Challenging Time to Raise Capital

- Uncertainty—the economy, the deficit, international banking, possible Congressional “surgery” on the market, and on and on...

- Limited liquidity—will the demand be there for my project?

- Debt and deficit debates—not just a distraction, sometimes an obstruction!

- Low municipal bond volume—like the honey bees, many muni bond issues have “gone away” in 2011

- With rates this low, will investors buy bonds?
Historical Municipal Bond Volume

- Year to date, municipal volume is down 39% compared to the same period last year.
- California volume is down 46%.
- California typically represents from 11.5% to 17.5% of total volume.

Source: The Bond Buyer
Historical Private Activity Bond (PAB) Volume

- Issuance dropped off since 2007 due to the housing downturn. Housing recovery programs rolled out by Obama administration led to an increase in PAB issuance in 2010 which is expected to continue through the end of 2011.
General Private Activity Bond Rules

- PAB proceeds are used by one or more private entities.

- A municipal security is considered a PAB if it meets either of the two conditions in Section 141 of the IRS code:
  - More than 10% of proceeds are for private business use and payment of principal and interest on more than 10% of proceeds is secured or payable from property used by private business
  - The amount of proceeds used to make loans to non-governmental borrowers exceeds the lesser of 5% of the proceeds or $5 million

- Interest on PABs is excluded from gross income for federal income tax purposes if bonds fall within certain defined categories (“qualified bonds” or “qualified private activity bonds”) under federal tax laws.

- Most categories of private activity bonds are subject to the alternative minimum tax.

- The issuance is limited and subject to state volume caps. In 2010, state volume caps were the greater of $90 per resident or $273.8 million, with states determining sub-allocation.
Types of Qualified Private Activity Bonds

- Exempt facility bonds—For financing facilities owned or used by private entities
  - Airports
  - Docks
  - Transportation facilities
  - Water and sewer
  - Local electric and gas utilities
  - Solid and hazardous waste disposal facilities
  - Residential rental projects
  - Enterprise Zone facilities
  - Recovery Zone facilities
  - Other

- Qualified mortgage bonds—Single family mortgage revenue bonds

- Qualified redevelopment bonds

- Qualified small issue bonds—For financing manufacturing facilities

- Qualified student loan bonds

- Qualified veterans’ mortgage bonds

- Qualified 501(c)(3) bonds—For financing facilities owned or utilized by charitable organizations
History of PAB Legislation

- 1968, Congress passed the Revenue and Expenditure Control Act of 1968 which established the basis for the current definition of private activity bonds.
- 1988, the Supreme Court agreed to hear a case that changed the nature of the federal tax treatment of state and local government debt.
- 1984, Deficit Reduction Act of 1984, the private activity bond volume limit was implemented.
- 1986, the limit and the list of qualified activities were both modified again under the Tax Reform Act of 1986.
- 2002, Job Creation and Worker Assistance Act of 2002, Empowerment Zones and New York Liberty Zones were established in the wake of the September 11, 2001 terrorist attacks on New York City.
- 2005, Gulf Opportunity Zone Act of 2005. The hurricanes that struck the gulf region in late summer 2005 prompted Congress to create a tax-advantaged economic development zone intended to encourage investment and rebuilding in the Gulf region.
- 2008, The Housing Economic Recovery Act of 2008 added $11 billion of PAB volume cap solely for housing bonds and also laid the foundation for the New Issue Bond Program, which the Treasury Department created in late 2009 to revitalize bond issuance among state and local housing agencies.
- 2009-2011, New Issue Bond Program was created by the Treasury Department in late 2009 to revitalize bond issuance among state and local housing agencies.
History of PAB Legislation in California

- The California Debt Limit Allocation Committee (CDLAC) is a three-member body comprised of the State Treasurer as Chair, the Governor, and the State Controller. The 1984 Tax Act also required each state to designate an entity to allocate the state's ceiling among various state and local issuers. CDLAC was created in 1985 by Governor proclamation in response to this act. Private activity bonds included student loan bonds and industrial development bonds (including exempt facility bonds, small-issue industrial development bonds, and bonds for industrial parks).

