CDIAC PRE-CONFERENCE WORKSHOP

ARRA AND THE CALIFORNIA STATE TREASURER'S OFFICE

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The enactment of the American Recovery and Reinvestment Act ("ARRA") offers municipal issuers numerous funding programs and incentives to stimulate new issuance

- **Taxable Build America Bonds**
  - Issuers can elect to receive a 35% interest cost subsidy from the federal government in exchange for issuing taxable, rather than tax-exempt debt
- **Taxable Recovery Zone Bonds**
  - Recovery Zone Economic Development Bonds
  - Recovery Zone Facility Bonds
- **Tax Credit Bonds**
  - Qualified School Construction Bonds
  - Qualified Zone Academy Bonds
  - New Clean Renewable Energy Bonds
  - Qualified Energy Conservation Bonds
- **Changes to Small Issue Industrial Development Bond Rules**
- **Alternative Minimum Tax ("AMT") restrictions lifted**

ARRA opened a window of opportunity for the State of California

- In February 2009 when the ARRA was passed,
  - The State had an announced $42 billion budget gap for the Fiscal Year 2008-09 and 2009-10 budgets
  - The State had not issued General Obligation Bonds since June 2008
  - The State had stopped providing interim financing through the Pooled Money Investment Account, halting funding for thousands of projects
- ***Through ARRA, the State was able to quickly access new markets to meet critical funding needs…***

California was one of the first states to take advantage of ARRA through the issuance of Build America Bonds ("BABs")

- On April 15, 2009, the State priced $6.855 billion of Various Purpose Taxable General Obligation Bonds
  - Total issuance goal of $4 billion (true taxable and BABs)
  - Upsized transaction to achieve State funding objectives and meet investor demand
  - $5.228 billion issued as BABs
- The April 2009 Taxable GO bonds sale offered the State
  - Ability to expand and diversify from traditional investor base and access to much larger and more liquid taxable market
  - Cost advantage
  - Access tax-exempt and taxable markets to meet capital borrowing needs
- The BABs provided financing for GO bond programs until Spring 2010 and necessary funding for core infrastructure projects, including:
  - K-12 and higher education facilities
  - State and local transportation projects
  - Flood control, clean water and safe drinking water projects
  - Parks, resources and environmental projects
  - Children's hospitals and stem cell research facilities

BABs afforded the State's GO program primary and secondary taxable market pricing performance

- At pricing, the transaction provided the State with an attractive cost of funds
  - Saved approximately 82 basis points relative to the traditional tax-exempt equivalent
    - Resulting in total interest cost savings of approximately $1.15 billion over the life of the bonds
  - Relative savings versus March 2009 tax-exempt GOs were approximately 120 basis points
    - Resulting in savings of $1.68 billion over the life of the bonds

- Since pricing, spreads in the secondary market have compressed versus levels at pricing and highs experienced earlier this summer

2009 California 30-Years GO Spread above UST

Current Spread	Average Daily Low Spread	Average Daily Spread	Average Daily High Spread
279	295	317	339

In August 2009, the University of California issued $1.02 billion of BABs

The Regents of the University of California

General Revenue Bonds

$300,620,000 Series 2009 Q (Tax-Exempt)

$1,022,275,000 Series 2009 R (BABs)

Ratings: Aa1/AA (Moody's/S&P)

All-in subsidized rate of 3.97% with a final maturity of May 15, 2043

Finance new money capital projects currently underway

Priced: August 19, 2009

Closed: August 27, 2009

Series Q Tax-Exempt Bonds

- Tax-exempt bonds were structured with serial maturities starting in 2012 and term bonds at 2034 and 2040
- Final maturity of May 15, 2040
- Over $200 million in orders from California and national retail investors

