



Build America Bonds (BABs)

An Issuer's Perspective

**Government Finance Officers Association
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Presented by
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Considerations for Issuers

- ◆ Evaluating Savings from BABs – Running the Numbers
- ◆ What to do with the Subsidy Payment
 - ❖ Deposit to Sinking Fund
 - ❖ Pledge as Security for Debt Service
 - ❖ Divert for Some Other Purpose
- ◆ Impact on Reserve Requirements and Debt Capacity
- ◆ Risk of Change in Subsidy Rate/Payment



Execution Issues

- ◆ Taxable Market or Municipal Market Conventions – Who Decides?
- ◆ Negotiated Versus Competitive Sale – Bidding Parameters and Methodologies
- ◆ Analyst/Investor Education About Municipal Credits
- ◆ Structuring Issues – Where is the Cross-Over?



The Market for BABs

- ◆ Extraordinarily Rapid Evolution
- ◆ Two-Tier Market and the Role of Regional Dealers
- ◆ Wide Spreads and Embedded Value
- ◆ Short-Term and Long-Term Effects on Municipal Market



Hot Buttons

- ◆ Trading-Up after Primary Market Offering
- ◆ Underwriting Spreads
- ◆ Net Designated versus Group Net
- ◆ The Call – 10-Year Par versus Make-Whole



Florida BABs Deals

- ◆ DBF has issued 12 BABs deals totaling \$2.1 billion since the program started; \$453.9 million tax-exempt and \$1.6 billion BABs
- ◆ The bonds are structured with both tax-exempt maturities and taxable BABs maturities
- ◆ The crossover point is determined by an internal savings analysis
- ◆ Estimated aggregate interest savings of \$253.4 million on BABs
- ◆ Net interest rate savings on BABs ranging from 22 basis points to 85 basis points
- ◆ The savings vary by issue because of different credits, credit spreads, and ratio of taxable vs. tax-exempt bonds



Florida BABs Deals

	Turnpike 2009A&B	PECO 2006F&G	Prisons COPs 2009B&C	FIU Parking 2009B	PECO 2009 E&F	FL Forever 2010A&B	PECO 2007 F&G	UCF Parking 2010 A&B	Inland Protection 2010 A&B	Lottery 2010 A&B	Everglades 2010 A&B	PECO 2008 C&D	Totals
Rating	AA-/Aa3/AA-	AAA/Aa1/AA+	AA+/Aa2/AA	A+/A1/A	AAA/Aa1/AA+	AA-/A1/A-	AAA/Aa1/AA+	NA/A2/A+	AA/Aa3/AA-	AAA/A2/A	AA-/A1/A-	AAA/Aa1/AA+	
Sale Type	Negotiated	Competitive	Negotiated	Competitive	Competitive	Negotiated	Competitive	Competitive	Competitive	Negotiated	Competitive	Competitive	
Size	\$323.5 million	\$186.6 million	\$337 million	\$32 million	\$155.1 million	\$262 million	\$250 million	\$15.3 million	\$96.7 million	\$161.0 million	\$43.6 million	\$200.0 million	
Tax-Exempt	\$68.5 million 2010 – 2020	\$42.1 million 2010 – 2019	\$62.5 million 2010 – 2014	\$3.1 million 2010 – 2014	\$15.0 million 2010 – 2014	\$87.4 million 2010 – 2017	\$45.9 million 2010 – 2018	\$3.9 million 2010 – 2016	\$36.1 million 2010 - 2016	\$46.1 million 2010 - 2017	\$12.7 million 2011 - 2017	\$30.8 million 2011 - 2017	
BABs	\$255 million 2025 – 2039	\$144.5 million 2020 – 2039	\$274.5 million 2015 – 2029	\$28.9 million 2015 – 2039	\$140.1 million 2015 – 2039	\$174.6 million 2018 – 2029	\$204.1 million 2019 – 2039	\$11.1 million 2017 – 2029	\$60.6 million 2017 - 2024	\$115.0 million 2018 - 2029	\$30.9 million 2018 - 2029	\$169.2 million 2018 - 2039	
Mixed Issue – Net Yield	4.35%	3.53%	4.05%	4.35%	3.69%	4.10%	3.64%	3.57%	3.07%	3.80%	3.71%	3.69%	
Base Case – Tax-Exempt Yield	5.20%	4.23%	4.51%	4.79%	4.53%	4.32%	4.42%	4.34%	3.54%	4.17%	4.28%	4.44%	
Estimated Net Yield Savings	0.85%	0.70%	0.46%	0.43%	0.84%	0.22%	0.78%	0.77%	0.47%	0.37%	0.57%	0.75%	
Estimated Gross Savings	\$56.1 million	\$36.9 million	\$18.0 million	\$2.9 million	\$27.1 million	\$7.3 million	\$40.4 million	\$1.4 million	\$4.0 million	\$7.3 million	\$3.1 million	\$30.9 million	\$253.4 million
Estimated Total Federal Subsidy	\$131.4 million	\$60.1 million	\$81.5 million	\$13.1 million	\$52.8 million	\$57.8 million	\$82.6 million	\$3.0 million	\$11.6 million	\$35.1 million	\$9.0 million	\$68.2 million	\$606.2 million



“Offset” Risk

- ◆ Under current law subsidy payment can be reduced or withheld for any amount owed the federal government
- ◆ Treasury Offset Program (“TOP”) created under the Debt Improvement Collection Act of 1996 and administered by the Financial Management Service (FMS)
- ◆ Issuers of BABs can lose benefit of BABs if subsidy payments are reduced or withheld
- ◆ Issuers of BABs should evaluate risk of “offset” before deciding to use BABs



Conclusion

- ◆ BABs can be an attractive alternative at the 35% subsidy rate
- ◆ BABs have had beneficial effect on tax-exempt market by reducing supply
- ◆ BABs market continues to evolve
- ◆ Issuer's should carefully evaluate the risk of "offset" before issuing BABs

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Overview of Build America Bonds and Other Direct Subsidy Taxable Municipal Bonds

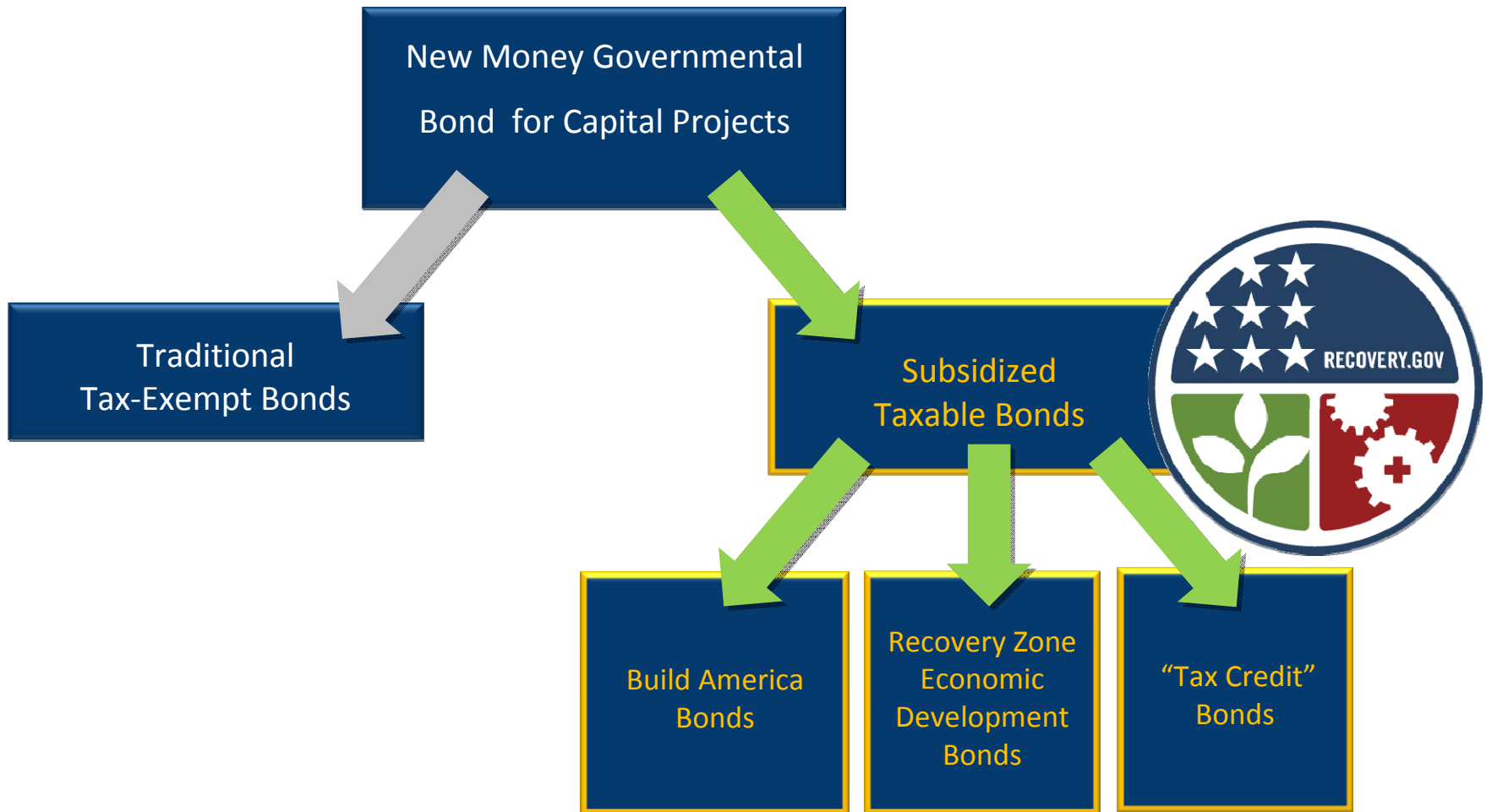
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ARRA Created New Borrowing Options for State and Local Governments



ARRA's Tax Credit Bond Alphabet Soup

Build America Bonds (BAB) – 35% of Taxable Interest Subsidy

Unlimited quantity by any governmental issuer for new money capital projects.

Recovery Zone Economic Development Bonds (RZEDB) – 45% of Taxable Interest Subsidy

\$10 billion to counties and large municipalities for projects that promote economic development in issuer defined recovery zones

Qualified Energy Conservation Bonds (QECB) – 70% Interest Subsidy

\$3.2 billion to states and local governments to finance projects to reduce energy consumption in public buildings, for mass commuting facilities and for various research and demonstration projects for energy conservation

New Clean Renewable Energy Bonds (New CREB) – 70% Interest Subsidy

\$2.4 billion to states, local governments, public power agencies and electric cooperatives to finance clean renewable energy generation projects including solar and wind power generation