- The 1984 Tax Reform Act
  - Imposed an annual limit on the dollar amount of tax-exempt private activity bonds that may be issued in a state.
  - The annual limit was derived by multiplying the state's population by $150, resulting in a $3.8 billion ceiling at that time.

- The 1986 Tax Reform Act
  - Reduced the annual volume cap to $75 per capita in 1986 and 1987 and $50 per capita thereafter.
  - The Act also brought bonds for single-family and multifamily housing under the state ceiling. As a result, a new Governor's proclamation was issued in 1986 re-affirming CDLAC as the state's sole entity responsible for allocating the annual ceiling, and expressly authorizing CDLAC to establish procedures and reserve amounts of the ceiling for certain purposes or issuers.
  - In 1987, the California State Legislature statutorily established CDLAC by enacting Chapter 943.
History of PAB Legislation in California

- **The 1998 Omnibus Budget Act**
  - Raised the volume cap on private activity bonds to $75 per capita or a minimum of $225 million to take place incrementally from 2003 through 2007.

- **The Community Renewal Tax Relief Act of 2000** accelerates the scheduled increase contained in the 1998 Act by raising the volume cap to $62.50 per capita of the state's population or $187.5 million, whichever is higher, for calendar year 2001 and $75 per capita or $225 million, whichever is higher, in calendar year 2002 and thereafter. The 2000 Act also allows for the volume cap to be indexed for inflation starting in calendar year 2003.
We have revised our estimate for 2011 municipal bond volume to $275 billion.

In June and July new issue volume recovered somewhat.

Volume in the last few months of 2010 was boosted by BABs issuance.

Our forecast implies that volume through the rest of this year will be about one third lower than in the same period in 2010.
Loop Capital’s Volume Forecasting Model

- Through a multi-variable regression analysis we have determined that the following factors explain about 80% of variability in new issue volume:
  - 10-year Treasury yield
  - State and local government tax revenues
  - 5-year MMD—Treasury ratio

- In 2011, for the first time, the model was off by more than 8%.
- The reason for the unexpected, historic, decline in volume appears to be a very strong political reaction to the status quo. The result of this reaction has been for issuers to bring financing of new and existing infrastructure to a standstill.
- Nowhere is this political reaction stronger than in California where the State has postponed issuance of general obligation bonds until the fall, and even that is far from certain.
- Whether or not this new political dynamic continues to its current degree is difficult to ascertain. Our tendency is to believe that it will be in place at least until the beginning of 2013—after the general election.
As of the end of July, the 1-30 year AAA MMD spread was 415 bps.
Over the last 30 years, the curve has been steeper less than 5% of the time.
The flight to Treasuries amid market turmoil in early August made munis very attractive on a relative basis.
The long end of the AAA MMD curve fell 56 basis points in August, thus significantly flattening the curve.
1-30 year spread of 359 bps (as of August 19) is steeper than it has been 76% of the time in the last 30 years.
Muni Treasury Ratio

10 YEAR MUNI-TREASURY RATIO (2006-2011)

10 YEAR MUNI-TREASURY RATIO (2011 YTD)
# Indicative New Issue Pricing

<table>
<thead>
<tr>
<th>Port of Oakland (California) Refunding Revenue Bonds 2011 Series 0 (AMT)</th>
<th>Regional Transportation District (Colorado) Tax - Exempt Private Activity Bonds Series 2010</th>
<th>City of Long Beach (California) Senior Airport Revenue Bonds (Private Activity) Series 2010 A</th>
</tr>
</thead>
<tbody>
<tr>
<td>$345.730M</td>
<td>$397.835M</td>
<td>$48.435M</td>
</tr>
</tbody>
</table>

