California Debt and Investment Advisory Commission – ABCs of School Debt Finance Seminar

Federal Stimulus Programs for Municipal Bond Issuers

April 9, 2010

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American Recovery and Reinvestment Act of 2009 ("ARRA")

- ARRA established financing alternatives for municipal issuers
- New bond programs help school districts achieve lower borrowing costs
  - Build America Bonds ("BABs")
  - Qualified School Construction Bonds ("QSCBs")
  - Clean Renewable Energy Bonds ("CREBs")
- Other aspects of the ARRA expanded or modified existing bond programs
  - Bank Qualified Bonds - Increases eligibility threshold from $10 million to $30 million
  - Qualified Zone Academy Bonds ("QZABs") – Increases total volume cap to $1.4 billion

Build America Bonds ("BABs")

- Issued at taxable rate, "spread" to U.S. Treasury Bonds
- IRS provides issuer with a 35% interest subsidy payment through calendar 2010
- Resulting net BAB yield is lower than comparable tax-exempt yield:

4.73% taxable yield + 200 basis points =	6.730%
Less 35% BAB Subsidy =	4.374%
<u>Comparable tax-exempt yield:</u>	<u>4.650%</u>
	Savings .276%

- <u>BABs have been the most widely used new bonds created by ARRA</u>

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Build America Bonds

- Calendar Year 2009
  - Total Municipal Issues: $409 billion
  - BABS: $64 billion (15.6% of total municipal issues)

- 2010 Year-To-Date*
  - Total Municipal Issues: $57.6 billion
  - BABS: $14.0 billion (24.0% of total municipal issues)

- Total BAB Par Amount in California > $21 billion
  - Largest BAB Transaction: $5.0 Billion
  - Smallest BAB Transaction: $1.0 Million

**Thru February 2010*

Source: Bloomberg, Thomson Financial

Build America Bonds Update

- H.R. 4849 – Small Business and Infrastructure Tax Act of 2010
  - Extends BAB program by 2.5 years, and reduces subsidy payment from 35% to:
    - 33% in 2011
    - 31% in 2012
    - 30% in 2013 (thru program sunset)
- Allows BAB proceeds to be used for current refundings of BABS
- BABs have expanded municipal bond buyer base, and exerted downward pressure on tax exempt rates

