

Domestic Offices:

[Minneapolis – Headquarters](#)

[Boston](#)

[Charlotte](#)

[Chicago](#)

[Dallas](#)

[Denver](#)

[Des Moines](#)

[Helena](#)

[Houston](#)

[Kansas City](#)

[Lincoln](#)

[Los Angeles](#)

[Milwaukee](#)

[New York](#)

[Orange County](#)

[Palo Alto](#)

[Phoenix](#)

[Portland](#)

[San Francisco](#)

[Sacramento](#)

[Seattle](#)

[St. Louis](#)

American Recovery and Reinvestment Act “The Stimulus Bill” Bond Funding Opportunities

Recovery Act Tools #1

Build America Bonds

Recovery Zone Economic Development Bonds

CA STAR Program Model

Prepared by:

**Jane Towery
Piper Jaffray
(206) 254-7244**

**Matthew Challis
Piper Jaffray
(415) 984-5162**

July 31, 2009

PiperJaffray®

Since 1895. Member SIPC and FINRA.

PRESENTATION OUTLINE



Overview

American Recovery and Reinvestment Act (“ARRA”) Municipal Bond Programs

Recovery Zone Bonds & Build America Bonds

Market Conditions for Taxable Bonds

Washington Recovery Zone Bonds Allocations

OVERVIEW

- ARRA (American Recovery & Reinvestment Act – the Stimulus Bill) created funding programs to lower certain financing costs substantially
- Funding for new projects – not refinancings or restructurings
- Build America Bonds (BABs) & Recovery Zone Economic Development (RZED) Bonds are issued as taxable with Federal interest “subsidy”
- Taxable market prefers certain financing structures typically not used by municipal bond issuers

THREE MAJOR PROGRAMS

- Recovery Zone Facilities Bonds (Tax-Exempt Bonds)
 - Tax-Exempt financing for private building development
 - Discussed in Session #2

- Recovery Zone Economic Development Bonds (Taxable Bonds)
 - Public Facility Financing
 - Deeper Subsidy – 45% subsidy of interest cost
 - Limited issuance allocation
 - Project Construction must use prevailing wage

- Build America Bonds (Taxable Bonds)
 - Public Facilities and Other Conventional Municipal Bond Projects
 - Limited Subsidy – 35% subsidy of interest cost
 - Unlimited issuance allocation

SUMMARY OF THE PROGRAMS

	Recovery Zone Economic Development Bonds	Recovery Zone Facility Bonds	Build America Bonds
Interest Rates	Taxable	Tax-Exempt	Taxable
Federal Subsidy	45% of interest	Tax-exemption	35% of interest
Use of proceeds	Governmental purposes	Private activity	Governmental purposes
Volume limit	\$10 billion nationally	\$15 billion nationally	None
Program sunset	December 31, 2010		
Allocation	Based on relative employment decline in from 2007 to 2008		None
Eligible Issuers	Direct allocation to cities over 100,000 and Counties – Counties will allocate to smaller cities and unincorporated areas.		Public Agencies
Applicability limits	"Recovery Zone" designated by issuer		None

RECOVERY ZONE BONDS - OVERVIEW

- Intended for projects that are shovel-ready for quick economic stimulus
- “Sunset” at end of 2010
- Must be within a “Recovery Zone”
- Federal Regulations released in June, 2009
- Federal prevailing wage requirements apply to all Recovery Zone Bonds (but not BABs)

ESTABLISHING YOUR RECOVERY ZONE

- Designated by the City or County
 - No blight finding necessary
 - Area with significant poverty, unemployment, foreclosure activity or general distress
 - An area economically distressed due to the closing of a military base
 - An empowerment zone or community renewal area automatically qualify

- Creation of RZ Area Need Not be a “Major Production”
 - Varying Interpretations of physical locus
 - Varying interpretations of required procedures

RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS - OVERVIEW

- Intended for public infrastructure and facility projects in 2009-10
 - Cannot be used to refund outstanding debt

- “Sunset” at end of 2010

- Must be within a “Recovery Zone”

