

RECOVERY ACT BOND FINANCE OPPORTUNITIES IN WASHINGTON STATE

**New Bond Financing Tools:
Build America Bonds
and Recovery Zone Economic Development Bonds**

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The American Recovery and Reinvestment Act of 2009 (“ARRA”)

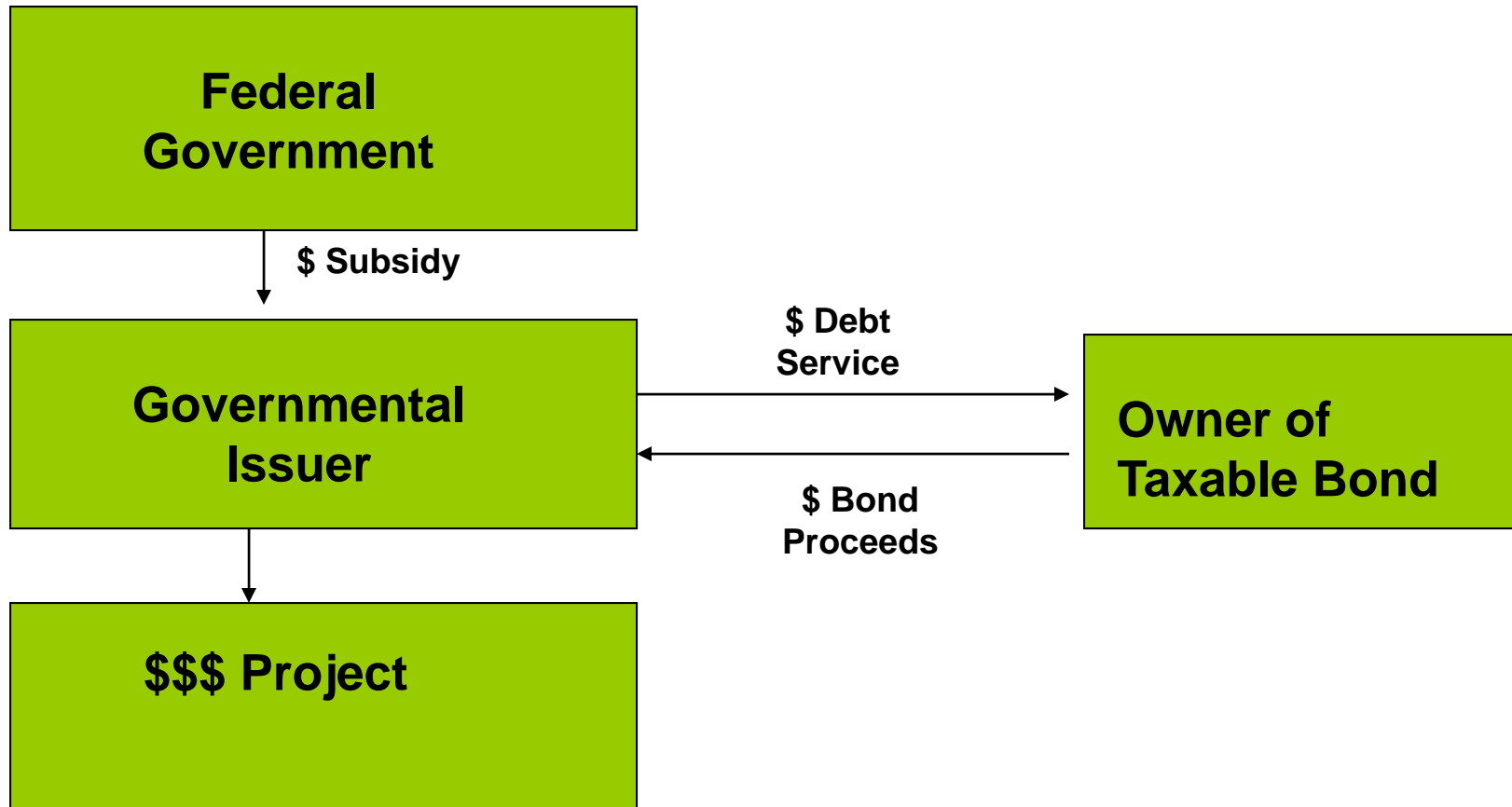
- Build America Bonds (“BABs”)
- Recovery Zone Economic Development Bonds

Build America Bonds (“BABs”)

- New taxable financing option authorized in ARRA
- Designed to stimulate economy by encouraging development
- Two Types:
 - Direct Subsidy
 - Payments are made directly to the issuer
 - Market has responded to this new type of financing tool
 - Tax Credit
 - Credit is allocated to the bondholder
 - Market has yet to respond