Qualified School Construction Bonds (QSCB) – 100% Interest Subsidy

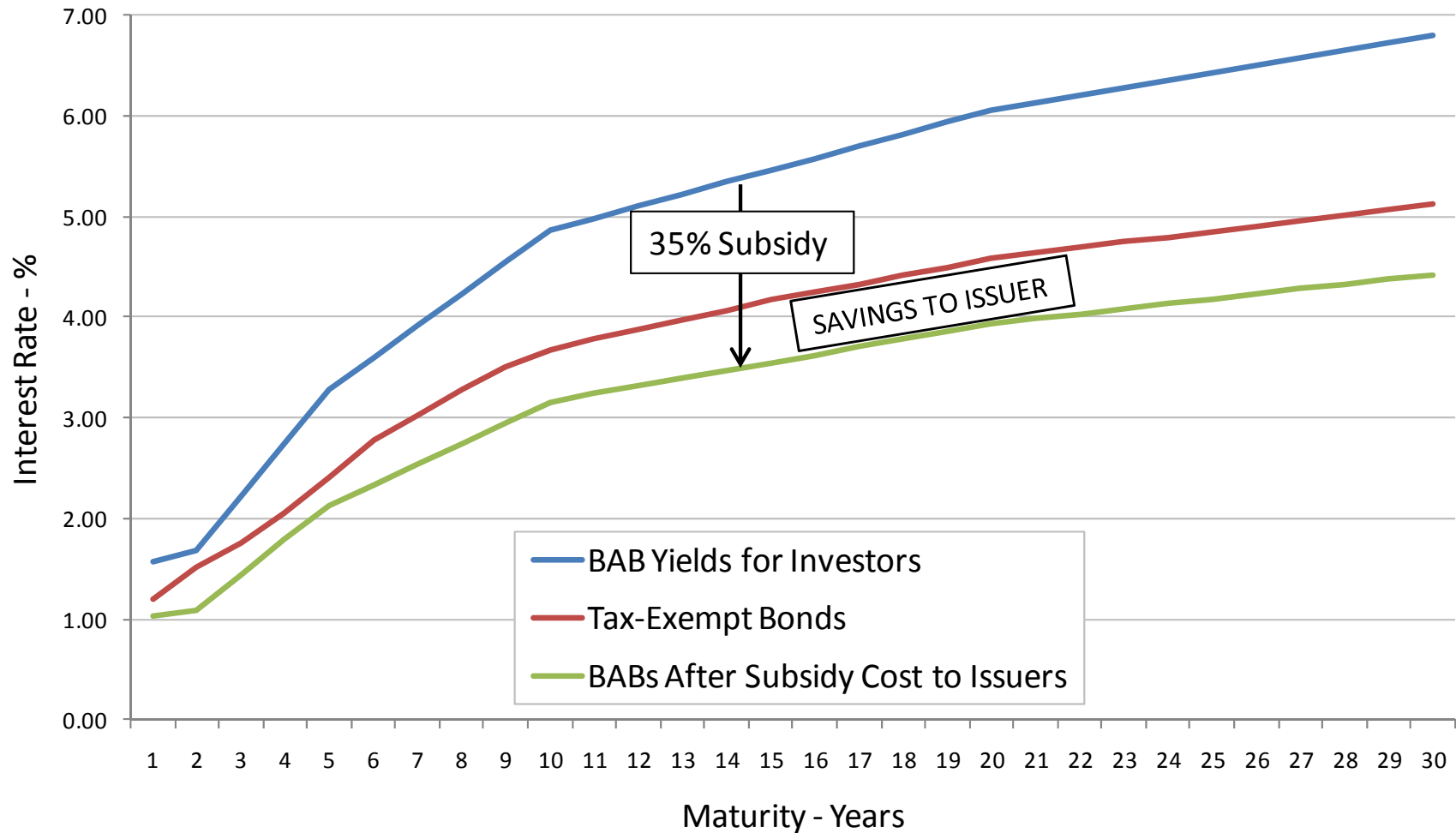
\$22 billion to states and local governments to finance school buildings

Qualified Zone Academy Bonds (QZAB) – 100% Interest Subsidy

\$1.4 billion to local governments to finance school buildings and programs

BABs Lower Borrowing Costs for State and Local Governments.

Indicative Interest Rates for an A-Rated Municipal Issuer



Indicative Net Borrowing Costs with Direct Subsidy QSCBs

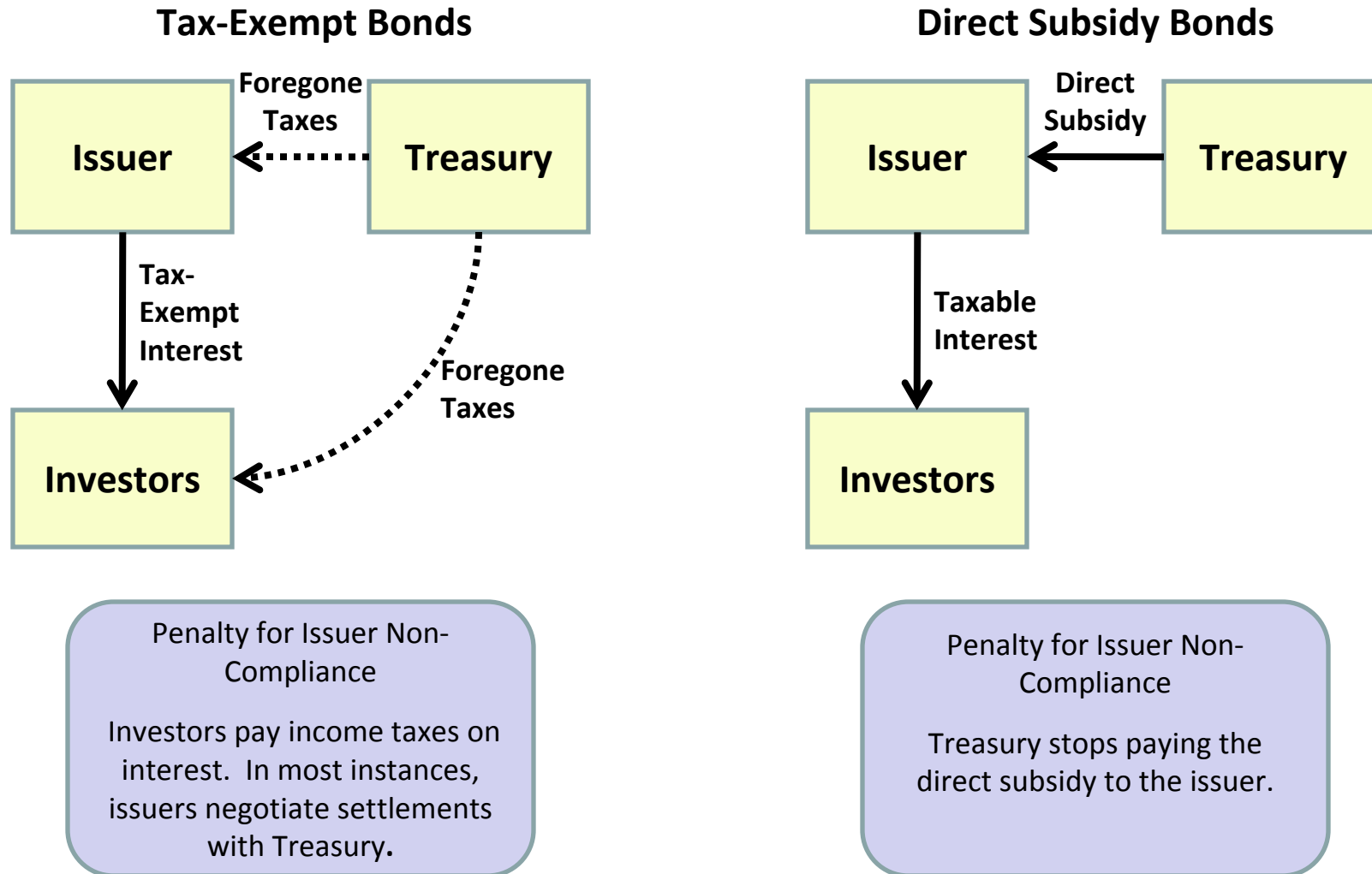
Tax Credit Rates and Indicative Bond Yields for General Obligation Credits

Credit Rating	AAA	AA	A	BBB
30-Year Treasury Reference Yield	4.75%	4.75%	4.75%	4.75%
Issuer's Credit Spread for 17-Year Bond	0.25%	0.50%	1.00%	2.75%
Issuer's 17-Year Bond Yield (A)	5.00%	5.25%	5.75%	7.50%
Tax Credit Rate Determined by Treasury Daily (B)	5.46%	5.46%	5.46%	5.46%
Direct Subsidy - Lesser of A and B	5.00%	5.25%	5.46%	5.46%
Net Borrowing Cost-Bond Yield Minus Subsidy	0.00%	0.00%	0.29%	2.04%

Credit spreads are highly idiosyncratic and often volatile. The spreads shown are indicative, but not necessarily representative of a particular borrower's credit spread at a given rating level.

Indicative net borrowing costs do not include the effects of earnings on an invested sinking fund which would further reduce costs.

Direct Subsidy Bonds are a More Efficient Subsidy for the Federal Government, but the Penalty for Non-Compliance Falls Directly on the Issuer



Issuer Risks and Costs in Direct Subsidy Bonds that Do Not Exist for Tax-Exempt Bonds

Congress and the President could Change the Law to Reduce or Eliminate the Issuer Subsidy on Already Issued Direct Subsidy Bonds.

- The legal mechanism by which the subsidy is paid is the same as for income tax rebates requiring no appropriations.
- The ability to change law is equally applicable to issued tax-exempt bonds which could be retroactively declared taxable, but the risk is borne by bondholders in that scenario.
- Many billions of dollars of the structurally similar Direct Subsidy Build American Bonds have already been issued, arguably further reducing this political risk with every issuance.
- This risk can be partially mitigated with an extraordinary make-whole call calculated using a higher spread than a normal make-whole call.

The Penalty for Breaking Tax Law with a Change in Use of the Financed Facility or Other Reason that Results in a Loss of Tax Status Falls Directly on the Issuer with a Potential Loss of Subsidy.

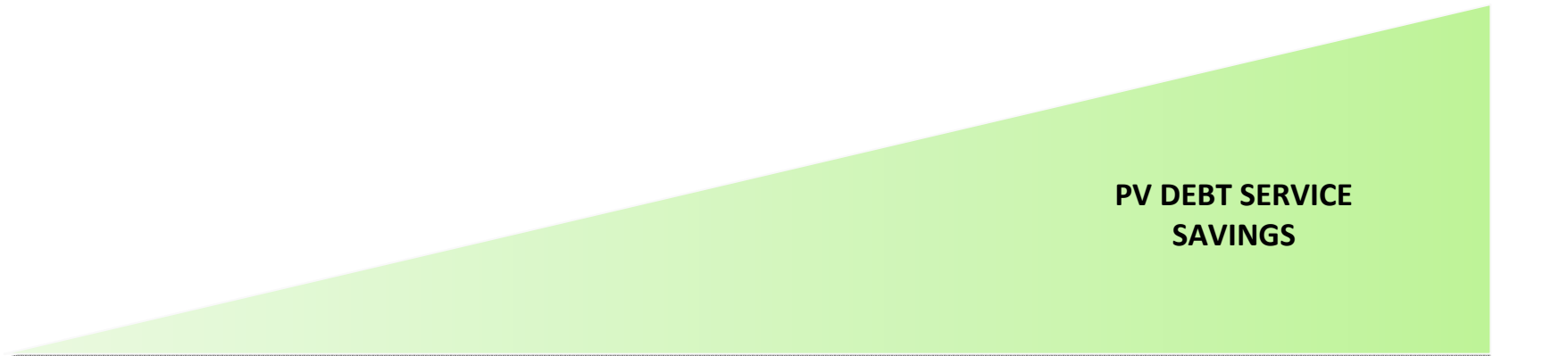
- For tax-exempt bonds it is bondholders who legally bear this risk through the loss of tax exemption, but in practice tax-exempt bond issuers have usually negotiated settlements at their own cost to protect tax status and thus bondholders.

Treasury Could Withhold Direct Subsidy Payments as an “Offset” Against Other Monies Owed to the Federal Government.

Increased Probability of Audit of the Transaction by Treasury

Increased Reporting Requirements to the Treasury

The Savings from Direct Subsidy Bonds Vary by Product, Maturity, Issuer and Market Conditions



BAB
10 bps / 10 yrs
0.8% of Par

BAB
50 bps / 25 yrs
7.9% of Par

RZEDB
75 bps / 25 yrs
11.8% of Par

QECB
49% of Par

QSCB
70% of Par

		Present Value Savings Per \$100 Million					
Savings in Basis Points	Annual Savings Per \$100mm	10 Years	15 Years	17 Years	20 Years	25 Years	30 Years
10	\$100,000	\$864,000	\$1,171,000	\$1,274,000	\$1,406,000	\$1,579,000	\$1,738,000
25	250,000	2,159,000	2,927,000	3,185,000	3,515,000	3,947,000	4,344,000
50	500,000	4,318,000	5,854,000	6,371,000	7,030,000	7,894,000	8,688,000
75	750,000	6,477,000	8,781,000	9,556,000	10,544,000	11,841,000	13,032,000
100	1,000,000	8,636,000	11,708,000	12,742,000	14,059,000	15,789,000	17,376,000
125	1,250,000	10,795,000	14,635,000	15,927,000	17,574,000	19,736,000	21,720,000
150	1,500,000	12,953,000	17,562,000	19,113,000	21,089,000	23,683,000	26,064,000
382	3,822,000		44,748,000	48,699,000			
546	5,460,000		63,926,000	69,570,000			

Tax Credit Build America Bonds: Policy Failure?

