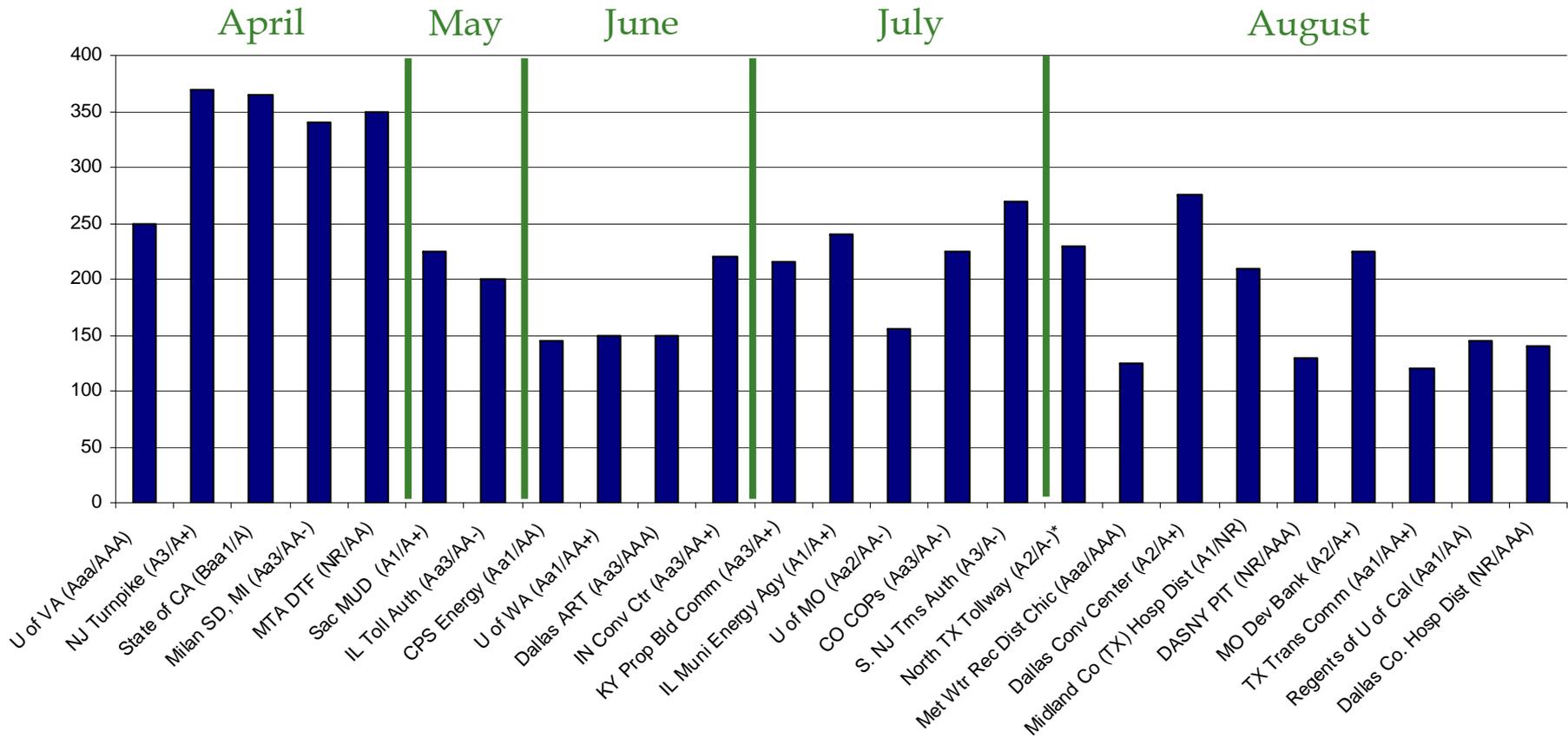

California Debt and Investment Advisory Commission

**Bond Buyer Conference
September 14, 2009**

Swap Financial Group