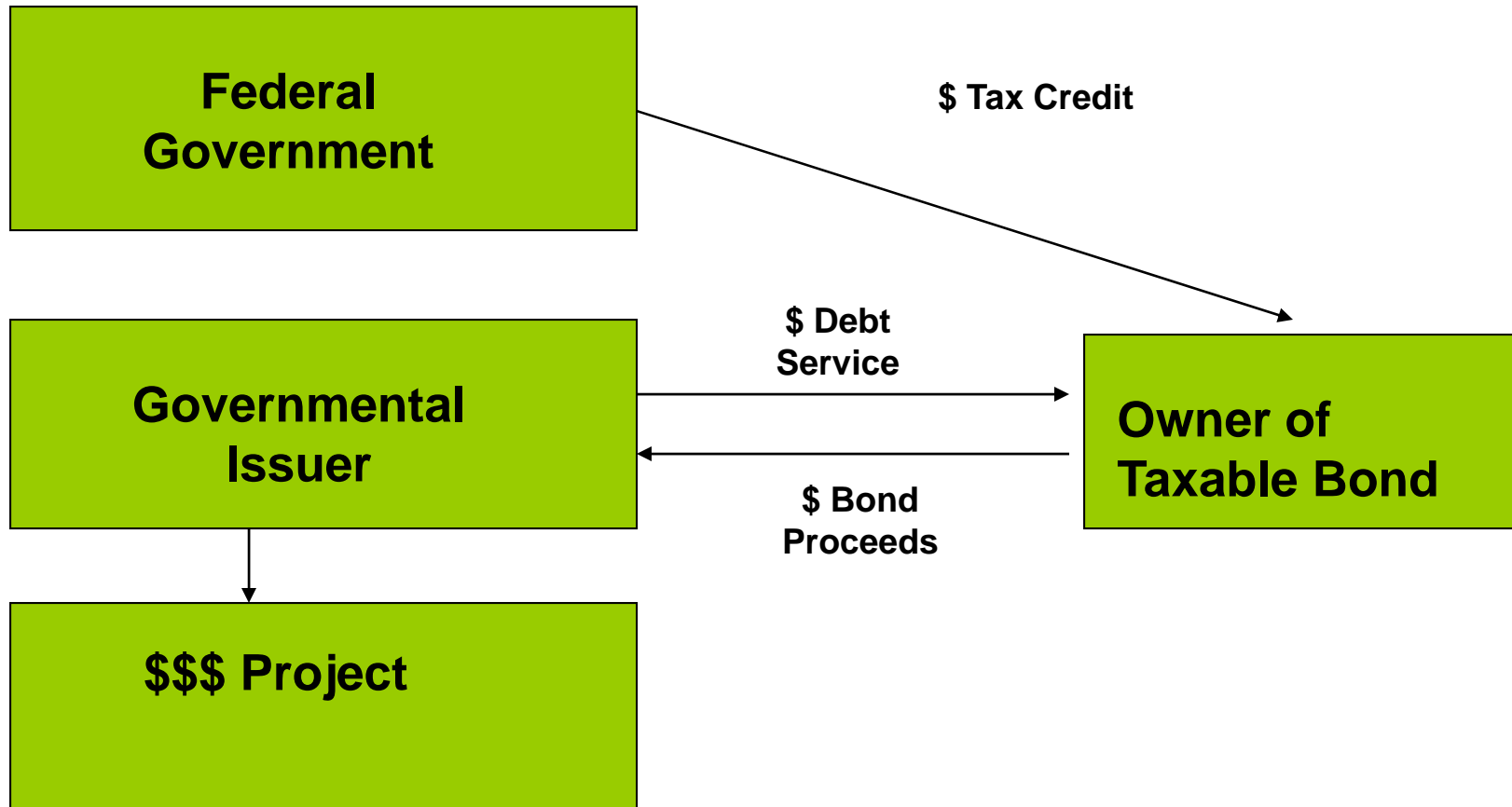
BABs (Direct Subsidy)

Direct Subsidy to Issuer equal to 35% of Interest



BABs (Tax Credit)

Tax Credit to Bondowner equal to 35% of Interest



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"I'm just glad we got out before interest rates went up again."

Direct Subsidy BABs

- All state and local government issuers may issue BABs
- LTGO, UTGO and revenue bonds may be issued as BABs
- The interest on BABs is “taxable”
- Must be issued before January 1, 2011
- Bonds must otherwise qualify as “governmental bonds”
- Subsidy funds can be used to offset interest expense on the bonds, finance capital projects or finance working capital

Direct Subsidy BABs – New Money

- Bonds must be issued to pay or reimburse new money capital expenditures
- Bonds may also be issued to refund short-term new money financings issued after 2/17/09 to pay new money expenditures paid or incurred after that date

BABs – Other Requirements

- Issuers of BABs must comply with all requirements applicable to the issuance of tax-exempt governmental bonds, including
 - the private business use and private loan restrictions,
 - the arbitrage and rebate rules,
 - the registration requirements,
 - federal guaranty limitations,
 - advance refunding limitations,
 - reporting requirements, and
 - hedge bond limitations

Direct Subsidy BABs – lessons learned so far

- Examples of successful direct subsidy BABs issues
 - University of Washington
- Permitted uses of subsidy payment
- Treatment of direct subsidy payment for purposes of bond covenants; rating agency response
- Refunding and defeasance options
 - Par versus “make whole” call
 - Defeasance gaining acceptance; disclose potential tax event for investors
- Will the money go away?
 - Extraordinary call

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"Let's change 'brink of chaos' to 'Everything is wonderful.'"

Recovery Zone Economic Development Bonds

- Allocations to large municipalities and counties
 - Certain large cities and counties in Wash.
- Use, suballocate or release to the state
- BABs on steroids
- 45% subsidy rather than 35% subsidy
- Broad discretion to designate recovery zones
- Issue before January 1, 2011

Recovery Zone Economic Development Bonds

- Projects:
 - capital expenditures paid or incurred with respect to property located in the zone;
 - expenditures for public infrastructure and construction of public facilities; and
 - expenditures for job training and educational programs

How the Subsidy is Paid

- A federal subsidy equal to 35% (or 45%) of interest will be paid directly to the issuer
- For fixed rate debt, subsidy will be paid on each interest payment date
- For variable rate debt, subsidy will be paid quarterly, in arrears

Procedural Requirements for Direct Subsidy BABs

- Issuer must elect to treat obligations as Direct Subsidy BABs by making election on books and records on or before issue date
- 8038-G must indicate that election has been made
- Debt service schedule must be attached to 8038-G
- For fixed rate BABs, file 8038-CP between 45 and 90 days prior to each interest payment date
- For variable rate BABs, file 8038-CP with 45 days after last payment in each calendar quarter

Questions?

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