California Debt and Investment Advisory Commission

Short-term Financing Options

With

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Introduction: Short Term Financing Options

- **What is “short-term”?**
  - Obligations that are remarketed or become due over an interim period
    - 397-day maximum to meet rule 2a-7 for money market fund eligibility

- **For what purpose is short-term debt issued?**
  - Cash flow financing
    - Provide working capital to pay operating expenses
  - Bridge financings
    - Provide interim short term financing for capital projects
  - Permanent financings
    - Provide long-term project funding at short-term interest rates

Short Term Products

- **Notes with a Fixed Term**
  - Tax & Revenue Anticipation Note (TRANs)
  - Bond Anticipation Notes (BANs)
  - Grant Anticipation Notes (GANs)
  - Tax Anticipation Notes (TANs)
  - Revenue Anticipation Notes (RANs)

- **Remarketed Securities**
  - Variable Rate Demand Notes (VRDNs)
  - Commercial Paper (CP)

- **Hybrid Alternative Structures**
  - Indexed Bonds
  - Floating Rate Notes

TRANs, RANs, and GANs

- **Notes issued in anticipation of receiving future tax receipts or revenues**
  - Purpose: used for cash flow or capital projects
  - Benefit: smooth out inconsistent revenue streams like property tax receipts or grants
  - Risks: short term and fixed repayment require careful forecasting of future cashflows

Bond Anticipation Notes

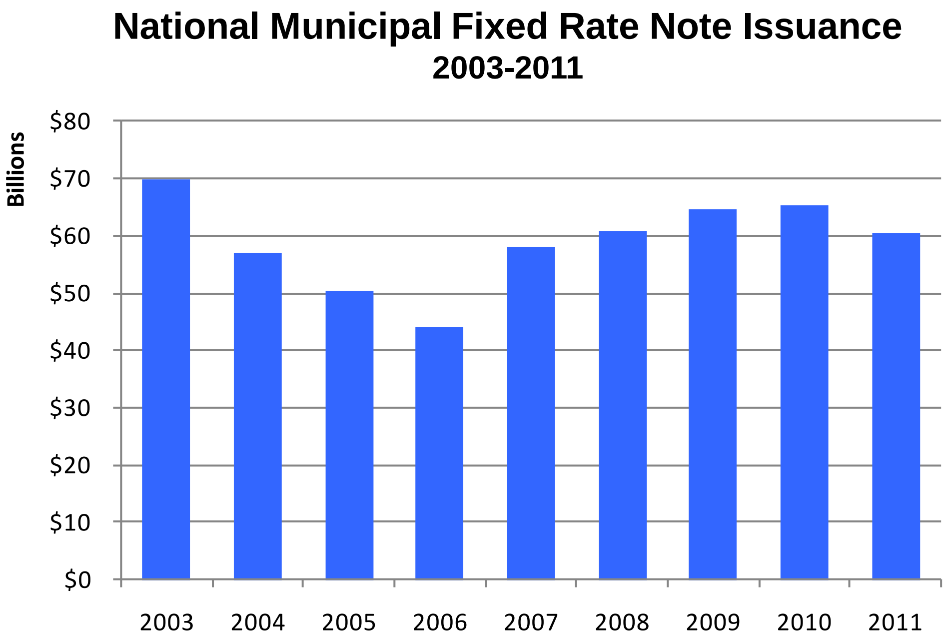
- **Notes issued for capital projects. Redeemed with proceeds from the issuance of long-term bonds**

  – Purpose: source of interim financing, typically for capital projects

  – Benefit: can provide seed financing in advance of a planned long-term financing

  – Risks: market access at maturity, most are structured to rely primarily on the proceeds of future bonds or note sales for repayment