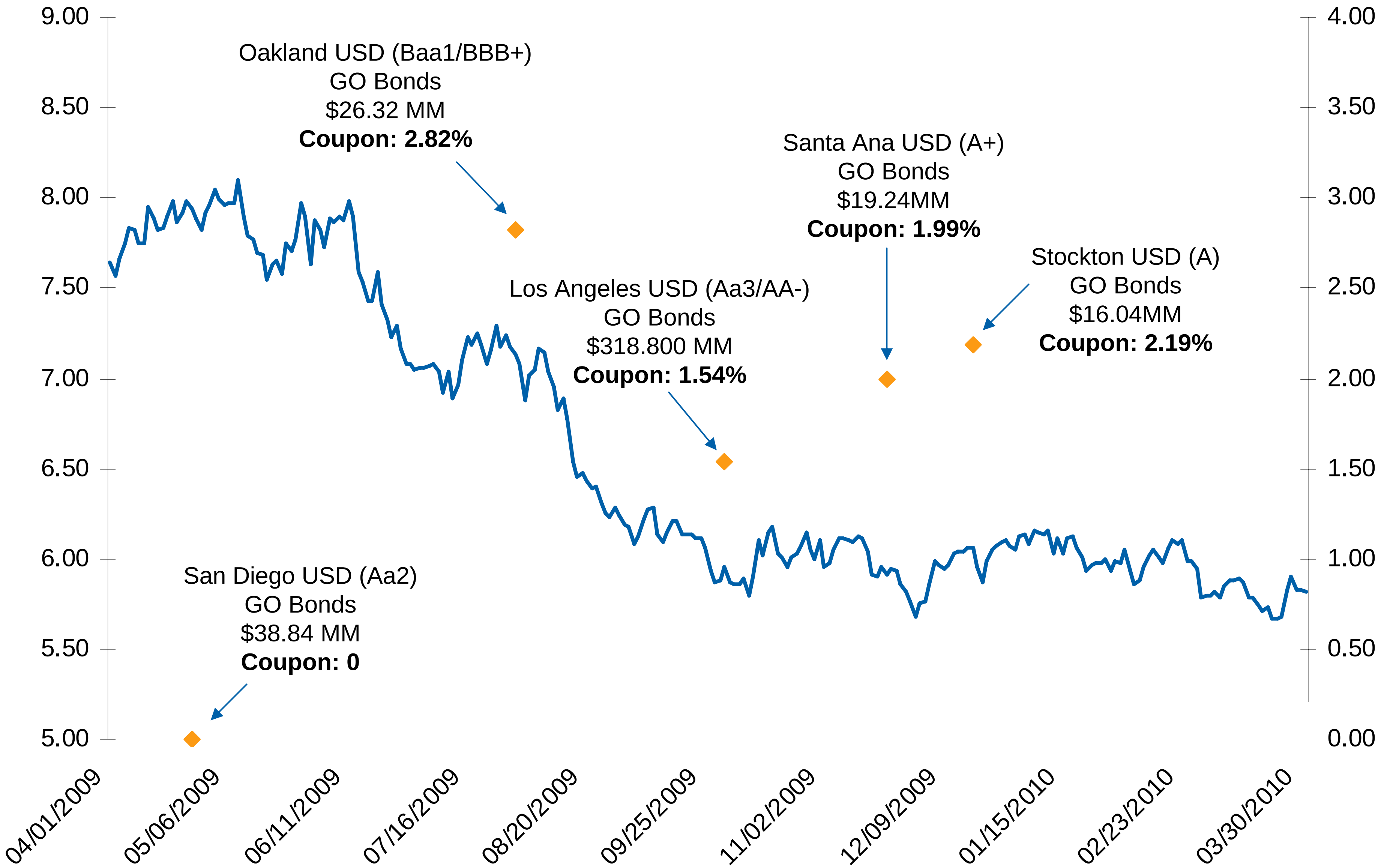
Qualified School Construction Bonds (“QSCBs”)

- Tax credit bond authority allocated to K-12 school district issuers
- Establishes a national QSCB bond authorization limit of $11 billion in 2009 and $11 billion in 2010 ($22 billion total)
- QSCB proceeds must be used for construction, rehabilitation, or repair of school facilities, and for acquisition under certain conditions
- Districts must spend all QSCB proceeds within three years of issuance
- Tax credit rate and maximum maturity posted on U.S. Treasury Web site

Initial Challenges with QSCBs

- QSCBs were intended to be issued with no interest expense for school districts
- QSCB market was not efficient:
  - Unexpectedly low U.S Treasury tax credit rate
  - Limited buyer base
  - No guidelines for tax credit “stripping”
  - Investors required supplemental coupons

Initial Challenges with QSCBs



Tax Credit Bond Developments

- HR 2847 – HIRE Act
  - Allows QSCBs and QZABs to be issued with direct subsidy payment from U.S. Treasury
  - Subsidy payments equal to the lessor of actual interest rate or tax credit rate

Published Tax Credit Rate	5.98%
Interest Rate at Pricing	5.90%
Interest Subsidy Provided by U.S. Treasury	5.90%
District Borrowing Cost	0.00%

QSCB Updates for California School Districts

- SB 205 (Hancock), signed by the Governor on March 25th
- Allows non-direct recipients of 2009 allocation to sell bonds
- Grants 120 day extension for 2009 QSCB issuers
- Unused 2009 QSCB allocation will revert back to the Department of Education and be included in the 2010 allocation process
- The 2010 QSCB volume cap provided to the State of California is $720.058 million
- Direct subsidy QSCBs are being sold

Clean Renewable Energy Bonds ("CREBS")

- The ARRA increased the authorization for CREBs from $800 million to $2.4 billion
- Any municipality may issue CREBs for qualified projects
- Qualified projects:
  - Must generate electricity
  - Must be created from clean and/or renewable sources
  - An independent engineer must certify that project meets requirements
- Treasury provides issuers with a subsidy payment equal to 70% of interest costs

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