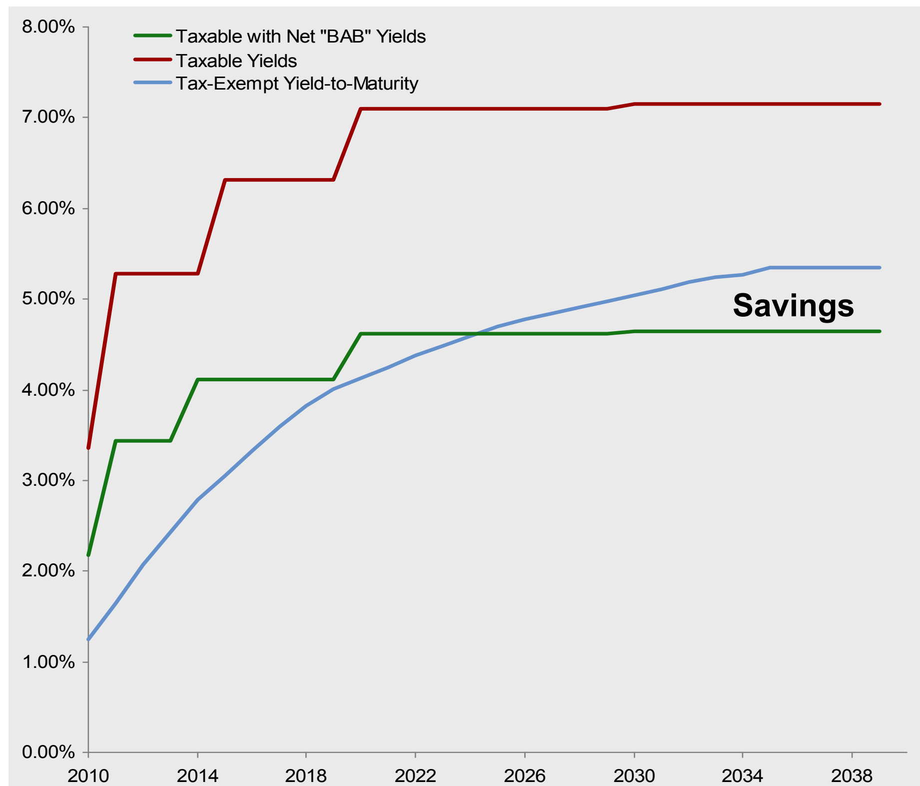
Series R Taxable BABs

- UC saved approximately 100 bps on subsidized basis compared to an equivalent tax-exempt transaction
  - About $300 million in debt service
- Term Bonds at 2031 (10-year par call) and 2043
- Over 70 investors participated in Series R

The State plans to enter the taxable market in the Fall 2009

- The State has more than $53 billion of authorized, but unissued debt under its GO bond authorization
  - Build America Bonds program enables the State to achieve important objectives of the GO bond issuance program
- The State's Fall 2009 anticipated GO bond issuance contemplates:
  - Traditional tax-exempt debt
  - True taxable debt
  - Taxable BABs
- The State is also exploring opportunities in the BABs market for other debt programs
  - State Public Works Board Lease Revenue Bonds
  - Future issuances may include smaller muni style structure targeting retail investors
  - UC is considering BABs for its upcoming pooled medical center revenue bonds

Indicative CA GO Tax-Exempt / BAB Yields Comparisons



Rates as of 09/10/2009, * Spread to Call, Assumes CA G.O.

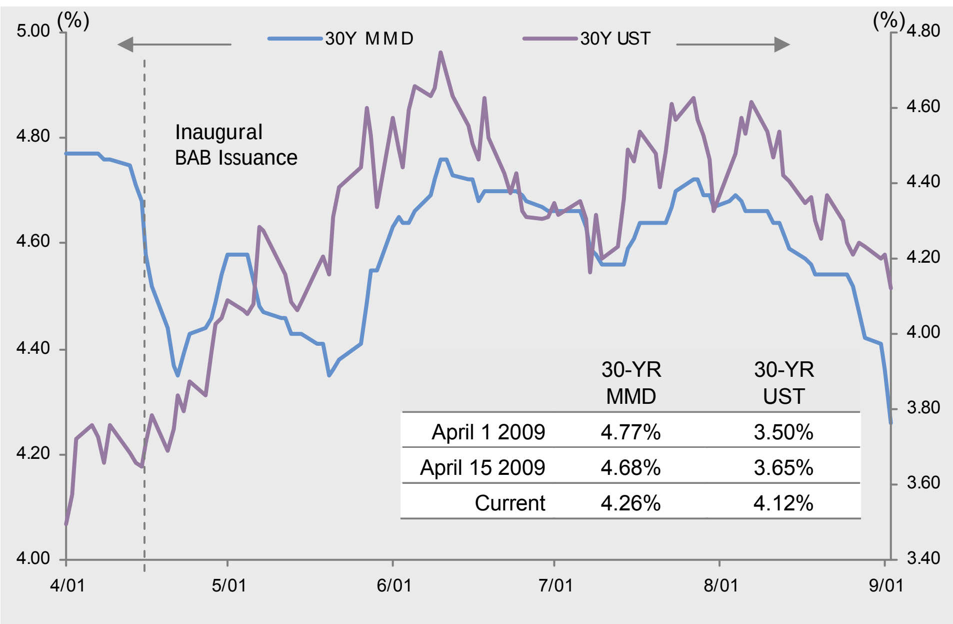
BABs have had a constructive effect on the broader tax-exempt market