Fixed Rate Note Issuance



California Issuance Volume Down

- 2011: 97 issues total $13 billion
- 2010: 106 issues total $18 billion

TRAN issuance

- Season peaks in summer

Source for Charts: Thomson Reuters.
Source for CA Issuance Data: Thomson Reuters

Variable Rate Debt & Commercial Paper

- **Variable Rate Demand Obligations (VRDOs or VRDBs)**
  - Floating rate obligations that have a nominal long-maturity, but a coupon that resets periodically
    - Purpose: used for capital projects
    - Benefit: access rates on the short end of the yield curve, retain flexibility to pay off or restructure debt at any time
    - Risks: Third-party liquidity

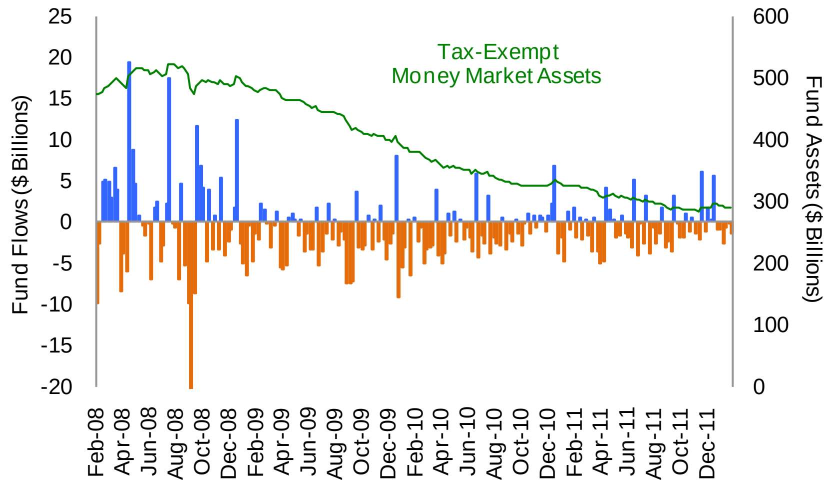
- **Commercial Paper**
  - Short term, unsecured promissory notes, usually backed by a LOC bank, that mature within 270 days.

Variable Rate Market Update

Market characterized by reduced issuance, historically low rates

- **Interest rate environment**
  - Extremely low short-term rates persist; SIFMA resets at 0.06% week of Jan 11, an all-time low
  - Steep yield curve in short end due to accommodative Fed
- **Supply and demand**
  - Significantly diminished overall issuance volume; indexed bonds increase market share
  - Tax-exempt money fund assets decrease by a net $9bn over past 26 weeks
- **Credit enhancement landscape**
  - Liquidity remains more scarce than pre-crisis
  - Pricing likely to increase due to Basel III
  - Number of providers diminishes and concentration very high
  - Fewer one-stop shops; many providers want ancillary business

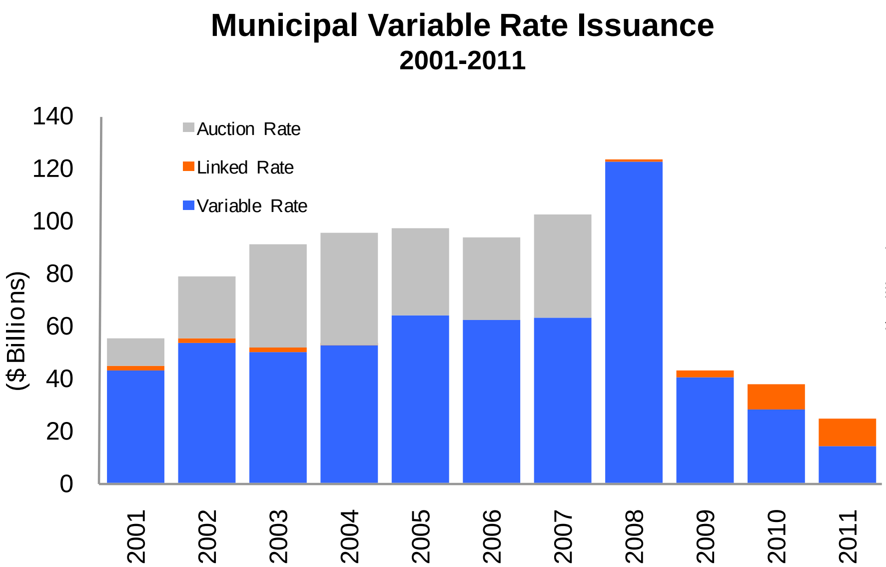
Tax-Exempt Money Market Funds
Assets and Fund Flows as of 2/21/2012

