

Utah League of Cities and Towns – Spring Conference 2009
Federal Stimulus Legislation and Bonding Options

Blake Wade

(801) 531-3000 wadeb@ballardspahr.com

Alan Westenskow

(801) 844-7277 alan.westenskow@zionsbank.com

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Introduction

- Market Events over the past 18 Months have significantly disrupted the Financial Markets – including the traditional tax-exempt bond market
- Traditional purchasers of tax-exempt bonds may no longer be willing to invest in tax-exempt bonds:
 - ◆ their investment objectives or tax position may have changed
 - ◆ no longer need tax-exempt interest if they are not in a position of owing Federal income tax
 - ◆ many of them may not be around now
- The Federal Government recognized that State and Local Government borrowings could represent a significant portion of the investment needed for the stimulus in the economy

American Recovery and Reinvestment Act

- In February, 2009, President Obama signed the American Recovery and Reinvestment Act (the "Act") into law
- The Act provided significant amounts of money to all states in various forms including grants and one time assistance money
- The Act also contains many provisions that affect the issuance of bonds by government entities, expand existing bond issuance programs and create new ways of issuing and pricing bonds
- Utah Cities still have to use the same traditional types of bonds (G.O. Sales Tax, Revenue, etc.), but bonds that are authorized may now be priced in the following different ways:
 - ◆ Traditional tax-exempt bonds
 - ◆ Tax credit bonds
 - ◆ Taxable bonds with federal government subsidy on interest payments

New Bond Provisions

1. **Build America Bonds** - ARRA creates a new category of bonds called Build America Bonds. Rather than bearing tax exempt interest, these bonds provide for a tax credit equal to 35% of the interest on a taxable bond. Even better, the tax credit can be paid to the Municipality, rather than the bondholder.
2. **Bank Qualified** - ARRA makes your bonds more attractive for Banks to own. The traditional \$10M limit on so called Bank Qualified Bonds has been increased to \$30M and non-profit borrowers no longer count against the municipality's limit.
3. **Recovery Zone Economic Development Bonds** – these are a special category of Build America Bonds, that are issued for economically distressed areas. The tax credit is 45% rather than 35%.
4. **Recovery Zone Facility Bonds** - allow a municipality to finance on a tax-exempt basis, private business type improvements that couldn't otherwise be financed. Limited tool that the State should make sure to take advantage of.
5. **Renewable and Energy Conservation Bonds** - A number of provisions designed to encourage the financing of energy conservation and renewable energy projects.

Pricing Explanation of Bonds

	<u>Type of Bond</u>	<u>Qualifying Projects</u>	<u>Pricing</u>	<u>National Allocation</u>	<u>Est. Utah Allocation</u>
1	Traditional Tax-Exempt Bonds	Most public projects	Tax-Exempt	N/A	N/A
2	Build America Bonds (BABs)	Most public projects	Taxable with Federal Government Credit or Payment on 35% of Interest	N/A	N/A
3	New Clean Renewable Energy Bonds (New CREBs)	Renewable energy	70% Tax-Credit	\$2,400,000,000	By individual project application
4	Qualified Energy Conservation Bonds (QECBs)	Conservation purposes	70% Tax-Credit	\$3,200,000,000	Allocated to states by population
5	Recovery Zone Economic Development Bonds (RZEDBs)	Projects that promote development or other economic activity	Taxable bonds (like BABs) with 45% Fed. Gov. credit/payment	\$10 billion 2008-09	At least \$90 million
6	Recovery Zone Facility Bonds (RZFBs)	Qualifying private real property or equipment	Tax-exempt private activity bonds	\$15 billion 2008-09	At least \$135 million
7	Qualified Zone Academy Bonds (QZABs)	School remodel, equipment	100% Tax-Credit	\$1,400,000,000	\$11,304,000 in 2008 & 2009 & estimated additional \$8,792,000 in 2010
8	Qualified School Construction Bonds (QSCBs)	Most school projects	100% Tax-Credit	\$11,000,000,000	\$50,962,000 in 2009 & estimated similar amount in 2010

Traditional Tax Exempt Financing

- Bonds - long term "IOUs" that governments issue to borrow money
- The federal government does not tax states and individual states choose to not tax themselves
- Investors who buy tax-exempt bonds do not pay taxes on interest they earn, so they are willing to accept lower interest rates

Tax-Exempt Bonding Example

- In a perfect market the following example of pricing would take place:

	<u>Rate</u>
Tax-Bracket:	35%
Taxable Rate:	10.00%
Tax-Exempt Equivalent Rate:	6.50%

Note: Current tax-exempt rates for highly rated (“AAA”) 20 year general obligation bonds are between 4.00% and 4.50%