- Can finance Public Facilities within or of benefit to the Recovery Zone

- Bonds issued on a taxable basis – ***issuer receives 45% interest cost subsidy from Federal Government***

- Financings have 2% cost of issuance limitation

RECOVERY ZONE BONDS ALLOCATION

➤ Volume Cap on Total Issuance

- Recovery Zone Economic Development Bonds: \$10 billion nationally (Public Projects)
- Washington Allocation is \$90 million for RZED bonds and \$135 million for the RZ Facilities Bonds

➤ Allocation Process

- 5 Washington Cities of 100,000+ population have direct allocations
- Most Washington counties have allocations for the unincorporated areas and smaller cities

➤ Allocation Amounts

- Determined by most severe unemployment increases 2007-2008
- Affected by in/out migration

THE ECONOMICS OF RZED BONDS

- Debt must be issued as taxable bonds
- U.S. Government pledges to provide a cash subsidy or 45% of the annual interest payments
- Subsidy will be paid to Issuer to coincide with the debt service payments
- Similar to the Build America Bonds but a deeper subsidy

RZED BOND FINANCING NUTS AND BOLTS

- Can be utilized for any tax-exempt financing program currently authorized under State law but must be for new construction or improvement of public facilities
- Bonds must be repaid from any legal source, including general fund, tax increment, utility or enterprise funds or special tax revenues
- Federal 45% Interest Subsidy can be used to lower debt costs or as a separate revenue source
- Federal prevailing wage requirements will apply to all Recovery Zone Bonds

RZED BOND FINANCING NUTS AND BOLTS

- Initial allocations will fund relatively small projects
- Projects that would be paid by General Fund are superb candidates
- City Hall or Public Safety Building Improvements
- Street Repaving and Major Street Repair Projects
- Park and Recreation Projects
- Redevelopment projects can also work well

THOUGHTS ON UTILIZING YOUR RZF BOND ALLOCATION

- Initial allocations will not fund large commercial projects
- Best focus may be on key “boot-strap” uses in redevelopment areas that will encourage neighboring development
- Façade improvements and other Downtown Upgrade Programs could work well
- It is unknown if State or your County will adopt any criteria for favored or unfavored uses, such as manufacturing vs. auto dealerships vs. green uses

BUILD AMERICA BONDS (“BABS”)

- Finance any tax-exempt public facilities for municipalities
- “Subsidy” BABs can only be issued for new projects (no refunding)
- Bonds issued on a taxable basis – ***issuer receives 35% subsidy from Federal Government***
- ***NO allocation necessary***
- BAB financings have been issued very successfully since April – the market is evolving
- 2% limitation on cost of issuance

TAXABLE BUILD AMERICA BONDS (“BAB”) PROGRAM

The BAB Program offers municipal issuers two forms of federal subsidy in 2009 and 2010

Direct Payment Subsidy Option

- Issuer receives direct cash subsidy equal to 35% of interest on BAB bonds from federal government
- Only for “new money” financings
- Cash subsidy payments are not subject to future appropriation risk

Tax Credit Option

- Taxable bondholders receive a tax credit equal to 35% of interest payable on BAB bonds
- Investor’s tax credits are taxable income
- May result in less than 35% achieved under Subsidy Approach

Given investors limited appetite for tax credit equity, in the near term, the Direct Payment Subsidy generates greater yield benefit for municipal issuers

All Issues to date have opted for the Direct Payment Subsidy Option



PIPER JAFFRAY'S EXPERIENCE WITH BABS – SIZE & STRUCTURE

- Taxable buyers more familiar with Corporate Bond Structure
 - Large Term bonds
 - Non-callable
 - Make whole call structures

- Deal size is important for liquidity and the investor base

- The smaller issues (less than \$150mm) are coming to market with characteristics of traditional tax-exempt bonds
 - Utilizing serials and term bonds
 - 10-year optional calls



BABS TRANSACTIONS –OTHER CONSIDERATIONS

- Pursue partial BAB tranche for portion of a financing
 - Determine greatest yield benefit
 - Longer end of yield curve currently generates the greatest yield savings