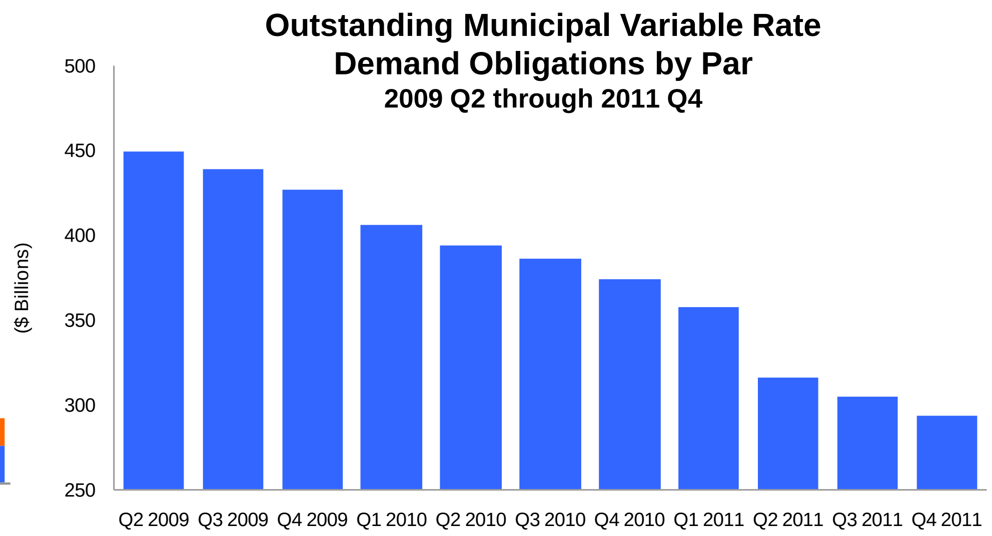


Source: Bond Buyer, ICI & SIFMA. As of 2/21/2012.

Variable Rate Issuance Volume

Diminished volume of issuance and outstanding variable rate debt





- Total 2011 variable rate issuance down 34% from 2010
  - 2011: $24.9 billion
  - 2010: $37.6 billion