Issuers may sell BABs with a Federal income tax credit for investors equal to 35% of interest, including for refunding and working capital purposes which are not eligible for funding from BABs with a direct issuer subsidy.

While more than \$100 billion of Direct Subsidy BABs have been sold, no issuer has chosen the tax credit option.

Why has no one issued tax credit BABs?

- Tax credits are taxable income to investors so tax credit BABs will never be used for projects that qualify for subsidy BABs since direct subsidy payments are not subject to taxation.
- The sum of bond and tax credit prices can be sold with no more than a *de minimus* premium resulting in a cumbersome package for investors of a deep discount bond and an annuity of tax credits which is only approximately 26% of the combined yield.
- Tax credits are illiquid, difficult to value and have extremely cumbersome rules and characteristics for investors.
- Subsidy BABs have resulted in tax-exempt bonds pricing at lower relative yields.

Where might we see tax credit BABs?

- Lower rated credits for which there is lower retail demand for tax-exempt bonds
- Serial maturities because we expect a much steeper yield curve for tax credits than for traditional tax-exempt bonds
- Intergovernmental loans where tax exemption has no value.

Build America Bonds and Other Direct Subsidy Bonding Programs are Very Likely to be Extended Beyond 2010

ISSUERS BENEFIT

- Lower borrowing costs for important infrastructure projects
- Broader and deeper investor demand than for tax-exempt debt
- Reduces tax-exempt borrowing costs
- Tax-exempt issuance remains an option

INVESTORS BENEFIT

- Access to a new asset class
- Diversification
- Excellent credit characteristics
- Often at attractive relative yields

EVEN THE FEDERAL GOVERNMENT BENEFITS

- Achieving the desired economic stimulus
- More efficient subsidy than tax exemption
- Subsidy is more visible, targetable and controllable over time than tax exemption
- The only issue is cost, which can and probably will be adjusted for new issues when programs are extended

The Future of BABs: Current Proposals and General Observations

American Jobs and Closing Tax Loopholes Act – H.R. 4213

On May 20th, Senate Finance Committee chairman Max Baucus, D-Mont., and House Ways and Means Committee chairman Sander Levin, D-Mich., released a summary of the latest in a series of proposals and introduced legislation to extend BABs beyond 2010. On May 28th, the bill was passed by the House 215 to 204. It has been sent to the Senate for consideration.

- Extend BABs for two years: 32% in 2011 and 30% in 2012
- Would allow BABs to current refund BABs.
- Authorize an additional \$10 billion of RZEDBs basing allocations on unemployment, not increases in unemployment, and permit existing authorizations to be used in 2011.
- The bill would also authorize an additional \$15 billion of RZFBs, exclude private activity water and sewer bonds from volume cap, extend AMT relief for 2011 for new money and current refundings of bonds issued after 2003, and extend the \$30 million bank qualified limit into 2011.

Given budget constraints, BABs are likely to be extended at reduced subsidy levels for limited periods of time.

The savings from issuing BABs will be reduced from both lower subsidy levels and from higher maximum marginal tax rates which are scheduled to increase from 35% to 39.6% in 2011.

There has been less discussion of the extension of the various tax credit bond programs, but given the broad applicability of QSCBs and the experience with QZABs over the last decade it would not be surprising if additional volume cap were authorized annually.

Expect Congress to continuously tinker with programs, subsidy levels and governing rules.

As long as the ability to issue tax-exempt bonds is not constrained, BABs provide a floor on the value of tax exemption which stabilizes issuers' borrowing costs.

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David A. Abel, Director

William Blair & Company, LLC

ARRA Bonds Issuance to Date

- ARRA (Direct pay) by the Numbers -- Who Issues and Who Buys
- Comments on Method of Sale (Competitive V. Negotiated)
- Effects of BABs on Tax-Exempt Market

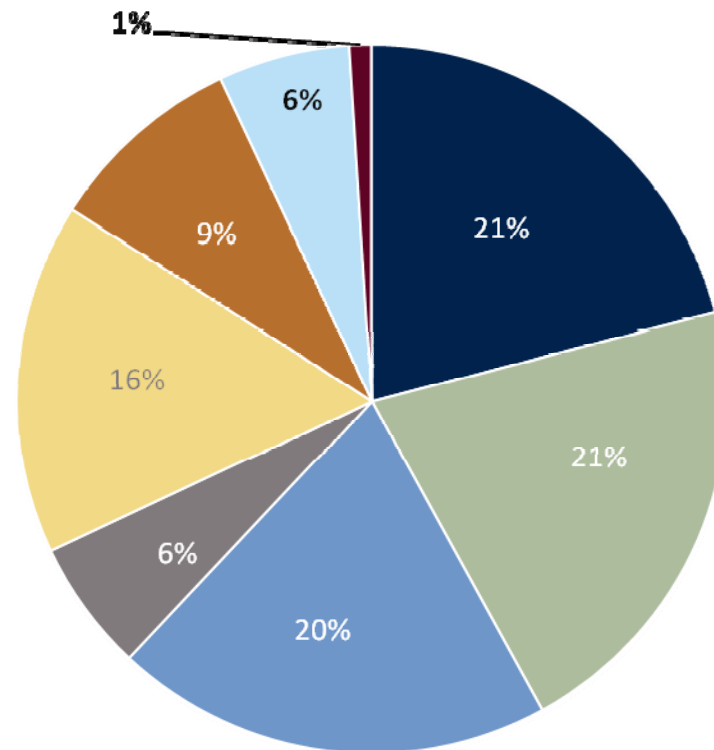
BABs Pricing and Trading

- Pricing Conventions, Secondary Market Observations
- Rating comments
- Call Options, Takedown



Issuer Profiles

Type of Issuer by Par Amount of Issuance



State, Agency and Direct Issuers account for 43% of issuance

Municipalities, Authorities & Districts account for 57% of issuance

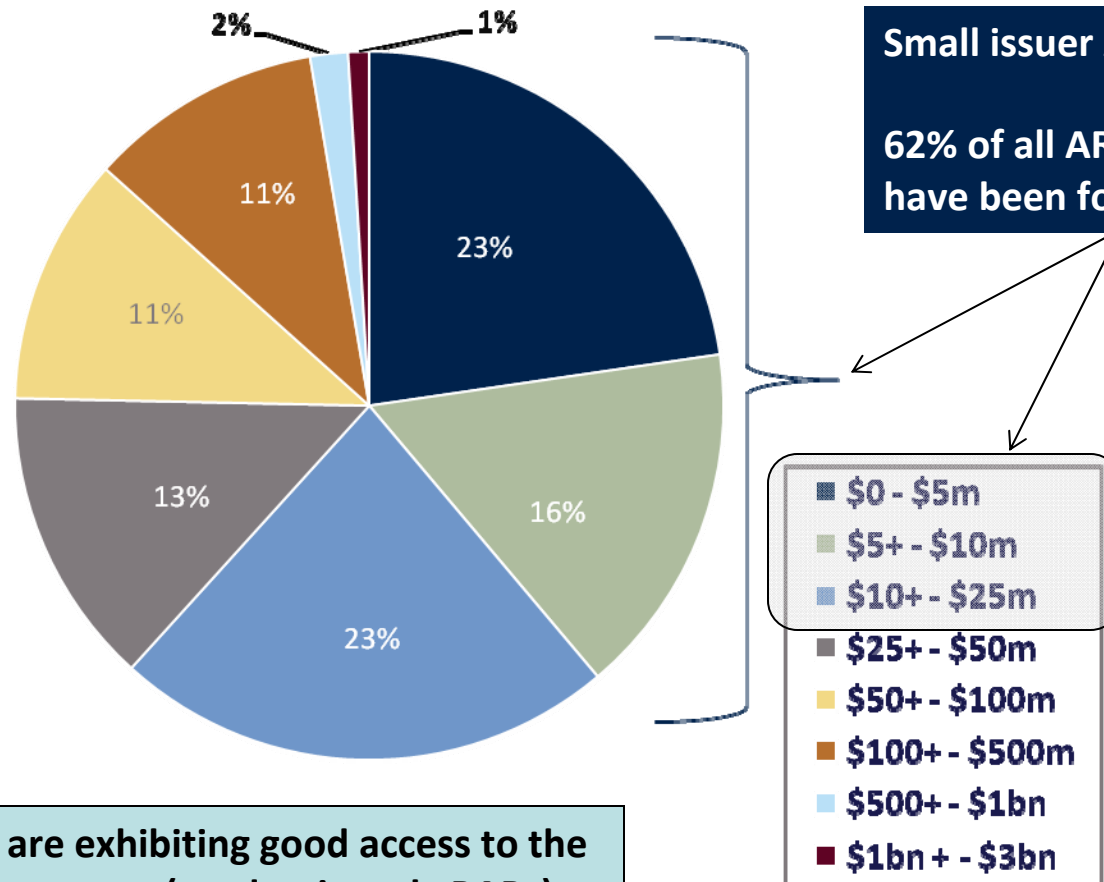
- State Government
- State Agencies
- School/other districts
- Higher Education
- Local Authorities
- Cities & Towns
- County Governments
- Direct Issuer

Source: U.S. Treasury Dept; April 2010



Issuer Profiles

Distribution of Number of Issues by Issue Size



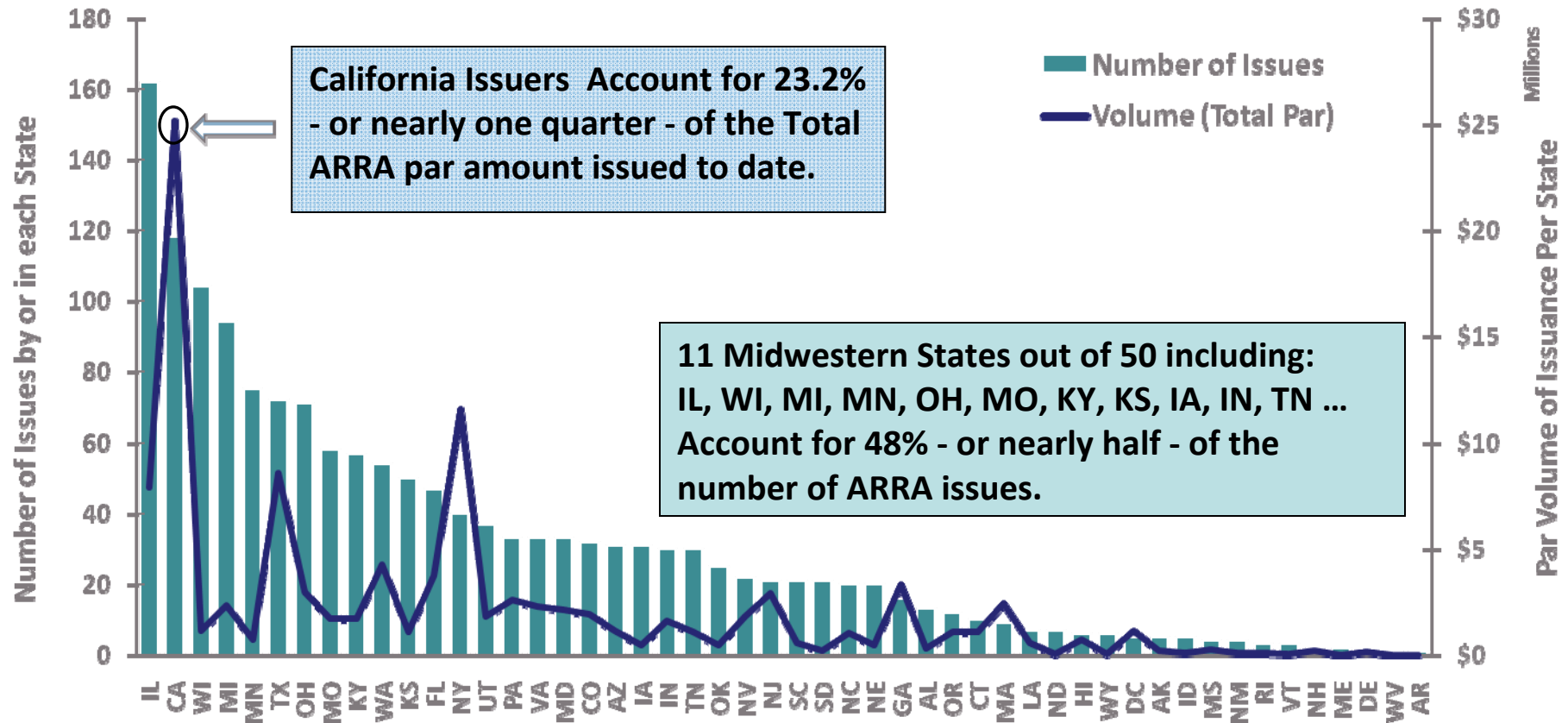
Smaller Issuers are exhibiting good access to the ARRA stimulus program (predominantly BABs)