- Evaluate potential loss of refinancing flexibility, or ways to create optionality
 - “Make-whole” call not an economic tool for refinancing
 - Structure a traditional municipal call (10-year par call) for portion of tranche

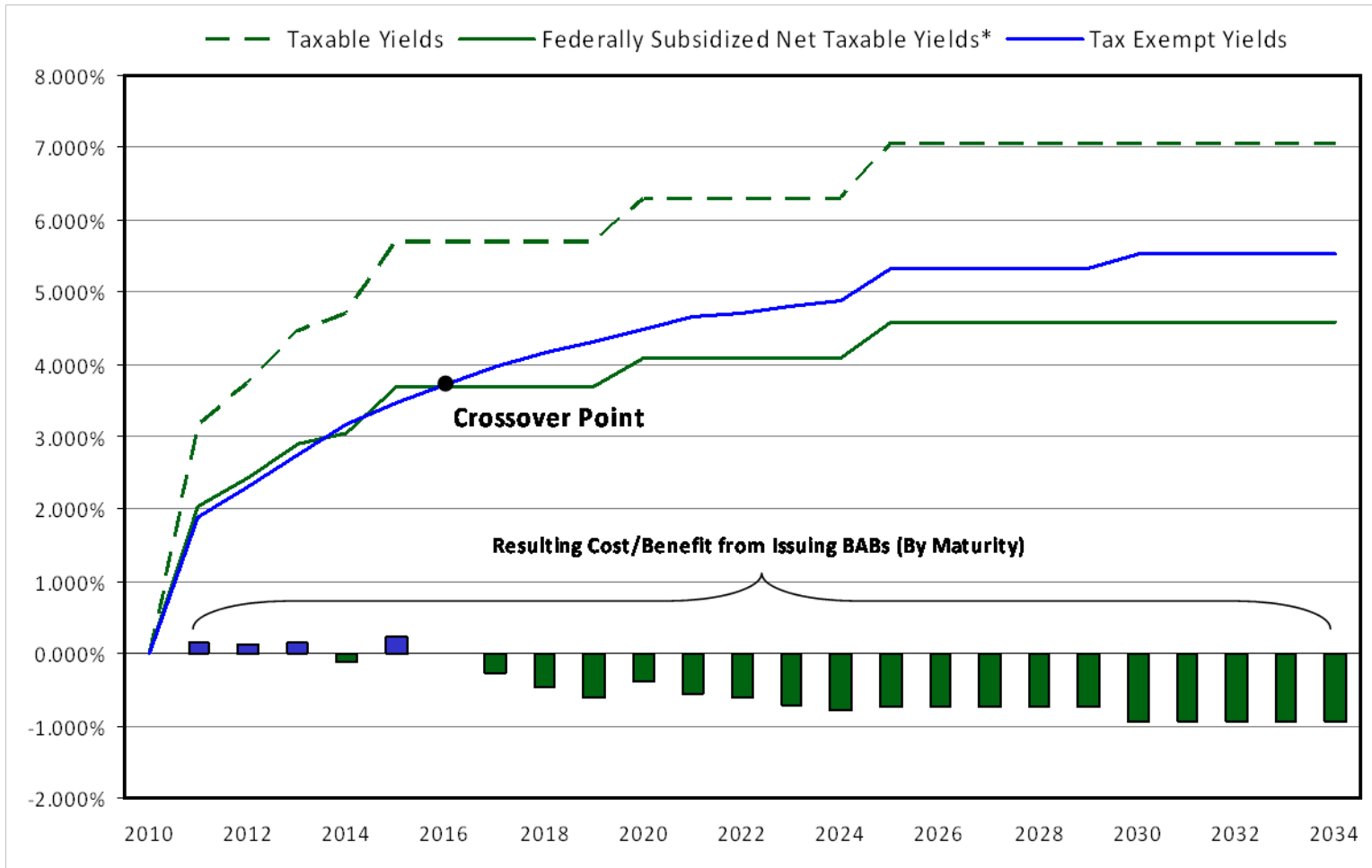
- Broaden investor base to cover domestic and global institutions
 - Increase taxable distribution capabilities