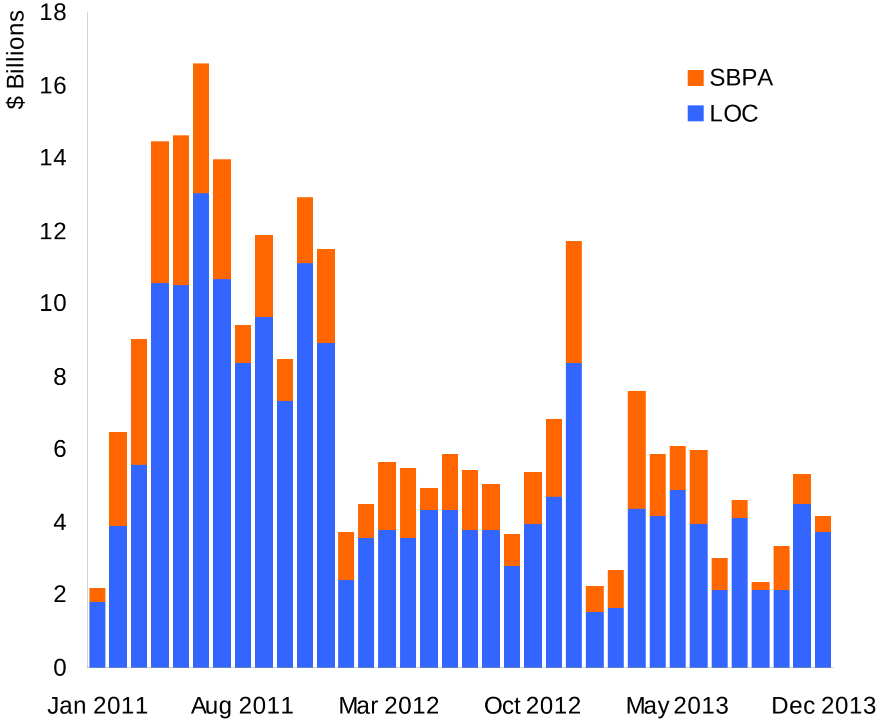
Source: Thomson Reuters. SIFMA

Liquidity Market Update

2011 saw a diminished base of providers and a high volume of facility expirations

- **The field of credit enhancers has declined from pre-crisis levels**
  - Major providers: BAML, Barclays, JP Morgan, Citibank, US Bank, Wells Fargo
  - Second tier: Bank of the West, City National, Northern Trust, RBC, Scotia, Sumitomo
- **Some credit providers again extending Standby Agreements in addition to LOCs**
- **$131 billion of credit facility expirations in 2011; $68 billion scheduled for 2012**
- **Basel III likely to result in higher costs and greater scarcity**

Municipal Credit Facilities
Schedule of Expirations as of 12/31/2010



Source: SIFMA.

Liquidity Landscape Changes

Top 10 Letter of Credit Providers 2009

LOC Bank	Par Amount (Millions)	Number of Issues
JP Morgan Chase	$3,581.60	50
Wells Fargo Bank	3,021.30	62
Bank of America	2,900.80	59
U.S. Bank	2,848.50	62
SunTrust Bank	1,064.50	16
BB & T	1,007.90	35
TD Bank	784.3	20
RBS Citizens	443.6	7
Citibank	365.5	4
Northern Trust	360	7

Top 10 Letter of Credit Providers 2010

LOC Bank	Par Amount (Millions)	Number of Issues
JP Morgan Chase	$1,981.30	28
Bank of America	1,550.10	24
Wells Fargo Bank	561.2	17
TD Bank	431.6	4
Citibank	365	5
PNC Bank	287.1	9
Union Bank	278.1	5
Barclays Bank	210	2
U.S. Bank	207.1	5
RBS Citizens	193.1	2

Top 10 Letter of Credit Providers 2011

LOC Bank	Par Amount (Millions)	Number of Issues
Citibank	$3,618.00	4
JP Morgan Chase	2,769.30	35
Wells Fargo Bank	1,419.10	22
Bank of America	901.8	18
Gov't Development Bank of Puerto Rico	699.2	3
US Bank	584.7	15
RBC	478.9	5
PNC Bank	257.7	11
Northern Trust	234.4	7
BNY Mellon	214.2	6