Source: U.S. Treasury Dept; April 2010



Issuer Profiles

Number of Issues and Par Volume by State



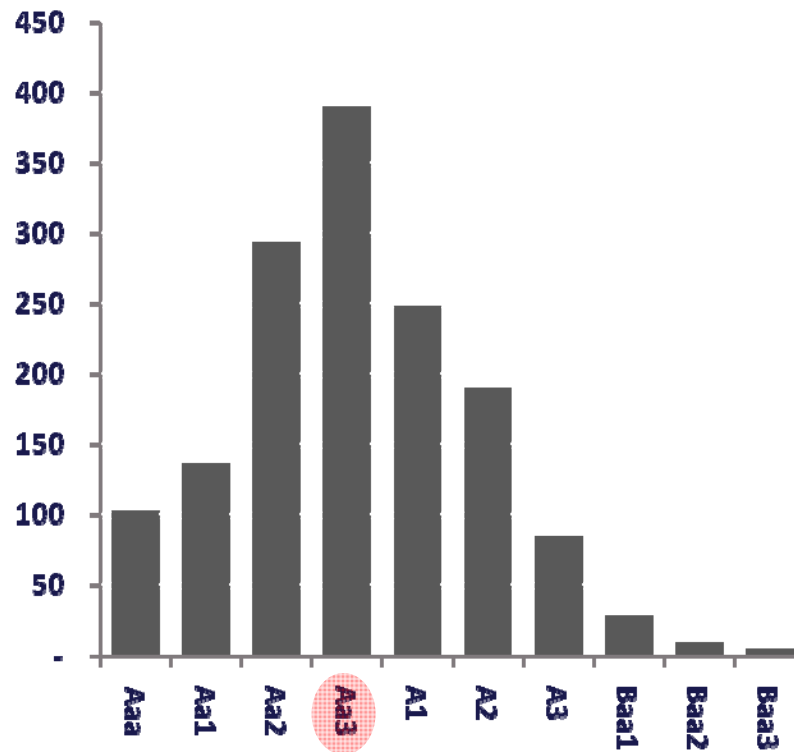
Source: IPREO Data through May 28, 2010.



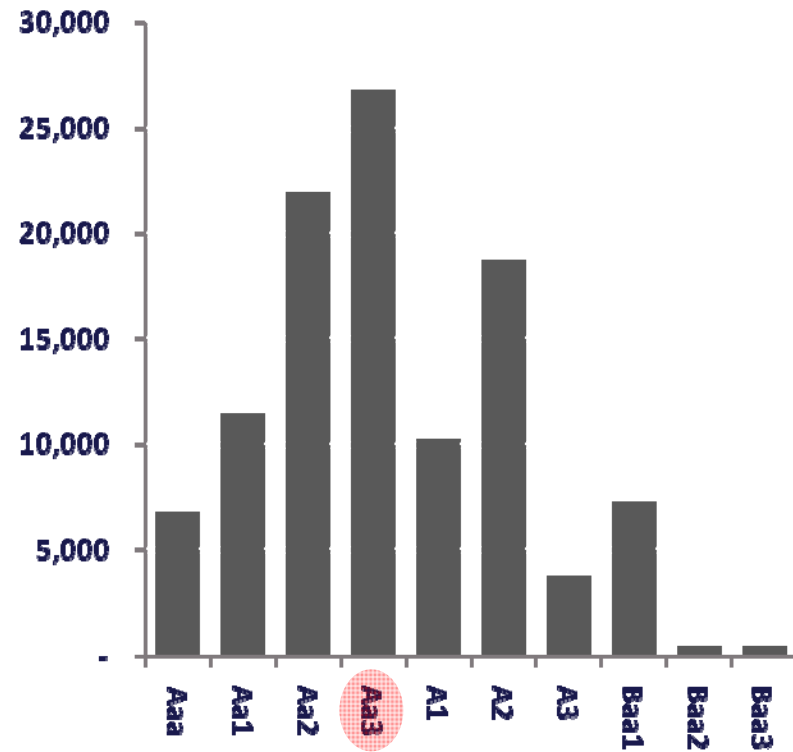
Issuance by Credit Ratings

Number of Issues and Par Volume

Total Number of Issues (#s)



Issuance Par Volume (\$millions)



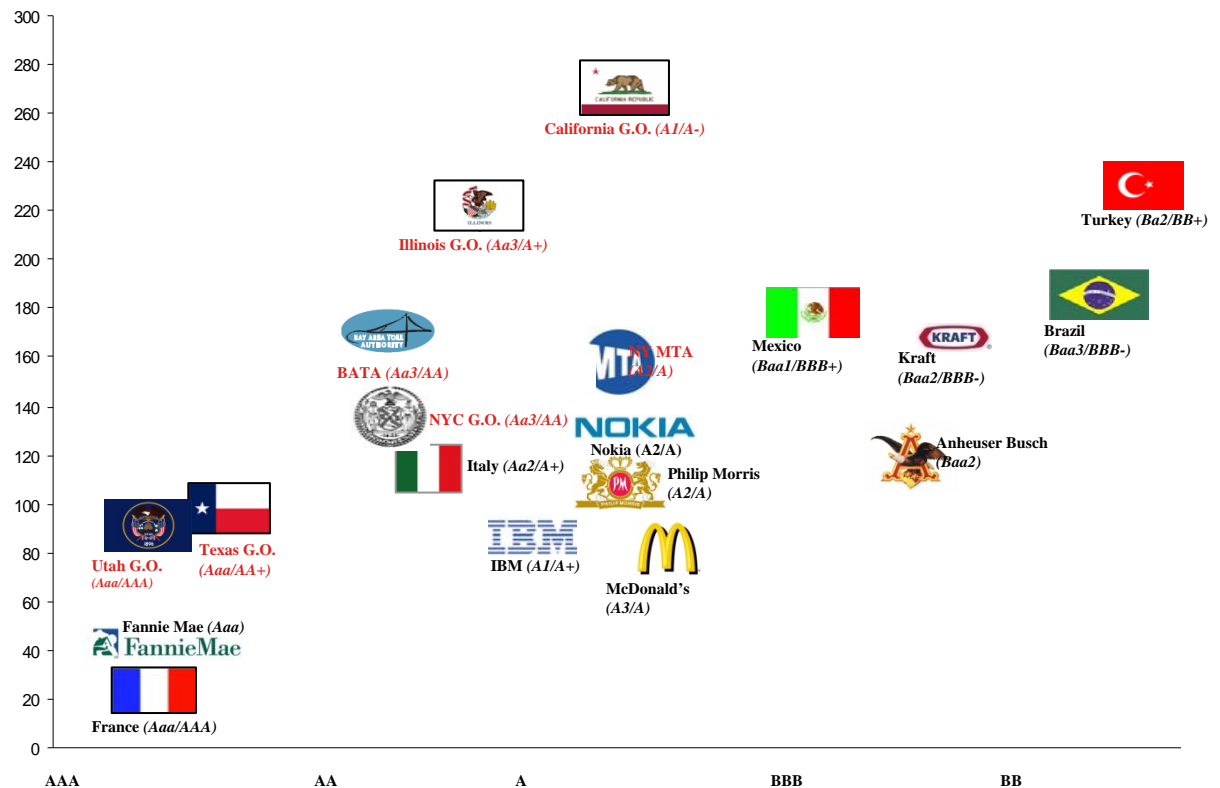
Source: IPREO Data through May 28, 2010.



Major Credits - Spreads by Rating Select State, Sovereign & Corporate Issuers

- Foreign Buyer Interest is emerging for large US governmental credits issued as Taxable BABs.
- Wider spreads serving to attract additional foreign buyers; spreads may begin to compress as sphere of buyers enlarges.
- While credits are diverse, essential purpose, full faith, authority to tax are attractive features.

Municipal Bond Credit Spreads vs. Sovereign & Corporate Peers



Sources: Bloomberg. 30 year maturity or longest available; USD spread to UST; EUR bonds spread to Bunds. Spreads as of May 12, 2010; State ratings reflect recalibration of Moody's state GO ratings. 27



Buyer Profiles

- ◆ Attributes of Taxable Buyers and Taxable Markets
 - ❖ \$7 Trillion+ Nearly 3 times the size of Municipal Tax-Exempts
 - Highly segregated and structured as to credit and purpose
 - Energy – Retail – Manufacturing – Pharmaceuticals – etc
 - ❖ Usually a spread instrument to Treasury yields as the “risk free” rate
 - ❖ Maturities are usually “bullets”, and of shorter maturity length
 - ❖ Par calls are rare, sinking funds reductions are pro rata

- ◆ New Buyer Groups for Taxable Municipal bonds
 - ❖ Generally, anyone who doesn't want or can't use US Tax-Exemption
 - Pension Funds, Tier 2 & Tier 3 Insurance, Money Managers
 - Foreign Buyers, Low risk score for Quasi-Sovereign Credit