- With just under $30 billion BABs issued thus far, the program has provided significant savings for issuers relative to traditional tax-exempt bonds
- Issuers across a broad range of sectors and ratings categories continue to have access to the market
- Tax-exempt rates and credit spreads have significantly decreased
- Since the inaugural BABs issuance, the spread between 30Y UST and MMD has tightened by 111 bps

BAB Issuance by Sector

Rank	Sector Category	Volume ($mm)	Market (%)
1	General Purpose/ Public Imp.	9,009.06	30.97
2	Transportation	8,703.31	29.92
3	Education	5,996.01	20.61
4	Water, Sewer, & Gas Facs	2,608.92	8.97
5	Electric & Public Power	1,479.03	5.08
6	Combined Utilities	59.9	0.21
7	Solid Waste/ Resource Rec.	54.88	0.19
8	Industrial Development	31.44	0.11
9	Economic Development	0.63	0
Year to Date Total		**29,087.9**	**100.0%**

Long-term Treasury and Tax-Exempt Rates



	30-YR MMD	30-YR UST
April 1 2009	4.77%	3.50%
April 15 2009	4.68%	3.65%
Current	4.26%	4.12%

Issuance by Rating

Ratings	Volume ($mm)	Percent of Total
AAA	2,693.55	9.26%
AA+	2,363.27	8.12%
AA	4,484.74	15.42%
AA-	6,813.29	23.42%
A+	3,037.86	10.44%
A	6,310.54	21.69%
A-	2,735.38	9.40%
BBB+	567.85	1.95%
BBB and Below	48.6	0. 17%
Not Rated	32.8	0.11%
Total	**29,087.9**	**100.00%**

Additional ARRA Opportunities: Qualified School Construction Bonds (“QSCBs”)

- Under the QSCB program, an investor receives Federal Tax Credits in lieu of a cash interest payment
  - The cash repayment of principal is still an obligation of the issuing entity
- Of the $11 billion of authorized issuance, less than $300 million QSCB have been issued to date
- *The State of California has been allocated $773.5 million in 2009 net of allocations to large local educational agencies*
- The California School Finance Authority (“CSFA”) within the State Treasurer’s Office has been allocated $73 million of the $773 million for charter schools
  - Applications are due September 14th
  - CSFA will be the conduit issuer of the bonds
- The State will consider issuing GO QSCBs for Prop 1D K-12 projects only if local districts do not use allocation

Top 5 State Allocations (Excluding Large Local)

State	Total Allocation
California $773,	525,000
Texas $538,	585,000
Pennsylvania $315,	737,000
Michigan $296,	860,000
Ohio $267,	112,000

CA Large Local Educational Agencies Allocations

Large Local Educational Agencies	Total Allocation
Bakersfield City Elementary	$15,720,000
Compton Unified	$18,559,000
Fresno Unified	$41,398,000
Long Beach Unified	$37,905,000
Los Angeles Unified	$318,816,000
Oakland Unified	$26,326,000
Sacramento City Unified	$21,251,000
San Bernardino City Unified	$27,790,000
San Diego City Unified	$38,877,000
Santa Ana Unified	$19,269,000
Stockton City Unified	$16,055,000
Total CA Large Local E.A. Allocation	**$581,966,000**

Additional ARRA Opportunities: Recovery Zone Economic Development Bonds ("RZEDBs")

- RZEDBs are taxable "governmental bonds" similar to BABs but have a credit rate of 45% (either a direct federal subsidy to the issuer or a tax credit to the bondholder)
- Bond proceeds must be used for property within a recovery zone or must promote economic activity within a recovery zone
- Recovery zone is defined as an issuer-designated area that has great poverty, unemployment, rate of home foreclosures or general distress
- $10.0 billion of issuance has been authorized through 2010 nationwide
- ***The State has been allocated $806.2 million***