Source: Thomson Reuters

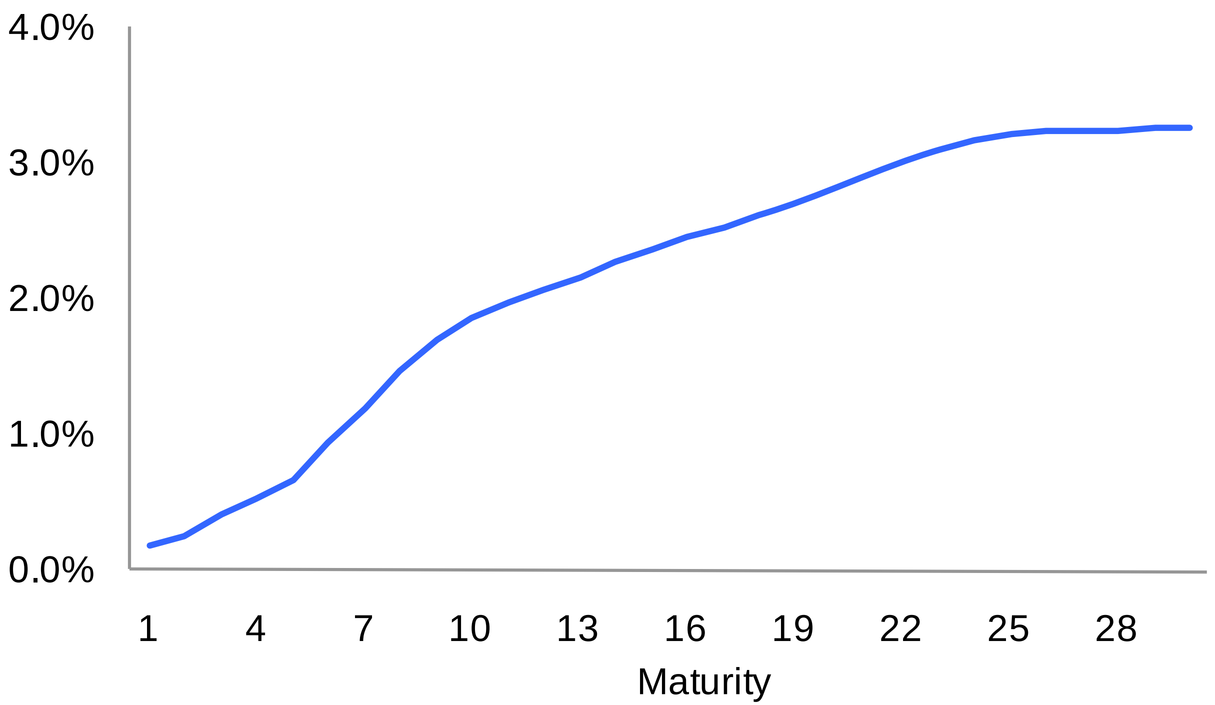
Emergence of Alternative Structures

- **Floating Rate Notes**
  - Benefit: can be used to create or retain variable rate debt without a third party liquidity or bank.
  - Risks: Exposure to future short-term yields, market access and interest rate risk at maturity
- **Fixed Rate Notes**
  - Benefit: access lower short term rates
  - Risks: Exposure to market access risk and interest rate risk at maturity

Issuers Continue to Benefit from Short-Term Structures

Short-Term Interest Rates Tend to be Lower

Illustrative Yield Curve
AAA-Rated Municipal Market Data (MMD) Index
As of February 21, 2012