- Continue to monitor evolution of BABs market

BABS CASE STUDY:

WESTERN WASHINGTON UNIVERSITY \$14.28 mm (\$12.835 BABs)

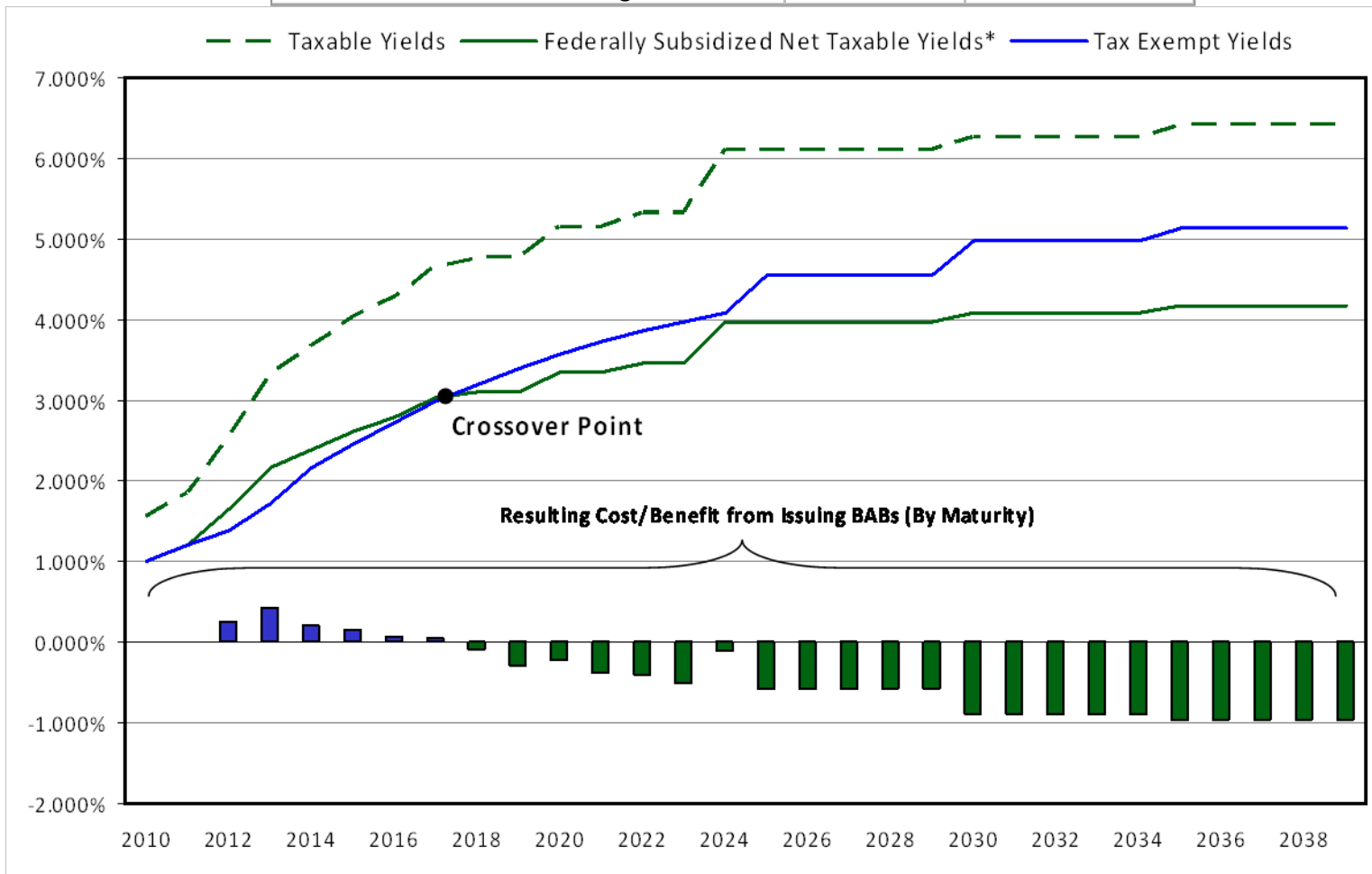
Total Savings from BAB :	\$	2,516,604
Present Value Savings from BAB:	\$	1,463,153