Buyer Profiles

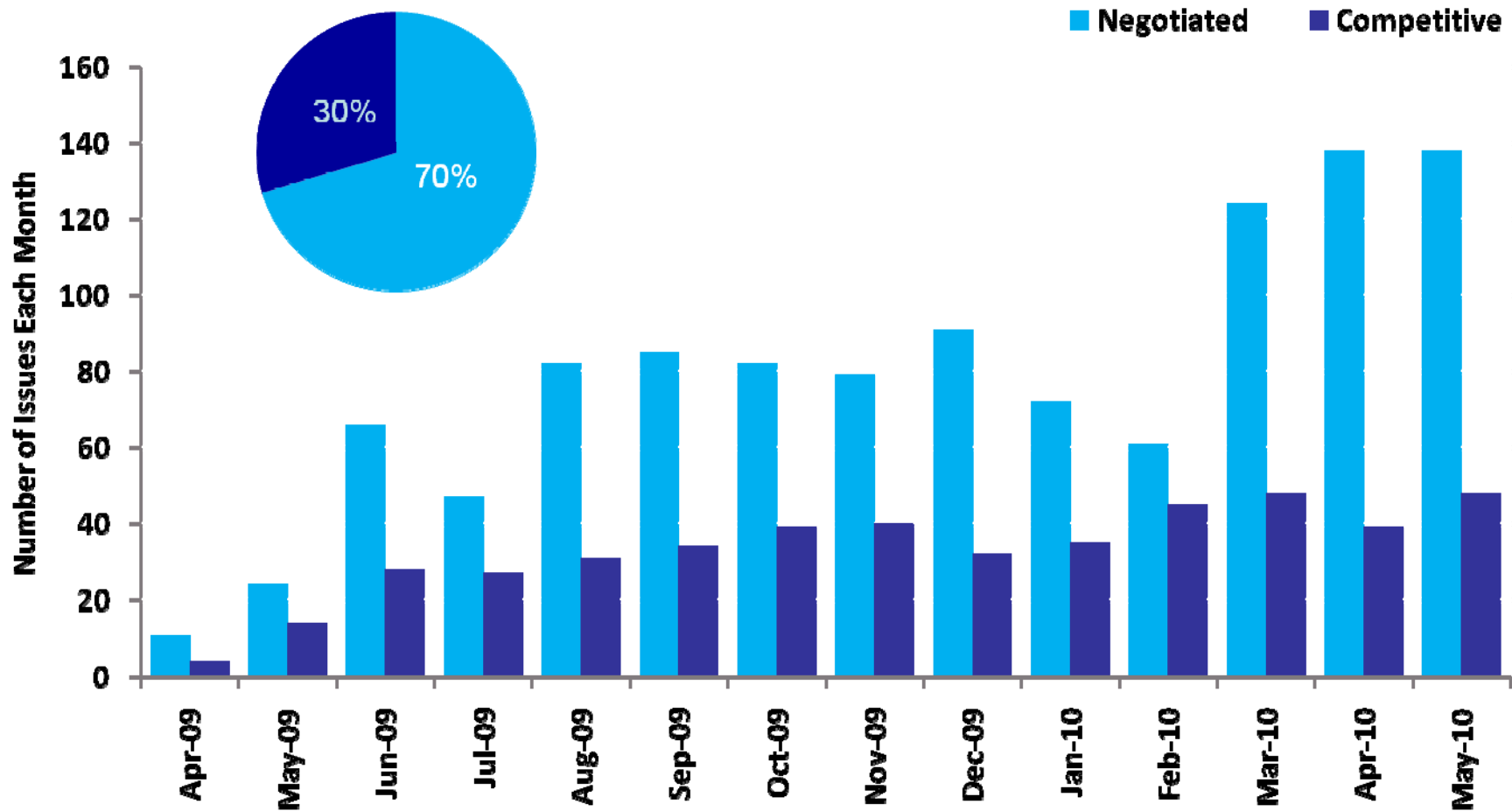
- ◆ Typical Taxable Buyer ... Pre-BABs
 - ❖ Well researched market sectors
 - ❖ Institutional comfort and relationships with particular companies
 - ❖ Ongoing market availability from very large original issued block sizes
 - ❖ Often limited to trading activity only within a particular sector
 - ❖ Comfortable with credit spread, bond Insurance rarely used

- ◆ Enter BABs
 - ❖ At the threshold, “we’re buying a municipal credit”, a new credit class
 - ❖ Many more and smaller (relative to large corporate) entities to follow
 - ❖ Owing to large number of issuers, may rely more heavily on ratings
 - There has been some observed uptick owing to recalibration
 - In the Tax-Exempt sector, Monoline Insurers created “homogeneity”



Method of Sale by Month

Number of Issues Competitive and Negotiated



Source: IPREO Data through May 28, 2010.



Method of Sale By Major Rating Groups and Type of Call Feature

<u>Methods / Groups</u>	<u>Count</u>	<u>Par Amount</u>	<u>Percent</u>	<u>Avg.Final</u>	<u>Avg.Life</u>	<u>Avg.Rating</u>
<u>Aaa/AAA = 10 Aa3/AA- = 7</u>						
Par Call	268	7,563,975,000	11.3%	2031	15.44	8.67
Non / MakeWhole	55	4,780,090,000	7.1%	2033	18.48	8.75
Competitive	323	12,344,065,000	18.4%	2032	16.62	8.70
Par Call	404	21,131,993,000	31.6%	2035	22.18	7.96
Non / MakeWhole	196	33,473,025,000	50.0%	2037	25.33	8.12
Negotiated	600	54,605,018,000	81.6%	2037	24.11	8.06
SubTotal	923	66,949,083,000	100.0%	2036	22.73	8.18
<u>A1/A+ = 6 A3/A- = 4</u>						
Par Call	102	1,316,091,000	3.6%	2031	16.10	5.58
Non / MakeWhole	8	584,570,000	1.6%	2036	18.63	5.37
Competitive	110	1,900,661,000	5.2%	2033	16.88	5.52
Par Call	283	8,596,746,000	33.1%	2036	22.71	5.41
Non / MakeWhole	139	25,939,410,265	75.1%	2038	26.70	5.14
Negotiated	422	34,536,156,265	94.8%	2038	25.71	5.20
SubTotal	532	36,436,817,265	100.0%	2037	25.25	5.22
<u>Baa1/BBB+ = 3 Baa3/BBB- = 1</u>						
Competitive	32	289,425,000	5.7%	2031	14.96	1.17
Negotiated	78	4,753,746,000	94.3%	2036	24.61	2.62
SubTotal	110	5,043,171,000		2035	24.06	2.53
Total	1565	108,429,071,265				

Source: IPREO Data through May 28, 2010.



Observations on Method of Sale

◆ Competitive Sales

- ❖ Higher degree of separation between issuer and underwriting process
- ❖ Higher observed frequency of Par Call features
- ❖ Slightly shorter maturity schedules, more likely to be serialized
- ❖ Wider spreads between winning and cover bids than for Tax-Exempts

◆ Negotiated Sales

- ❖ Likely the better method for very large size
- ❖ More likely to have a Make-Whole rather than a Par Call feature
- ❖ Slightly longer maturity schedules, more likely to have term bonds
- ❖ Underwriting spreads have been reducing to near tax-exempt levels



BABs Effects on Tax Exempt Bonds Could be a Mutually Efficient Arrangement

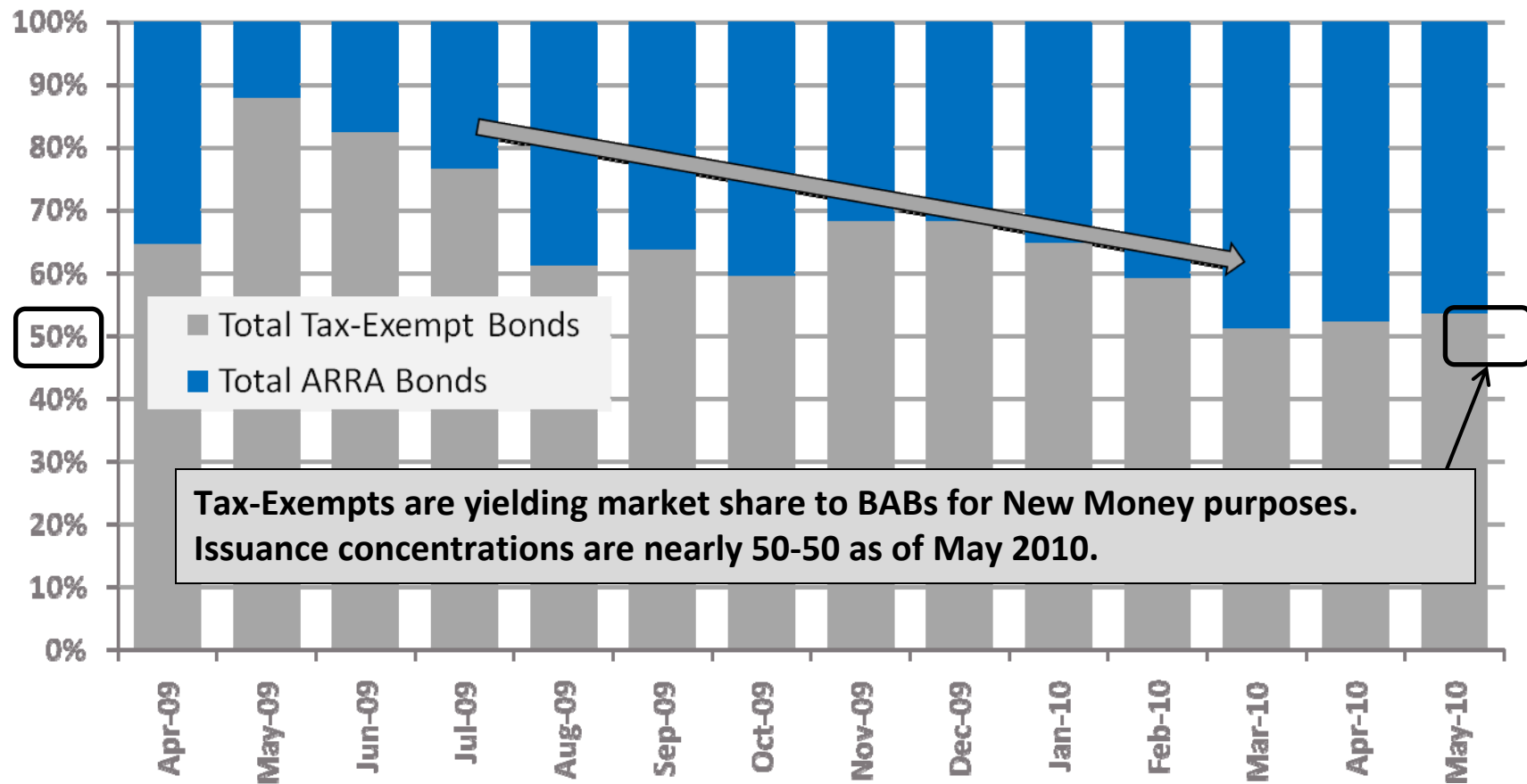
- ◆ Natural Selection by Supply and Demand
 - ❖ Issuers generally opt for the lowest cost of funds
 - ❖ Inherent risks and lack of flexibility (when non-call) with BABs may deserve decision handicaps that are wider than “better by 1 BP”.

- ◆ Tax Exempts favored in the Short Sector - 1 to 10 years
 - ❖ Defensive investing can force short-sector high-grades to low yields
 - ❖ Greater volume of Taxable Corporate supply, BABs harder to compete

- ◆ BABs favored in Long Sector - 15 to 30 years
 - ❖ Absence of TOB Buyers, more shallow capacity for long Tax-Exempts
 - ❖ New frontier for taxable buyers, high credit quality, longer duration