**PRICE DATE**
- Port of Oakland: 8/4/11
- Regional Transportation District: 8/4/10
- City of Long Beach: 11/2/10

**DTD DATE**
- Port of Oakland: 8/16/11
- Regional Transportation District: 8/12/10
- City of Long Beach: 11/23/10

**CALLS**
- Port of Oakland: 2021 @ 100
- Regional Transportation District: Ba3/-/BBB-
- City of Long Beach: A2/-/A-

**RATINGS**
- Port of Oakland: A2/A/A+
- Regional Transportation District: A2/A/A+
- City of Long Beach: A2/A/A+

**SPREAD**
- Port of Oakland: NRO (Libor)
- Regional Transportation District: 1/15 & 7/15
- City of Long Beach: 1/15 & 7/15

<table>
<thead>
<tr>
<th>DUE</th>
<th>COUPONS</th>
<th>INSURER</th>
<th>YIELDS</th>
<th>MMD</th>
<th>Due</th>
</tr>
</thead>
<tbody>
<tr>
<td>5/1</td>
<td>1.500</td>
<td>Uninsur.</td>
<td>NRO</td>
<td>NRO</td>
<td>2012</td>
</tr>
<tr>
<td>2012</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2013</td>
<td>1.500</td>
<td>Uninsur.</td>
<td>1.240</td>
<td>89</td>
<td>2013</td>
</tr>
<tr>
<td>2013</td>
<td>4.000</td>
<td>Uninsur.</td>
<td>1.240</td>
<td>89</td>
<td>2013</td>
</tr>
<tr>
<td>2014</td>
<td>2.000</td>
<td>Uninsur.</td>
<td>1.650</td>
<td>114</td>
<td>2014</td>
</tr>
<tr>
<td>2014</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>1.650</td>
<td>114</td>
<td>2014</td>
</tr>
<tr>
<td>2015</td>
<td>2.250</td>
<td>Uninsur.</td>
<td>2.030</td>
<td>132</td>
<td>2015</td>
</tr>
<tr>
<td>2015</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>2.030</td>
<td>132</td>
<td>2015</td>
</tr>
<tr>
<td>2016</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>2.550</td>
<td>151</td>
<td>2016</td>
</tr>
<tr>
<td>2017</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>2.940</td>
<td>156</td>
<td>2017</td>
</tr>
<tr>
<td>2018</td>
<td>3.375</td>
<td>Uninsur.</td>
<td>3.310</td>
<td>159</td>
<td>2018</td>
</tr>
<tr>
<td>2018</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>3.310</td>
<td>159</td>
<td>2018</td>
</tr>
<tr>
<td>2019</td>
<td>3.750</td>
<td>Uninsur.</td>
<td>3.670</td>
<td>164</td>
<td>2019</td>
</tr>
<tr>
<td>2019</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>3.670</td>
<td>164</td>
<td>2019</td>
</tr>
<tr>
<td>2020</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>3.970</td>
<td>169</td>
<td>2020</td>
</tr>
<tr>
<td>2020</td>
<td>4.200</td>
<td>Uninsur.</td>
<td>4.130</td>
<td>169</td>
<td>2020</td>
</tr>
<tr>
<td>2021</td>
<td>5.000</td>
<td>Uninsur.</td>
<td>4.130</td>
<td>169</td>
<td>2021</td>
</tr>
</tbody>
</table>
| 2021 | 4.200   | Uninsur. | 4.390  | 173 | 2021 *
| 2022 | 5.000   | Uninsur. | 4.390  | 173 | 2022 *
| 2022 | 5.000   | Uninsur. | 4.580  | 175 | 2022 *
| 2023 | 5.000   | Uninsur. | 4.580  | 175 | 2023 *
| 2023 | 4.000   | Uninsur. | 4.740  | 177 | 2023 *
| 2024 | 5.000   | Uninsur. | 4.860  | 177 | 2024 *
| 2025 | 5.000   | Uninsur. | 4.950  | 177 | 2025 *
| 2026 | 5.000   | Uninsur. | 5.000  | 173 | 2026 *
| 2027 | 5.000   | Uninsur. | 5.080  | 172 | 2027 *
| 2028 | 5.000   | Uninsur. | 5.110  | 166 | 2028 *
| 2029 | 5.125   | Uninsur. | 5.130  | 159 | 2029 *
| 2030 | 5.125   | Uninsur. | 5.200  | 157 | 2030 *
| 2031 | 5.125   | Uninsur. | 5.200  | 157 | 2031 *
| 2032 | 5.125   | Uninsur. | 5.300  | 157 | 2032 *
| 2033 | 5.125   | Uninsur. | 5.300  | 157 | 2033 *
| 2034 | 5.125   | Uninsur. | 5.300  | 157 | 2034 *
| 2035 | 5.125   | Uninsur. | 5.300  | 157 | 2035 *
| 2036 | 5.125   | Uninsur. | 5.300  | 157 | 2036 *
| 2037 | 5.125   | Uninsur. | 5.300  | 157 | 2037 *
| 2038 | 5.125   | Uninsur. | 5.300  | 157 | 2038 *
| 2039 | 5.125   | Uninsur. | 5.300  | 157 | 2039 *
| 2040 | 5.125   | Uninsur. | 5.300  | 157 | 2040 *
| 2041 | 5.125   | Uninsur. | 5.300  | 157 | 2041 *