Historical Build America Bonds – Make Whole Calls

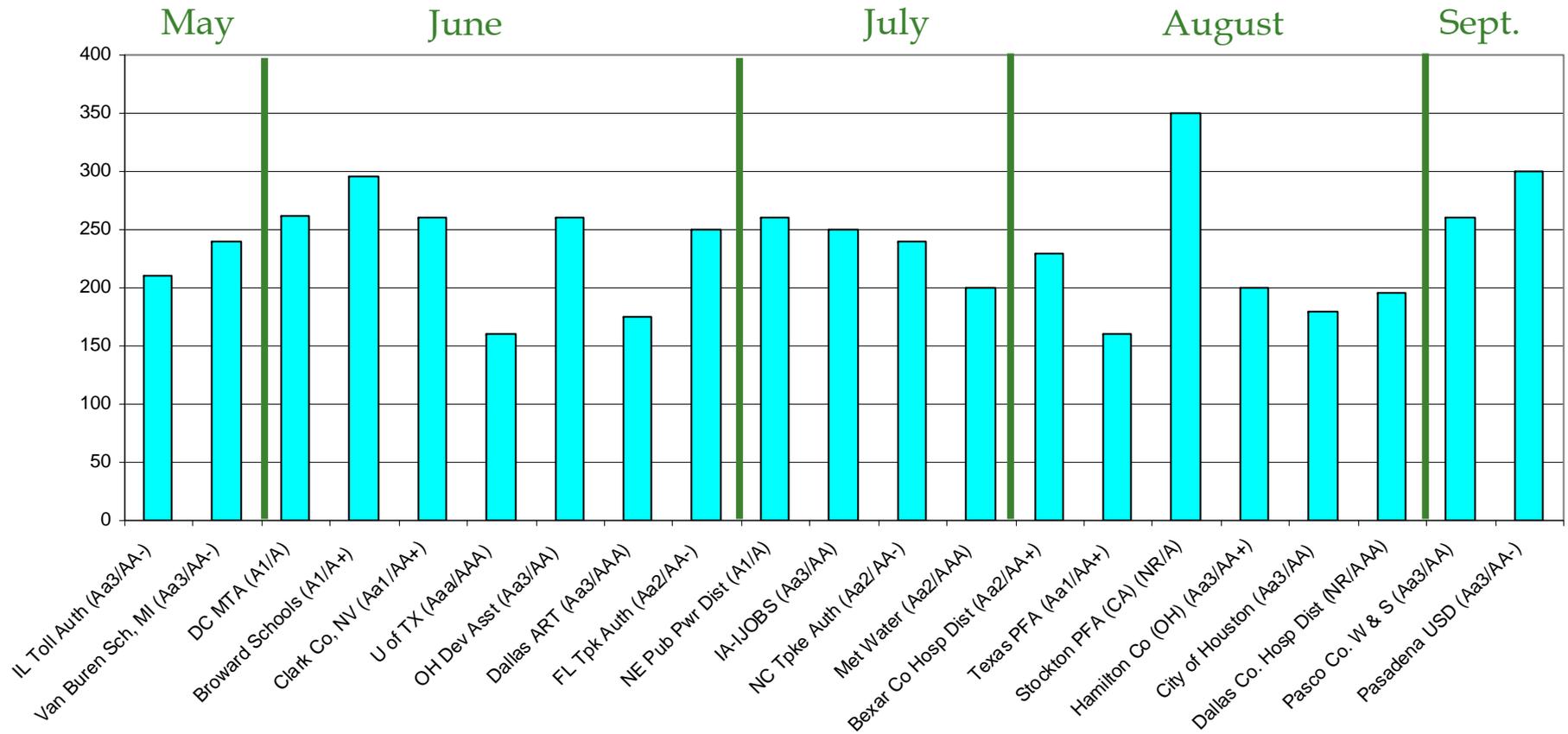
Selected Initial Offering Spreads to Treasuries (4/09 to Present)