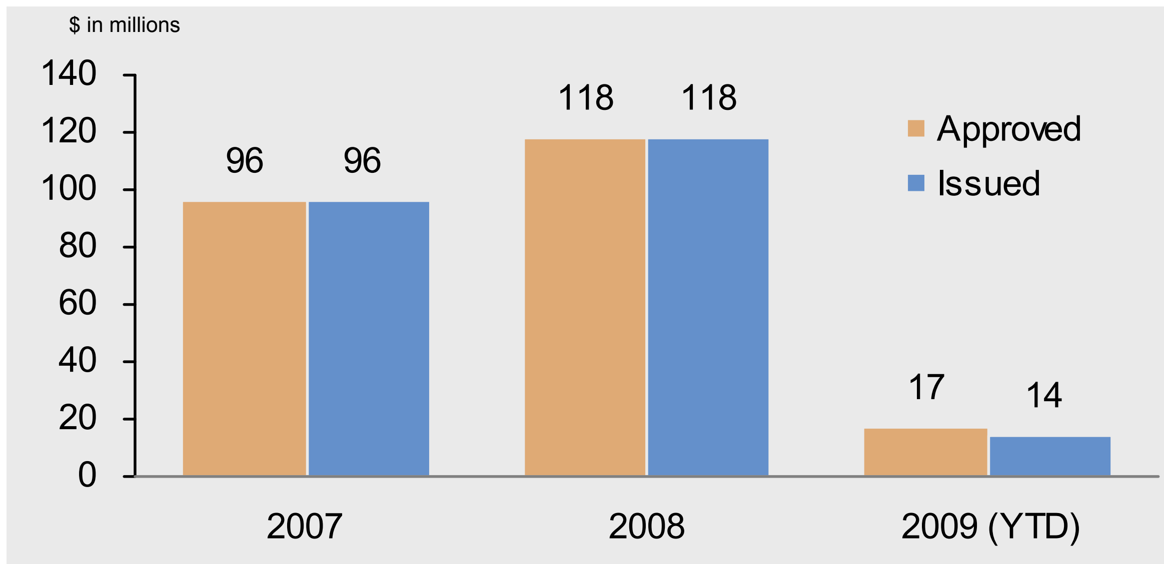
California Infrastructure and Economic Development Bank Pooled RZEDB Program

- The I-Bank is developing a pooled RZEDB financing
  - 49 cities and 29 counties have received allocations from Federal government
  - Average RZEDB allocation is $6 million
  - Because these are taxable bonds a $6 million bond issue would not be economical
- The I-Bank and its financing team are marketing the program
- Many cities and counties are not planning on using their allocations
- Most jurisdictions state that current budget conditions make it unfeasible to use the allocation at this time
- Many cities and counties that did not receive allocations or received small allocation amounts are waiting for "waived" allocations to be reallocated by CDLAC

Additional ARRA Opportunities: Small Issue Industrial Development Bonds ("IDBs")

- ARRA expands the universe of eligible projects for IDBs issued between 2009 and 2010
- The definition of "manufacturing facilities" was expanded to include facilities to create or produce intangible property. Companies in "knowledge-based" sector- high tech, biotech, nanotech, and recording and film industry – now eligible for IDB financing.
- To date, no IDBs have been issued in California under the ARRA program since state law needs to be changed
- Treasurer Lockyer sponsored legislation (AB1009), which has not been approved yet by the Legislature
- Unclear if the new program will boost IDB volume given the lack of expansion projects being undertaken by manufacturers and the difficulty they are having getting letters of credit

California IDB Approval and Issuance



Additional ARRA Opportunities: Low Income Housing Tax Credits

- The ARRA will provide California with approximately $1.1 Billion to stimulate the production of affordable rental housing for low-income households and allow tax credit projects to be completed
- The funds are estimated to create approximately 12,000 units of affordable rental housing and create and/or retain approximately 30,000 jobs
- To date, the California Tax Credit Allocation Committee (TCAC) has awarded $574.9 million
- The funds are being awarded under two programs:
  - Tax Credit Assistance Program ($325 million), which are grant funds from HUD
  - Section 1602 Program, which will enable TCAC to exchange 40% of the 2009 LIHTC allocation and an unlimited amount of prior years LIHTC's to the U. S. Treasury for 85 cents per dollar of tax credit (estimated total is $742 million)

Conclusion

- Since enactment, the ARRA has created opportunities for the State to access new funding programs and the broader capital markets
- The State has afforded significant financing opportunities through the issuance of GO bonds under the BABs program
  - Ability to expand and diversify from traditional investor base
  - Access to much larger and more liquid taxable market
  - Cost advantage due to State's receipt of Federal subsidy to offset interest costs
  - Meet critical bond program needs
- The State is planning future GO BABs issuances, which includes a benchmark issuance in the Fall 2009, and contemplating opportunities for other State debt programs
- Additional State funding opportunities exist in QSCBs and other programs