

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%

Comparable tax-exempt yield: 4.650%

Savings .276%

- BABs have been the most widely used new bonds created by ARRA

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

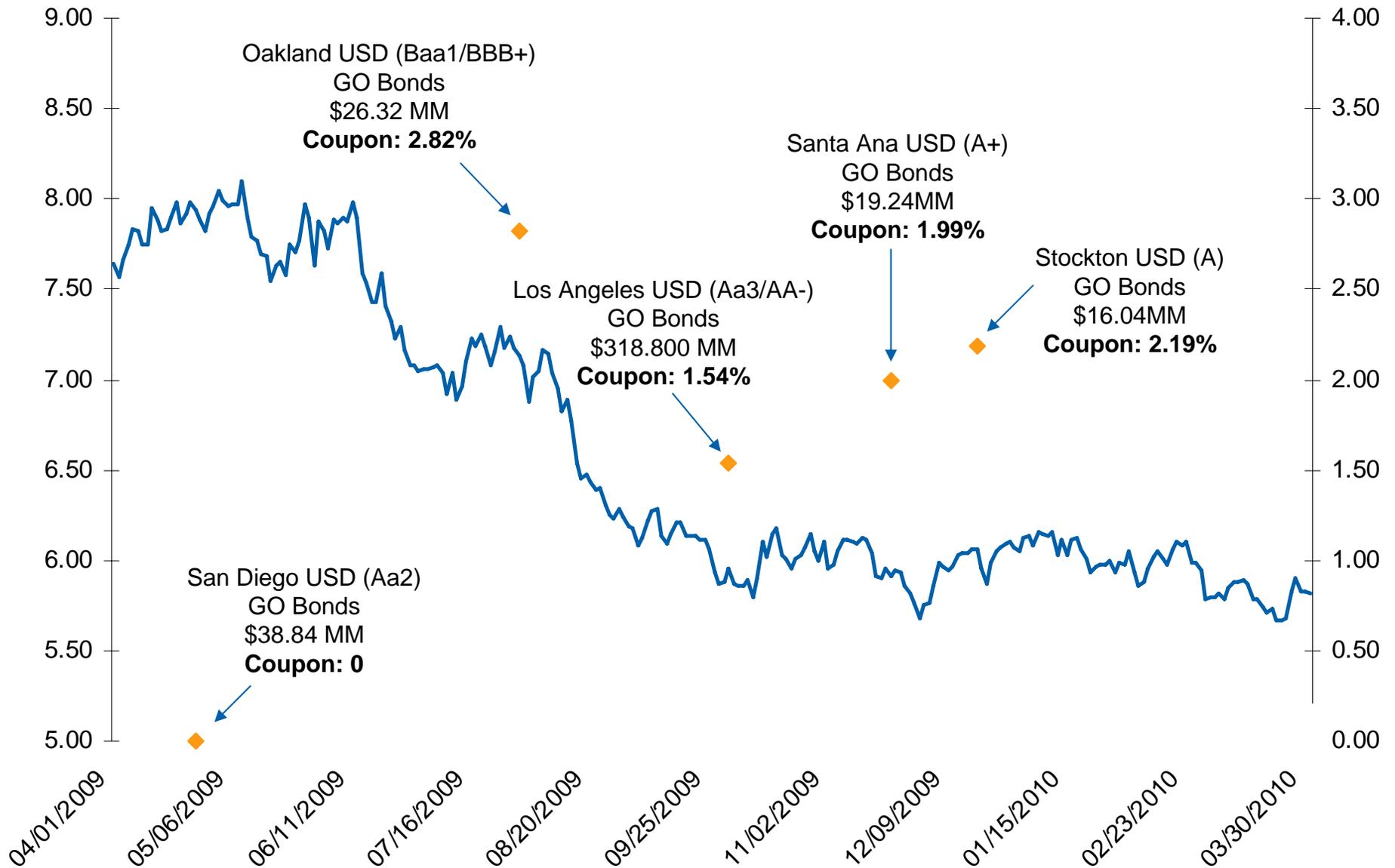
Qualified School Construction Bonds (“QSCBs”)

- 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 lesser 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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