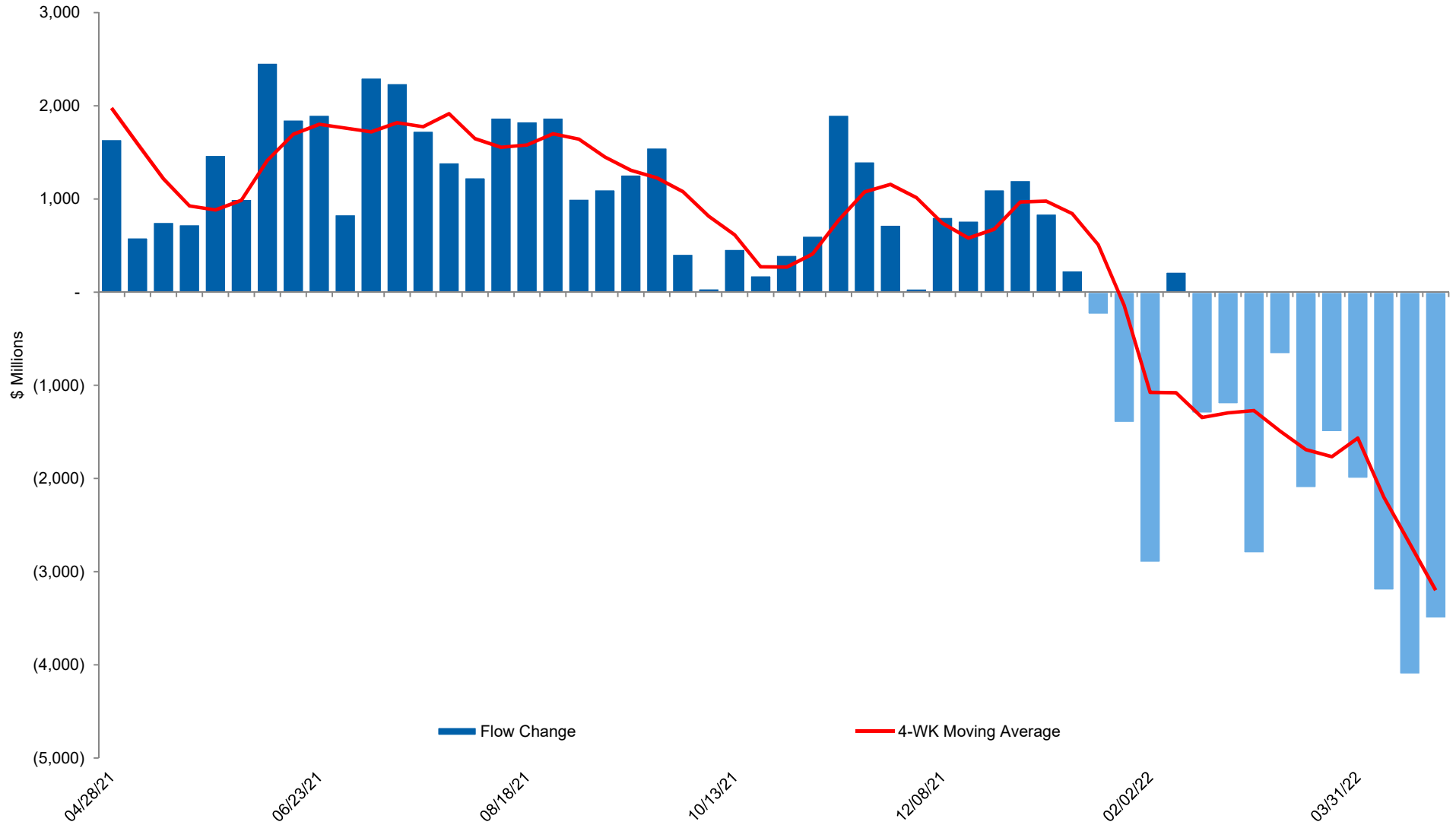
Summary Statistics (Billions)							
Max	\$20.33	Min	\$2.01	Avg.	\$10.98	Curr.	\$17.45

Summary Statistics (Billions)							
Max	\$2.14	Min	\$0.06	Avg.	\$0.73	Curr.	\$1.12

Source: Bloomberg

Municipal Bond Fund Flows

- For the week ended April 20, 2022, Lipper reported weekly municipal bond fund outflows of \$3.5 billion compared to the previous week's \$4.1 billion of outflows.



Source: Lipper

Disclaimer

Sources include: https://www.rbccm.com/assets/rbccm/docs/uploads/2017/RBCCM_Muni_Markets_Weekly_Newsletter.pdf, <http://www.rbc.com/economics/>, RBC Capital Markets.

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