Current Make-Whole Call Spread: 1.65%

Historical Build America Bonds – Par Calls

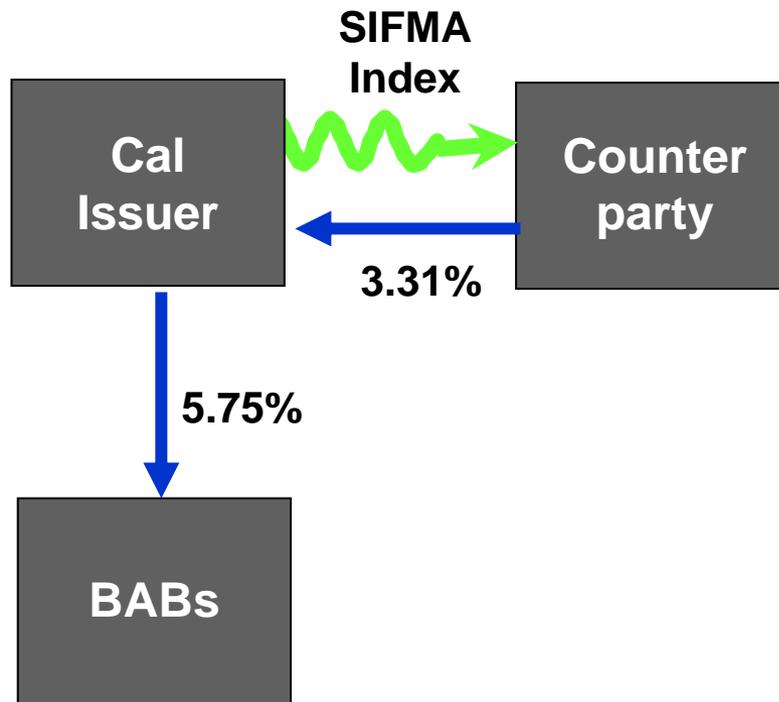
Selected Initial Offering Spreads to Treasuries (5/09 to Present)



Current 10-year Par Call Spread: 2.15%

Build America Bonds + SIFMA Receiver Swap

Permanent Synthetic Floating Rate Debt



<u>Economics</u>	
Pay BABs (5.75% x (1 - 35%))	3.74%
Receive Fixed*	3.31%
Pay SIFMA	SIFMA
Net	SIFMA +0.43%

* Assumes 30-year Bullet

Build America Bonds + SIFMA Receiver Swap

Benefits

- Permanent Tier of Floating Rate Debt
 - No LOC Risk
 - No Basis Risk
 - Mitigates Saturation in VRDN Market
 - Fixed Receiver Swap May Offset Existing Swap Exposure
 - Enhance Economics with Cancellation Option
-

Build America Bonds + SIFMA Receiver Swap *Risks*

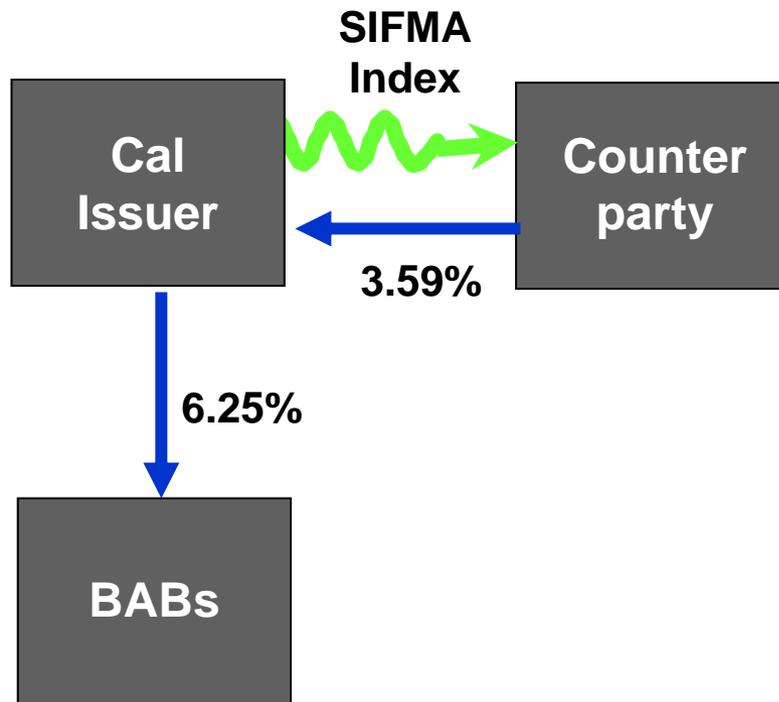
- Permanence of Subsidy?
 - Variable Rate Exposure
 - No In-State Floating Benefit
 - Counterparty Risk
 - MTM (if not offset with fixed payer)
 - Accounting (GASB 53)
-