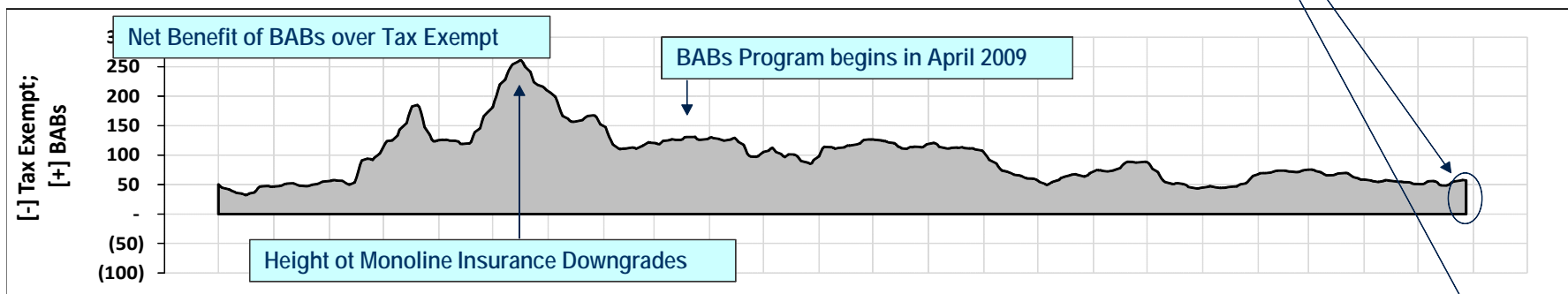
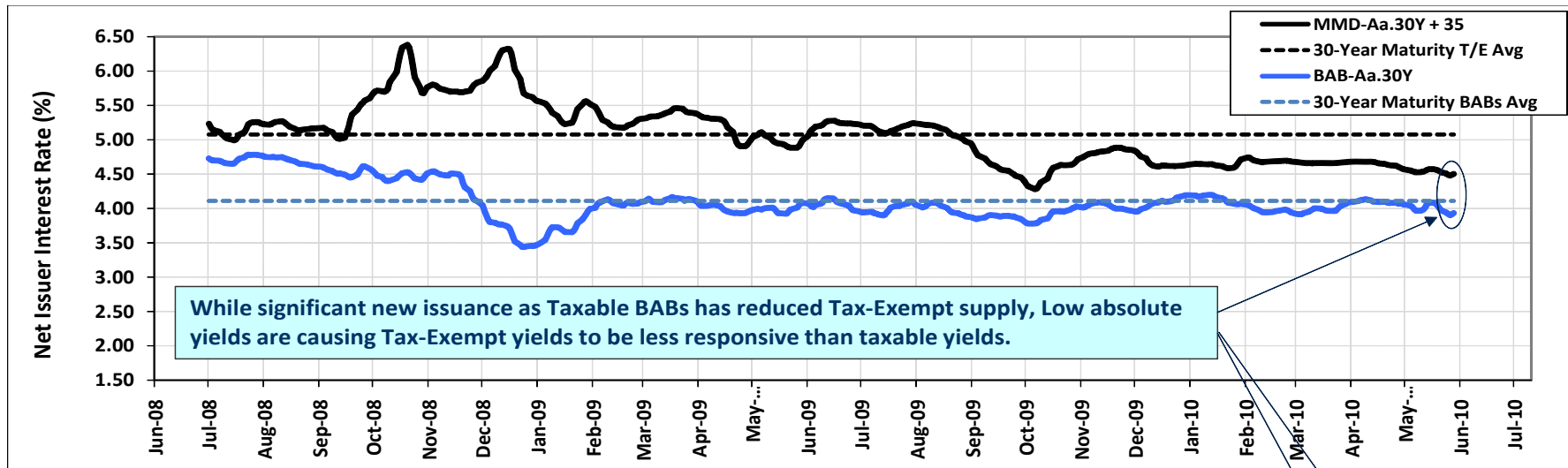
New Money Issuance in BABs has picked up considerable speed – now just under 50%



Source: IPREO Data through May 28, 2010.



Historical Spread Benefit 30-year Tax-Exempt Bonds Versus BABs



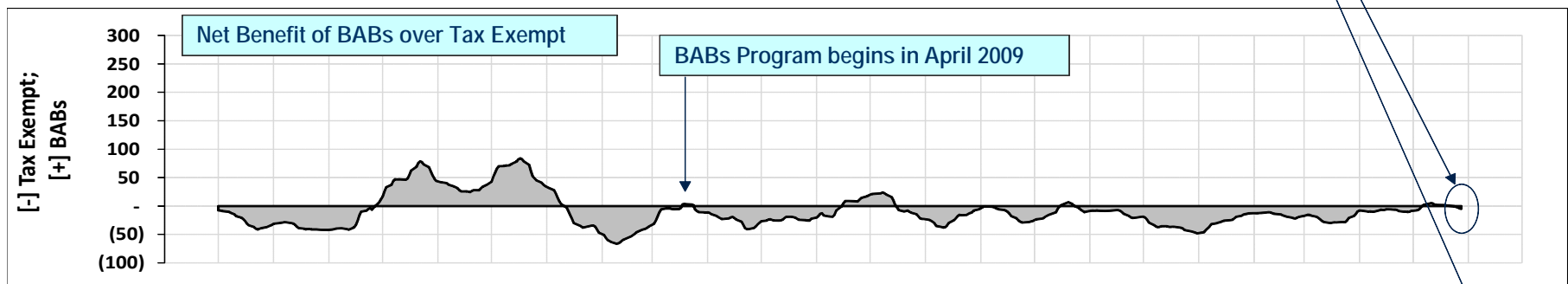
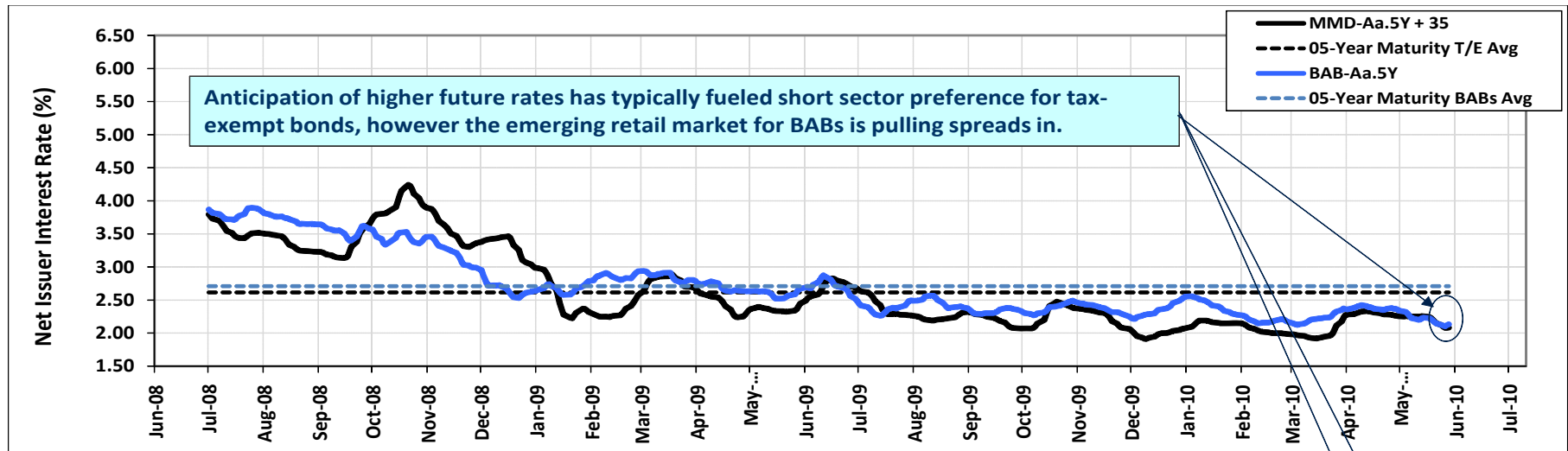
Sources: Municipal Market Data; Tax-Exempt rates
 Bloomberg Data; Daily closing Treasury Yields

Notes: Graphs utilize a 5 Trading-Day Moving Average to demonstrate market trend effects

T/Exe Estimated Rate for 05/28/10 = 4.550%
 BABs Estimated Rate for 05/28/10 = 3.978%
 Net BABs Benefit for 05/28/10 = 57 bps



Historical Spread Benefit 5-year Tax-Exempt Bonds



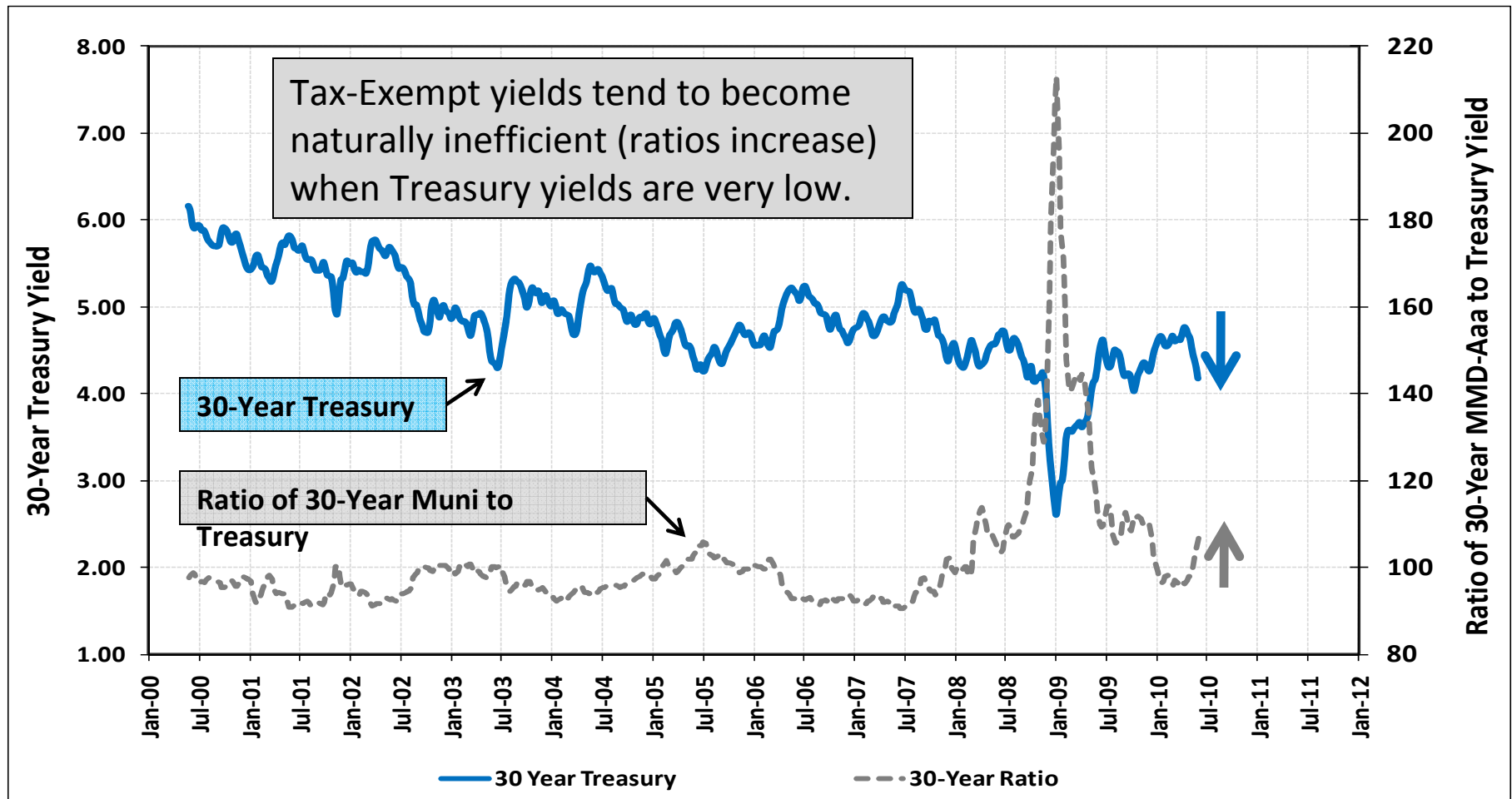
Sources: Municipal Market Data; Tax-Exempt rates
Bloomberg Data; Daily closing Treasury Yields

Notes: Graphs utilize a 5 Trading-Day Moving Average to demonstrate market trend effects

T/Exe Estimated Rate for 05/28/10 = 2.110%
BABs Estimated Rate for 05/28/10 = 2.145%
Net Tax-Exempt Benefit for 05/28/10 = 4 bps