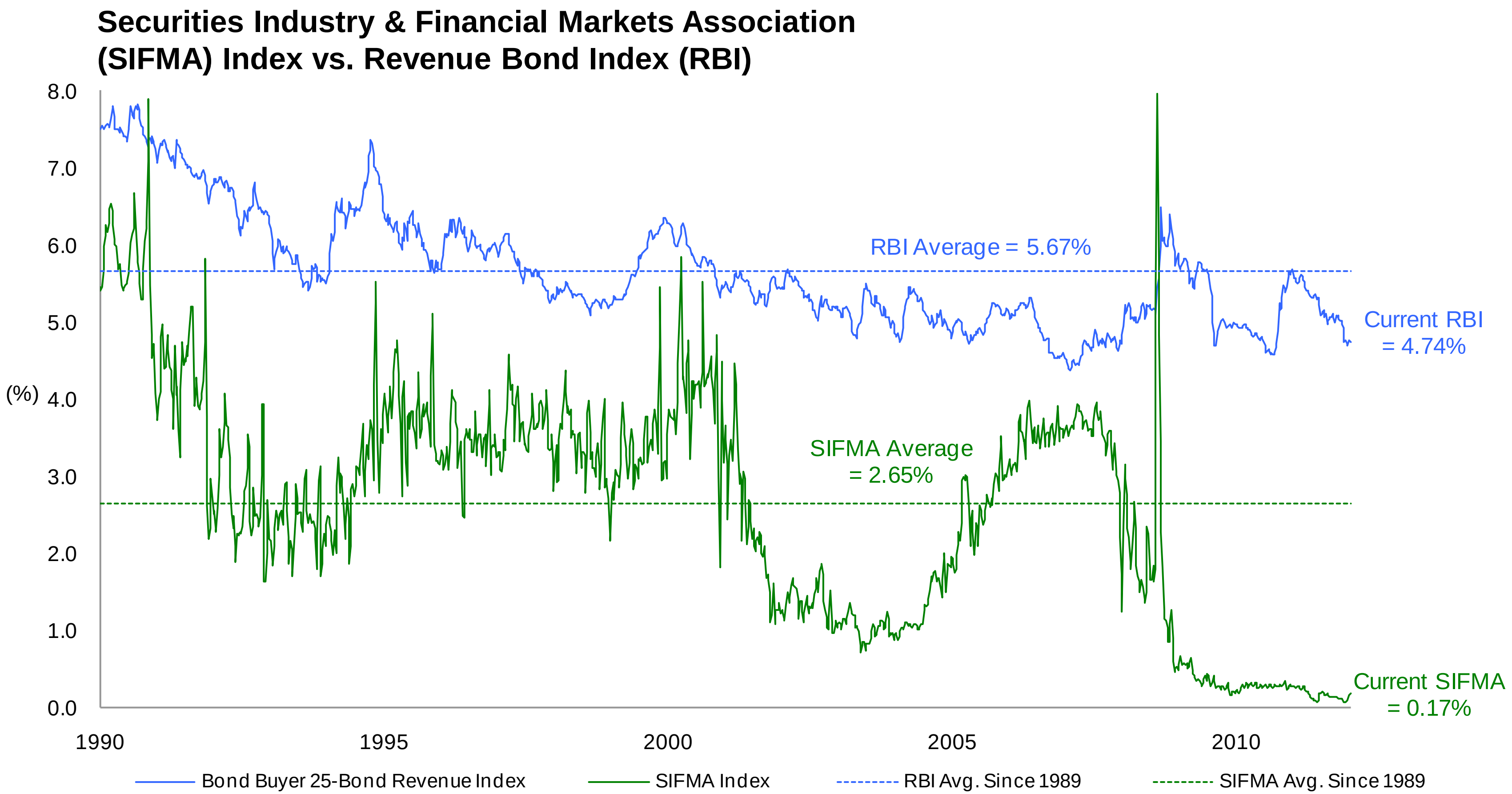
Illustrative Rates by Maturity

1 year:	0.18%
2 year:	0.26%
5 year:	0.66%
10 year:	1.86%
30 year:	3.27%

Source: Thomson.

SIFMA Index vs. Revenue Bond Index (RBI)

Despite low long term rates, 30-year yield curve is extremely steep



Source: SIFMA. All bonds in SIFMA Index must be tax-exempt, non-AMT, have $10mm or more outstanding and the highest short-term rating by Moody's or S&P, and pay interest monthly with interest rate resets occurring on Wednesdays. RBI includes tax-exempt bonds maturing in 30 years with average rating of A1/A+. As of 2/21/2012.

Who Buys Short Term Debt?

- **Money Market Funds**
  - Must keep investments very short to provide liquidity to investors
  - Seek high quality credits to preserve Net Asset Value (NAV)
  - SEC Rule 2a-7 limits maturity of investments to less than 397 days
    - Additional limits on credit quality and concentration of portfolio

- **Short and Intermediate Term Bond Funds**
  - Have ability to purchase longer-dated maturities for particular funds
  - More flexible investment parameters

- **Some Individual “Retail” Participation**
  - Depends on investment goals, sophistication and means of investor
  - Many short-term debt issues have $100,000 denominations that limit participation

Strategies for Issuers of Short-Term Products

- **Continue to monitor cash positions and revenue trends**
  - Developing a strategy early on for TRAN issuance helps better position issuers

- **Evaluate Self-Liquidity Structures**
  - Market has proven that capacity exists for issuer-balance sheet secured obligations
  - Significant cost advantage for strong credits
  - Requires indenture flexibility for principal coming due (and put bonds)
  - Proven market access required for structures that are remarketed

- **Continue to solicit new entrants to the credit market**
  - Fees have declined from peak, but remaining active participants face challenges
    - Large market participants face credit capacity with large issuers and market saturation with investors
    - Smaller players can only take on $50-$75mm of any given credit