BABs with a Fixed Receiver Swap *Make-Whole Call*

Maturity	BABs Spread	BABs Rate	Subsidy	All-in BABs Rate	SIFMA Receiver	Spread to SIFMA
5-year	1.65	4.00	(1.40)	2.60	(2.14)	0.46
10-year	1.65	5.00	(1.75)	3.25	(2.80)	0.45
30-year	1.65	5.75	(2.01)	3.75	(3.31)	0.43

Build America Bonds + SIFMA Receiver Swap

Permanent Synthetic Floating Rate Debt w/ cancellation option



<u>Economics</u>	
Pay BABs (6.25% x (1 - 35%))	4.06%
Receive Fixed*	3.59%
Pay SIFMA	SIFMA
Net	SIFMA +0.47%

* Assumes 30-year Bullet

BABs with a Fixed Receiver Swap

10-Year Par Call

Maturity	BABs Spread	BABs Rate	Subsidy	All-in BABs Rate	SIFMA Receiver	Spread to SIFMA
30-year	2.15	6.25	(2.19)	4.06	(3.59)	0.47

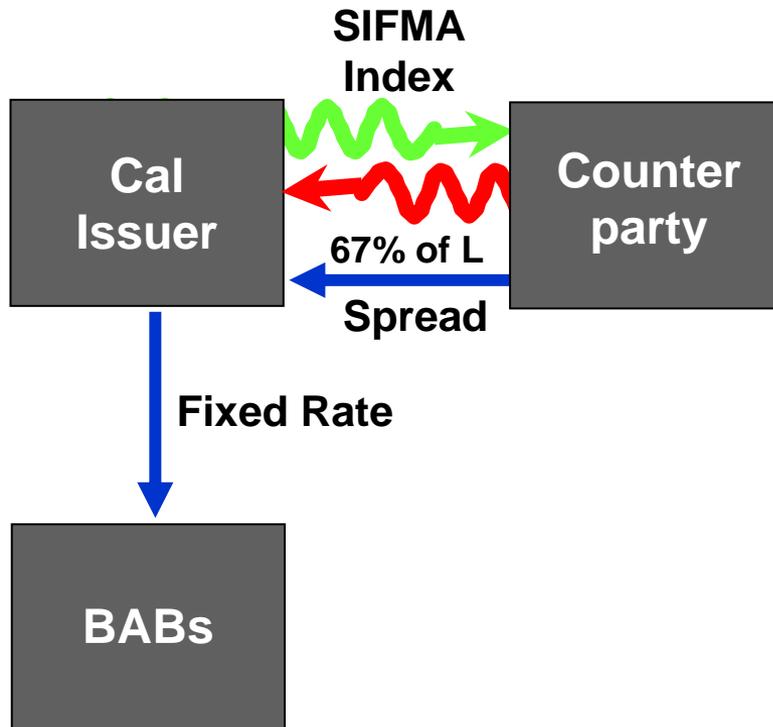
Summary

Comparison of Make-Whole vs. 10-Year Call (30-Year Maturity)

Call Feature	BABs Spread	BABs Rate	Subsidy	All-in BABs Rate	SIFMA Receiver	Spread to SIFMA
Make-whole	1.65	5.75	(2.01)	3.75	(3.31)	0.43
10-year Par	2.15	6.25	(2.19)	4.06	(3.59)	0.47

BABs+ Basis Swap

Fixed Rate Debt Less a Spread



<u>Economics</u>	
Pay Fixed Bond Rate	Fixed
Pay SIFMA	Floating
Receive 67% of LIBOR	(Floating)
Receive Spread	(Spread)
Net*	Fixed Rate - Spread

* Assumes SIFMA = 67% of LIBOR

BABs+ Basis Swap

Indicative Fixed Spreads

Maturity	Fixed Spread
5-year	0.36
10-year	0.46
15-year	0.53
20-year	0.58
30-year	0.67

BABs + Basis Swap

*Historical Performance**



* (67% of 3M LIBOR plus 0.67%) - SIFMA

BABs + Basis Swap

Benefits

- No LOC Risk
 - No California Basis Risk
 - Mitigates Saturation in VRDN Market
 - Swap Offsets Existing Fixed Payer Exposure
 - Potential Cash Flow Benefits
 - Potential MTM Benefits
-

BABs + Basis Swap

Risks

- Tax Risk
 - MTM Risk
 - Counterparty Risk
 - Integration? (Impact on Yield)
 - Accounting (GASB 53)
-