**COUPONS**
- Port of Oakland: 1.500
- Regional Transportation District: 5.250
- City of Long Beach: 5.250

**INSURER**
- Port of Oakland: NRO
- Regional Transportation District: Uninsur.
- City of Long Beach: Uninsur.

**YIELDS**
- Port of Oakland: NRO
- Regional Transportation District: 4.850
- City of Long Beach: 4.850

**MMD**
- Port of Oakland: NRO
- Regional Transportation District: 7/15
- City of Long Beach: 7/15

**Due**
- Port of Oakland: 2012
- Regional Transportation District: 2023
- City of Long Beach: 2034

* Priced to the call on 5/1/21
** Optional call on 5/1/21

Loop Capital Markets
Legislative and Regulatory Update—PABs

- PABs are under great assault from the deficit hawks who want to eliminate tax exemption for newly issued private activity bonds.

- The Internal Revenue Service has issued new guidance for their private-activity bond volume cap allocations on drawn down bonds.
  - Smaller issuers who privately place draw-down bonds (usually PABs) with a bank are only obligated to pay interest on the amounts that have been tapped.
  - Under the new IRS guidance, draw-down bonds are considered issued at the first draw of bond proceeds for purposes of obtaining an allocation of PAB cap.

- Legislation has been introduced in both the House and Senate that would exempt water and sewer bonds from states’ private-activity volume caps.
  - Proponents think that water and sewer bonds exempt from the cap could generate $50 billion in investment and 28,500 new jobs.

- Sen. John Kerry, D-Mass., unveiled legislation for a national infrastructure bank that could finance up to $10 billion of projects in each of its first two years. Kerry’s legislation would also exempt private-activity bonds from the alternative minimum tax in 2011 and 2012.
## Questions

<table>
<thead>
<tr>
<th>Name</th>
<th>Position</th>
<th>Email</th>
<th>Phone</th>
</tr>
</thead>
<tbody>
<tr>
<td>Chris Mier, CFA</td>
<td>Managing Director</td>
<td><a href="mailto:chrism@oopcap.com">chrism@oopcap.com</a></td>
<td>312.356.5840</td>
</tr>
<tr>
<td>Ivan Gulich, CFA</td>
<td>Senior Vice President</td>
<td><a href="mailto:ivang@oopcap.com">ivang@oopcap.com</a></td>
<td>312.913.2204</td>
</tr>
<tr>
<td>Greg Bridwell</td>
<td>Vice President</td>
<td><a href="mailto:gregoryb@oopcap.com">gregoryb@oopcap.com</a></td>
<td>312.913.2268</td>
</tr>
<tr>
<td>Ann Kibler</td>
<td>Vice President</td>
<td><a href="mailto:annk@oopcap.com">annk@oopcap.com</a></td>
<td>312.913.2209</td>
</tr>
<tr>
<td>Nick Larsen, PhD</td>
<td>Associate</td>
<td><a href="mailto:nicholas1@oopcap.com">nicholas1@oopcap.com</a></td>
<td>312.913.2236</td>
</tr>
<tr>
<td>Robert Haidari</td>
<td>Intern</td>
<td><a href="mailto:robertha@oopcap.com">robertha@oopcap.com</a></td>
<td>312.913.2229</td>
</tr>
</tbody>
</table>
Loop Capital Markets’ Disclaimer