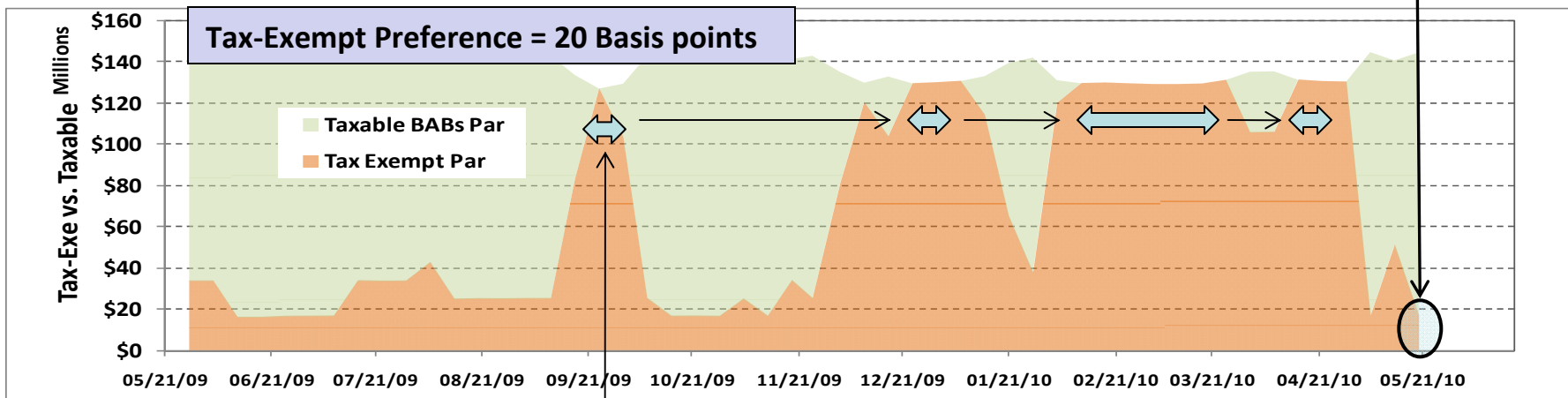
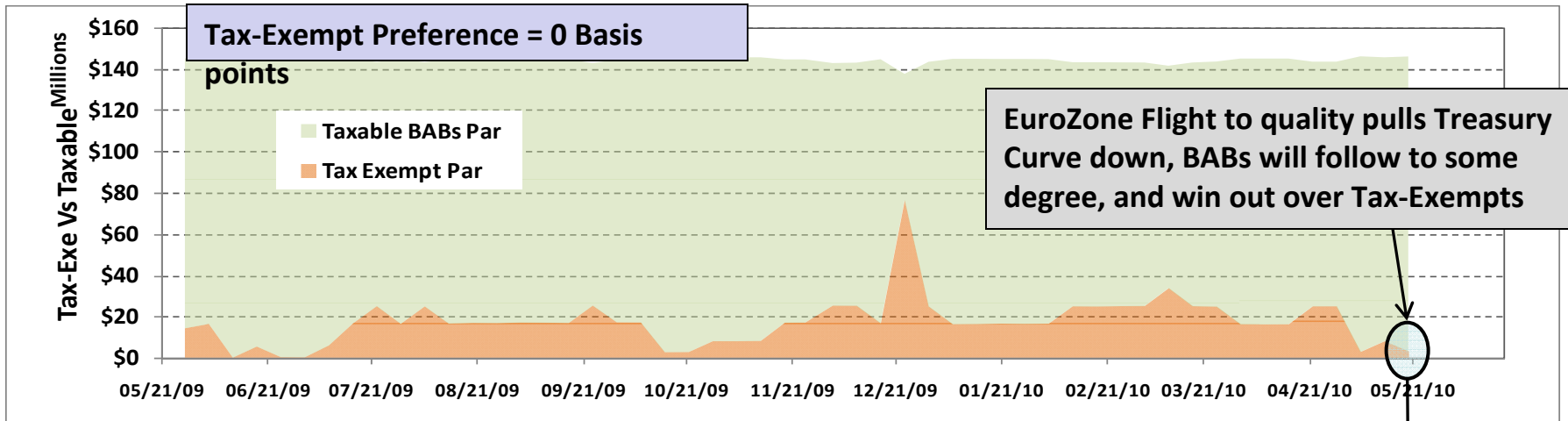
Tax-Exempts are inherently disadvantaged when the Treasury Market is at extremely low yields



Source: Bloomberg Data for Treasury and Municipal Market Data for tax-exempt yields through May 28, 2010.



Selection Bias in BABs Decisions: Allowing Tax-Exempts to have lower risk preference





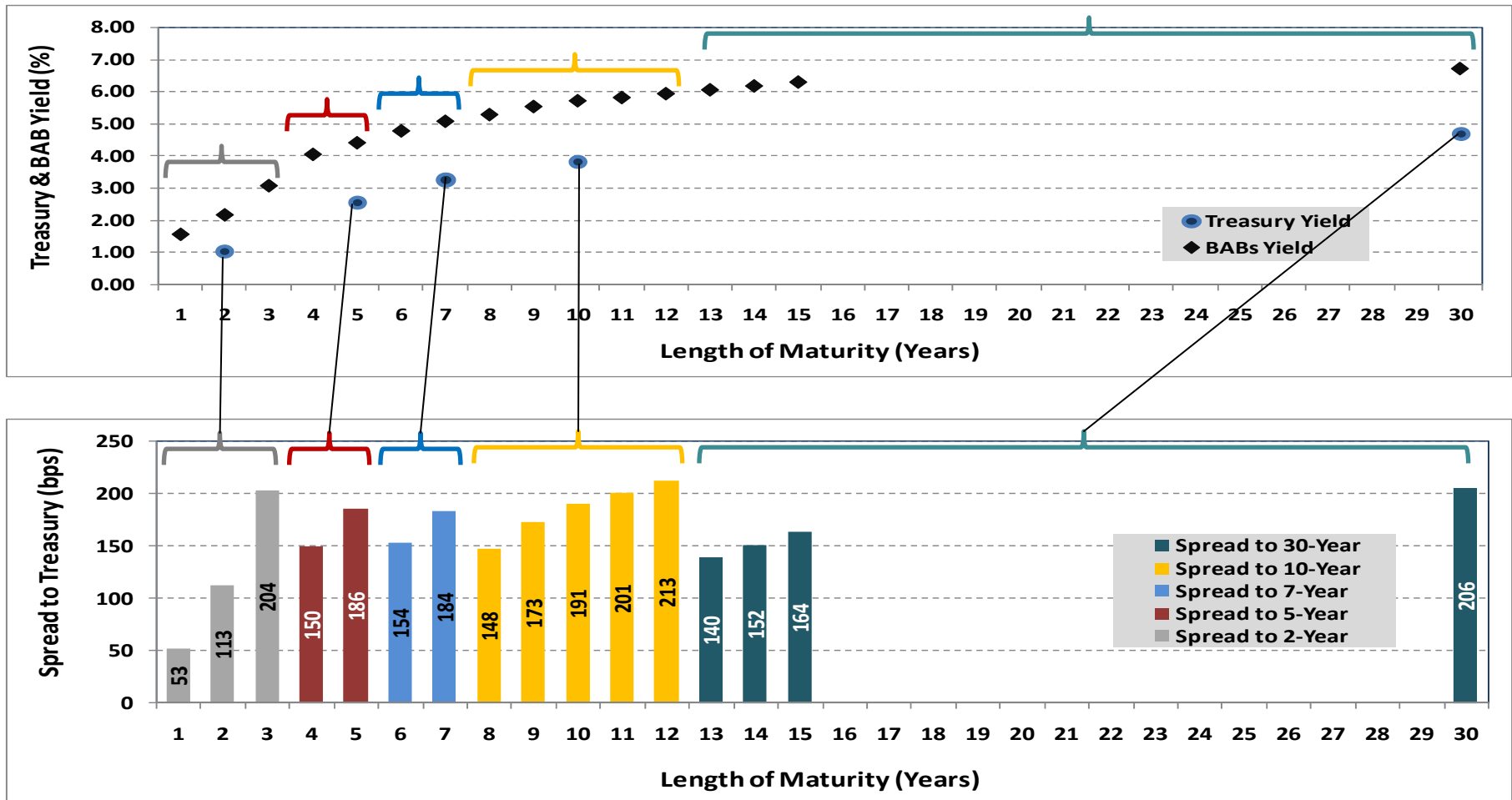
Pricing BABs

- ◆ **BABs Pricing is usually based on spreads to Treasury Yield**
 - ❖ Maturity years are bundled into Treasury Reference Years
 - ❖ Spreads to Treasury yields are negotiated with buyers
 - An exact time is set to take a snap-shot of the Treasury Maturities
 - Treasury Yield + Negotiated Spread = BABs interest rate or Coupon

- ◆ **“On-The-Run” Treasury Reference Maturities**
 - ❖ Treasury Durations include 2, 3, 5, 7, 10, & 30 years
 - ❖ Recently auctioned, heavily traded, highly transparent
 - ❖ May not be an exact number years
 - ❖ Exact Treasury maturity date and Coupon change.



BABs Price relative to Treasury Yields. Unlike the MMD as a sector indicator, the Treasury does not provide a serialized base sector curve.





Trading Post Sale – Competitive Sale Example De Minimus Price followed by Retail Distribution

Bone fide “going away” order meets the first 10% sold at-issue-price test

Follow-on Distribution likely to Retail network in small block sizes

Trade	Time	Type	Stated Price	Stated Yield	Amount	Years To Mat	TSY Yield	Calc. Yield	Price Method	Basis Spread
Day 1	16:42	Dealer	99.750		8,000,000	24.90	4.621	6.920	Maturity	230
Day 1	16:46	Sell	99.750	6.920	20,000,000	24.90	4.621	6.920	Maturity	230
Day 1	16:58	Sell	102.750	6.670	10,000	24.90	4.621	6.671	Maturity	205
Day 1	17:13	Sell	102.750	6.670	15,000	24.90	4.621	6.671	Maturity	205
Day 1	17:15	Sell	102.750	6.670	25,000	24.90	4.621	6.671	Maturity	205
Day 1	17:33	Sell	102.750	6.670	10,000	24.90	4.621	6.671	Maturity	205
Day 1	17:43	Sell	102.750	6.670	10,000	24.90	4.621	6.671	Maturity	205
Day 1	17:45	Sell	102.750	6.670	30,000	24.90	4.621	6.671	Maturity	205
Day 1	17:50	Sell	102.750	6.670	5,000	24.90	4.621	6.671	Maturity	205
Day 1	17:55	Sell	102.750	6.670	10,000	24.90	4.621	6.671	Maturity	205
Day 1	17:56	Sell	102.750	6.670	25,000	24.90	4.621	6.671	Maturity	205
Day 1	17:59	Sell	102.750	6.670	10,000	24.90	4.621	6.671	Maturity	205
Day 2	08:03	Sell	102.750	6.670	10,000	24.90	4.523	6.671	Maturity	215
Day 2	08:03	Sell	102.750	6.670	15,000	24.90	4.523	6.671	Maturity	215
Day 2	08:03	Sell	102.750	6.670	20,000	24.90	4.523	6.671	Maturity	215
Day 2	08:03	Sell	102.750	6.670	5,000	24.90	4.523	6.671	Maturity	215
Day 2	08:03	Sell	102.750	6.670	5,000	24.90	4.523	6.671	Maturity	215
Day 2	08:03	Sell	102.750	6.670	10,000	24.90	4.523	6.671	Maturity	215
Day 2	08:03	Sell	102.750	6.670	5,000	24.90	4.523	6.671	Maturity	215
Day 2	08:03	Sell	102.750	6.670	15,000	24.90	4.523	6.671	Maturity	215
Day 2	08:04	Sell	102.750	6.670	10,000	24.90	4.523	6.671	Maturity	215
Day 2	08:04	Sell	102.750	6.670	5,000	24.90	4.523	6.671	Maturity	215
Day 2	08:04	Sell	102.750	6.670	25,000	24.90	4.523	6.671	Maturity	215

Purchaser takes an unsold risk position on Day 1. Market strengthens on Day 2, Retail orders continuing “at the price” rather than “at the spread”



Trading Post Sale – Negotiated Sale Example

Issuers for compliance purposes may need follow-up on where the bonds are located.

Original Size was \$18 million, yet trading activity doesn't reach that volume in the first 32 days.

