The State of Tax-Exempt Financing

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At its September meeting, the Federal Reserve elected not to increase the federal funds rate despite an improving economic picture for the country as a whole. The near-zero federal funds rate, and volatility in stock prices as a result of economic uncertainty in China have combined to keep interest rates on tax-exempt bond issuances low both on the public markets and in private placements with institutional investors.

Despite the September rate decision, it is still expected that the Federal Reserve will begin the process of raising interest rates at some point this year. In addition, the threat of a government shutdown if Congress is unable to reach a deal on a continuing resolution and the potential economic impacts leaves the future interest rate environment unpredictable. As a result, many educational institutions are taking steps to refinance existing debt or borrowing to finance planned capital projects now before interest rates begin to rise.

Client Tip: *If your institution is planning future capital projects or has existing debt that was financed at a high interest rate, it may be advantageous to consult with your advisors regarding whether or not to undertake a tax-exempt financing before interest rates begin to rise.*