Loop Capital Markets LLC, an investment bank, prepared this document for informational purposes only. Loop Capital Markets LLC does not provide research services, therefore this product is not a research report and it should not be construed as such. All materials, including proposed terms and conditions, are indicative and for discussion purposes only. Finalized terms and conditions are subject to further discussion and negotiation and will be evidenced by a formal agreement. Opinions expressed are our present opinions only and are subject to change without further notice. The information contained herein is confidential. By accepting this information, the recipient agrees that it will, and it will cause its directors, partners, officers, employees and representatives to use the information only to evaluate its potential interest in the strategies described herein and for no other purpose and will not divulge any such information to any other party. Any reproduction of this information, in whole or in part, is prohibited. Except in so far as required to do so to comply with applicable law or regulation, express or implied, no warranty whatsoever, including but not limited to, warranties as to quality, accuracy, performance, timelines, continued availability or completeness of any information contained herein is made. Opinions expressed herein are current opinions only as of the date indicated. Any historical price(s) or value(s) are also only as of the date indicated and as applicable from any source that may be noted. We are under no obligation to update opinions or other information. The information contained herein has been prepared solely for informational purposes and is not an offer to buy or sell or a solicitation of an offer to buy or sell any security or instrument or to participate in any trading strategy. Loop Capital Markets LLC does not provide accounting, tax or legal advice; however, you should be aware that any proposed indicative transaction could have accounting, tax, legal or other implications that should be discussed with your advisors and or counsel. The materials should not be relied upon for the maintenance of your books and records or for any tax, accounting, legal or other purposes. In addition, we mutually agree that, subject to applicable law, you may disclose any and all aspects of any potential transaction or structure described herein that are necessary to support any U.S. federal income tax benefits, without Loop Capital Markets LLC imposing any limitation of any kind and its affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in and buy or sell, the securities, derivatives (including options) or other financial products thereof, of entities mentioned herein. In addition, Loop Capital Markets LLC and/or affiliates may have served as manager or co-manager of a public offering of securities by any such entity. Further information may be available regarding this material and may be obtained upon request.

Loop Capital Markets LLC shall have no liability, contingent or otherwise, to the user or to third parties, or any responsibility whatsoever, for the correctness, quality, accuracy, timeliness, pricing, reliability, performance or completeness of the data or formulae provided herein or for any other aspect of the performance of there materials. In no event will Loop Capital Markets LLC be liable for any special, indirect, incidental or consequential damages which may be incurred or experienced on account of the user using the data provided herein or these materials, even if Loop Capital Markets LLC has been advised or the possibility of such damages. Loop Capital Markets LLC will have no responsibility to inform the user of any difficulties experienced by third parties with respect to the use of the materials or to take any action in connection therewith.

The fact that Loop Capital Markets LLC has made the materials or any other materials available to you constitutes neither a recommendation that you enter into or maintain a particular transaction or position nor a representation that any transaction is suitable or appropriate for you. Transactions involving derivative or other products may involve significant risk and you should not enter into any transaction unless you fully understand all such risks and have independently determined that such transaction is appropriate for you. Loop Capital Markets LLC is acting in the capacity of an arm’s-length contractual counterparty to the user in connection with any transaction Loop Capital Markets LLC may enter into with the user and not as a financial advisor or a fiduciary.

This document is confidential, and no part of it may be reproduced, distributed or transmitted without the prior written permission of Loop Capital Markets LLC.