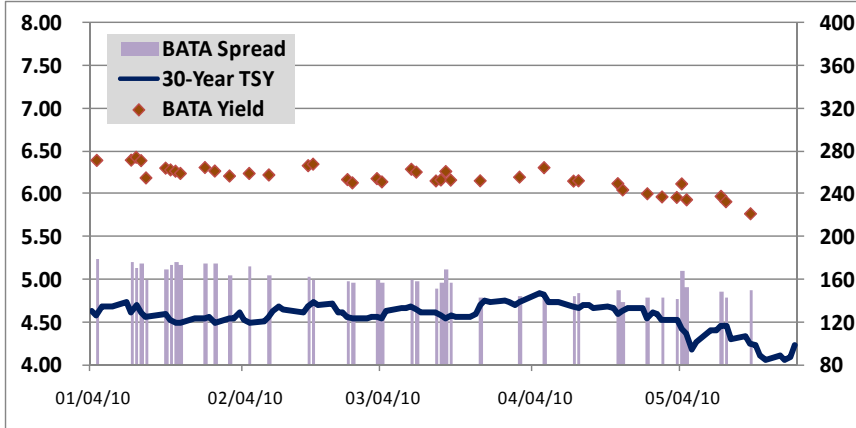
Trade	Time	Type	Stated Price	Stated Yield	\$18,725,000 Amount	Years To Mat	TSY Yield	Calc. Yield	Price Method	Basis Spread
Day 1	09:43	Buy	100.225	5.721	100,000	16.88	3.846	5.725	50% Kick	188
Day 3	13:57	Dealer	100.250		25,000	16.87	3.772	5.722	50% Kick	195
Day 3	15:34	Sell	100.250	5.717	25,000	16.87	3.772	5.722	50% Kick	195
Day 20	15:13	Dealer	103.210		40,000	16.83	3.610	5.392	50% Kick	178
Day 21	14:18	Sell	103.310	5.313	25,000	16.83	3.730	5.381	50% Kick	165
Day 21	14:19	Dealer	103.210		25,000	16.83	3.730	5.391	50% Kick	166
Day 25	12:41	Sell	102.484	5.421	35,000	16.81	3.756	5.472	50% Kick	172
Day 25	12:43	Dealer	102.312		35,000	16.81	3.756	5.490	50% Kick	173
Day 26	13:14	Dealer	104.210		15,000	16.81	3.769	5.282	50% Kick	151
Day 26	13:23	Sell	105.210	5.070	15,000	16.81	3.769	5.175	50% Kick	141
Day 31	16:47	Buy	99.678	5.781	30,000	16.80	3.692	5.781	Maturity	209
Day 31	16:47	Dealer	100.678		30,000	16.80	3.692	5.673	50% Kick	198
Day 31	16:48	Dealer	100.678		100,000	16.80	3.692	5.673	50% Kick	198
Day 31	16:48	Buy	99.678	5.781	100,000	16.80	3.692	5.781	Maturity	209
Day 32	13:52	Dealer	102.000		20,000	16.79	3.742	5.525	50% Kick	178
Day 32	13:52	Sell	104.550	5.153	20,000	16.79	3.742	5.245	50% Kick	150
Day 32	14:11	Dealer	102.000		25,000	16.79	3.742	5.525	50% Kick	178
Day 32	14:12	Sell	102.200	5.458	25,000	16.79	3.742	5.503	50% Kick	176
Day 32	16:28	Dealer	102.000		75,000	16.79	3.742	5.525	50% Kick	178
Day 32	16:28	Dealer	101.875		75,000	16.79	3.742	5.539	50% Kick	180
Day 32	16:32	Dealer	102.100		25,000	16.79	3.742	5.514	50% Kick	177
Day 32	16:32	Sell	103.407	5.300	25,000	16.79	3.742	5.370	50% Kick	163
Day 32	16:32	Dealer	102.100		25,000	16.79	3.742	5.514	50% Kick	177
Day 32	16:32	Sell	103.407	5.300	25,000	16.79	3.742	5.370	50% Kick	163
Day 32	17:10	Dealer	102.100		25,000	16.79	3.742	5.514	50% Kick	177
Day 32	17:10	Sell	103.407	5.300	25,000	16.79	3.742	5.370	50% Kick	163

Source: MSRB Data supporting EMMA website; Bloomberg for interpolated Treasury yields.

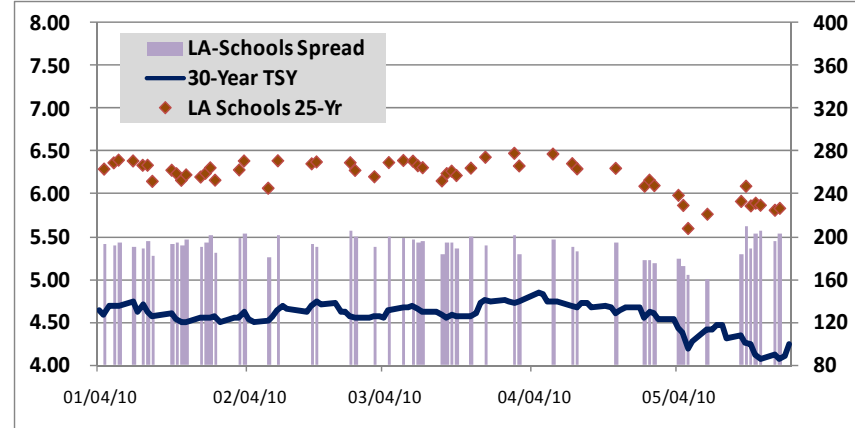


Secondary Market guidance is a developing art. Large CUSIPS can provide indicative direction, but cannot yet establish a Sector Base Curve.

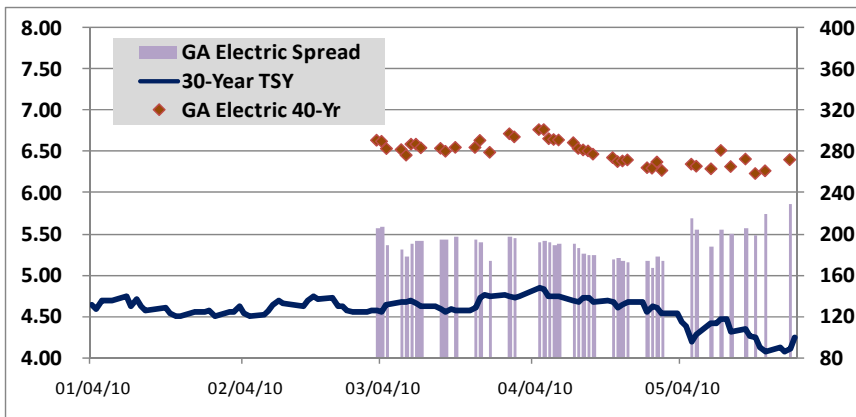
BATA Aa3/AA/AA- 40-Year \$1.3 Bn 80 Trades



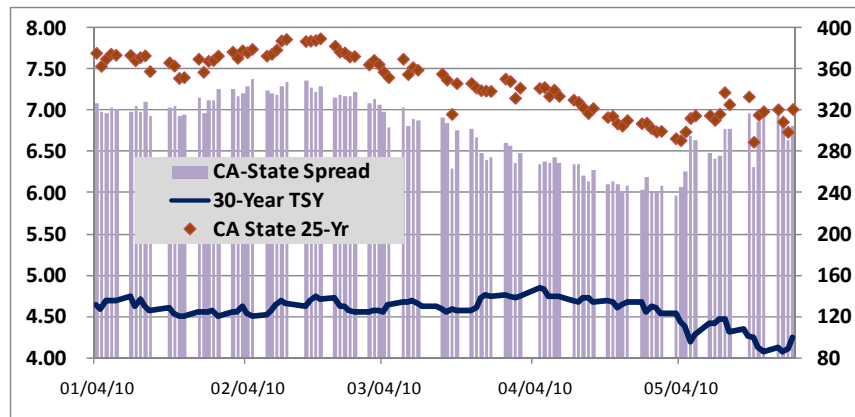
LA-USD Aa3/AA/- 25-Year \$1.03 Bn 140 Trades



GA Elec A2/A+/A+ 40-Year \$1.2 Bn 297 Trades



CA State A1/A-/A- 25-Year \$2 Bn 893 Trades



Source: MSRB Data supporting EMMA website; Bloomberg for interpolated Treasury yields.



Call Features in the Taxable Market

- ◆ **Par Call Features are foreign to Taxable Market Buyers**
 - ❖ Taxable buyers are usually shorter duration spread buyers
 - ❖ Often Hedge positions with LIBOR and other contracts
 - ❖ Par Call features make it more costly to manage rate hedges

- ◆ **Make-Whole Call Features are foreign to Municipal Issuers**
 - ❖ Debt incurred is usually to monetize tax receipts for capital purposes
 - ❖ Need to restructure within more restrictive revenue characteristics
 - ❖ Change of Use or Control events are better managed with a Par Call

- ◆ **Merging of conventions and practices**
 - ❖ The majority of smaller BABs are being offered with Par Calls
 - ❖ Very large BAB issues, appealing to the institutional buyers require make-whole calls for improved trading liquidity and Index eligibility



Make-Whole Call Feature Conventions

◆ Make-Whole Call Conventions

- ❖ Exercised at any time (as opposed to a 10-year par-call lockout period)
- ❖ Provides descriptive identification of a like-term Treasury instrument to be located at a future point when the call is to be exercised
- ❖ Bond is “re-priced” at a future date at a “make-whole spread” to the identified Treasury bond or note yield. The spread is often 20-25% of the original offering spread. (If the original spread is “T+200”, make-whole spread would then be “T+40”)
- ❖ Extraordinary make-whole provisions often at “T+100” should the subsidy be reduced by an action not of the issuer’s causing.
- ❖ Floor call price (possible with higher interest rates) usually set at Par.



Make-Whole Call Price Example Calculation

- ◆ **Example Make-Whole Call Price for an original 20-year maturity**
 - ❖ 6.25% Coupon at 100 (Par); Tsy+200 (Treasury reference = 4.25)
 - ❖ Make-whole spread = +40, Extraordinary redemption spread = +100

- ◆ **The Issuer can buy its own bond back at a point in the future, at a price equal to the then-similar life Treasury yield + 40 bps.**

20 Years Left	Normal @ +40	Extra @ +100
Tsy yield at exercise	4.250	4.250
Redemption Yield	4.650	5.250
Redemption Price	120.687	112.291

10 Years Left	Normal @ +40	Extra @ +100
Tsy yield at exercise	4.250	4.250
Redemption Yield	4.650	5.250
Redemption Price	112.679	107.703

20 Years Left	Normal @ +40	Extra @ +100
Tsy 75 bp higher	5.000	5.000
Redemption Yield	5.400	6.000
Redemption Price	110.318	102.889

10 Years Left	Normal @ +40	Extra @ +100
Tsy 75 bp higher	5.000	5.000
Redemption Yield	5.400	6.000
Redemption Price	106.501	101.859



Recent Rating Comments

◆ Degrees of Freedom – valuable to issuers, but with complications

❖ Program doesn't require that the subsidy be pledged to debt service

- Subsidy amounts are considered “revenue” rather than “net debt”
- Repayment sources expected to be sufficient at the gross coupon
- Operating reliance on subsidy (if not used for debt) increasingly noted

❖ ARRA versus the Revenue Code and other Debt Statutes

- “Max Annual Debt Service” in the “least-of-three” test for Reserve Funds, presumes full receipt of subsidy. Additional issuer funds required to meet maximum-annual debt service at the gross coupon.
- Tax and Levy Cap districts could come under sufficiency pressure, if the subsidy is fully relied upon to fit inside a maximum levy amount.



Reported Underwriting Fees by Month Underwriting Takedown per \$1,000

- According to an April 2010 Treasury analysis, BABs spreads have generally outpaced Tax-Exempt Spreads.
- BABs spreads have begun to moderate recently compared to Tax-exempt bonds.
- Possible explanations include:
 - Less risk from underwriter's perspective
 - Amortization of initial start-up costs
 - Migration from corporate to muni desks
 - Increased underwriting competition, especially for smaller transactions