BABS CASE STUDY: CITY OF SHORELINE, WASHINGTON \$22.145 mm (\$18.34 mm BABs)

Total Savings from BAB :	\$	3,864,804
Present Value Savings from BAB:	\$	2,064,304



ECONOMIC BENEFIT OF THE TAXABLE FINANCING STRUCTURES

- Debt Service Savings - Recovery Zone Economic Development & Build America Bonds
 - Assumes AA to Strong A Credit
 - Based on \$5 million par amount per issuer
 - Assumes 25 basis points higher interest rates on smaller financing

Total Projected Debt Service

Financing Structure	Gross Debt Service	Net Debt Service with <u>RZED Subsidy (45%)</u>	Net Debt Service with <u>BAB Subidy (35%)</u>
Tax-Exempt	10,467,237	N/A	N/A
Large Taxable Financing	11,931,608	9,035,134	9,834,101
Small Taxable Financing	12,238,161	9,205,988	10,050,750

Assumed Borrowing Costs

Financing Structure	All Inclusive Cost	All Inclusive Cost with <u>RZED Subsidy (45%)</u>	All Inclusive Cost with <u>BAB Subidy (35%)</u>
Tax-Exempt	5.01%	N/A	N/A
Large RZED Financing	6.80%	3.84%	4.51%
Small RZED Financing	7.06%	3.98%	4.67%

TAXABLE BOND LIMITATIONS COMPARED TO MUNICIPALS

- Size – Strong Bias for Issues over \$100 million who will issue frequently
- Credit – Strong Bias for Highly Rated – AA to AAA Issuers
- Flexibility – Favor “make whole” or more restrictive call protection

The municipal market has evolved to accommodate tens of thousands of smaller issuers – the taxable market accommodates less than 1,000 High Grade Issuers

WASHINGTON CITIES OF OVER 100,000 POPULATION RECEIVING RECOVERY ZONE BOND ALLOCATION

<u>Area</u>	<u>RZED</u>	<u>RZF</u>
Bellevue	\$ 2,491,000.00	\$ 3,736,000.00
Seattle	\$ 13,278,000.00	\$ 19,918,000.00
Spokane	\$ 104,000.00	\$ 156,000.00
Tacoma	\$ 3,320,000.00	\$ 4,979,000.00
Vancouver	\$ 1,639,000.00	\$ 2,459,000.00

WASHINGTON COUNTIES RECEIVING RECOVERY ZONE ALLOCATIONS

<u>Area</u>	<u>RZED</u>	<u>RZF</u>
Asotin	\$ 9,000.00	\$ 14,000.00
Clallam	\$ 806,000.00	\$ 1,209,000.00
Clark	\$ 2,627,000.00	\$ 3,940,000.00
Cowlitz	\$ 3,668,000.00	\$ 5,502,000.00
King	\$ 23,169,000.00	\$ 34,754,000.00
Kitsap	\$ 7,527,000.00	\$ 11,290,000.00
Lewis	\$ 494,000.00	\$ 740,000.00
Pacific	\$ 580,000.00	\$ 870,000.00
Pierce	\$ 9,741,000.00	\$ 14,612,000.00
Skagit	\$ 5,276,000.00	\$ 7,914,000.00
Skamania	\$ 100,000.00	\$ 149,000.00
Snohomish	\$ 13,210,000.00	\$ 19,816,000.00
Spokane	\$ 136,000.00	\$ 204,000.00
Whatcom	\$ 1,825,000.00	\$ 2,738,000.00

Washington Counties Not Receiving Recovery Zone Allocations

Adams	Franklin	Kittitas	San Juan
Benton	Garfield	Klickitat	Stevens
Chelan	Grant	Lincoln	Thurston
Columbia	Grays Harbor	Mason	Wahkiakum
Douglas	Island	Okanogan	Walla Walla
Ferry	Jefferson	Pend Oreille	Whitman
			Yakima