20 Year Tax Exempt Interest Rates

January 1988 to March 2009

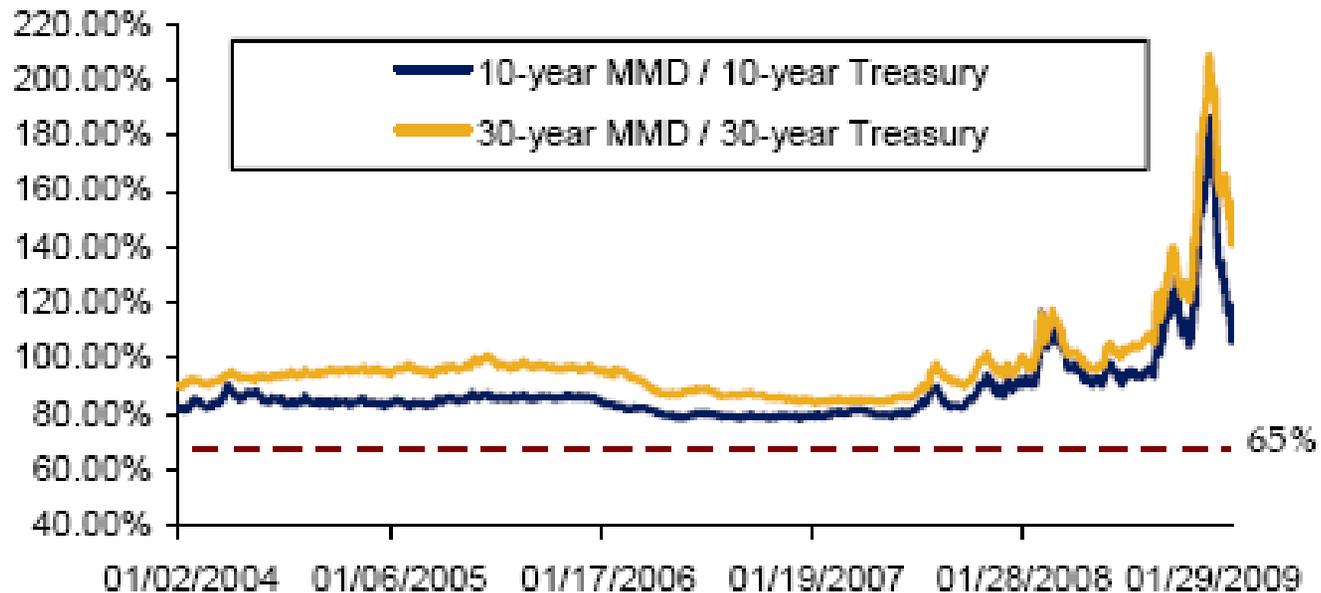


Build America Bonds (BABs)

- A new type of bond whereby issuers may elect to issue **taxable** bonds where either:
 - ◆ the bond holder (the purchaser) receives a federal income tax credit equal to 35% of interest payable for the life of the bonds or
 - ◆ The bond issuer (the city) may receive the annual payment that is equivalent to 35% of the interest payment
- BABs may be used on most projects that traditional tax-exempt financing would typically be used for.
- Can currently only be used for bonds issued in 2009 and 2010

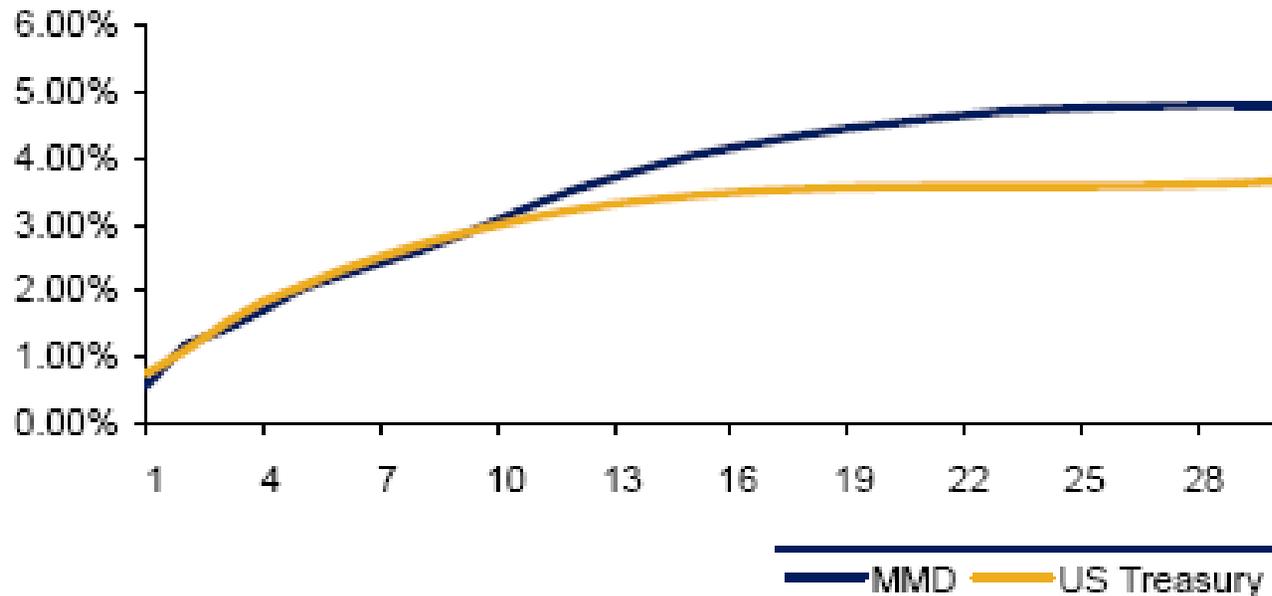
Tax-Exempt vs. Taxable Bond Pricing

Historical Tax-Exempt/Taxable Ratio



Tax-Exempt vs. Taxable Bond Pricing

Current Yield Curves (as of 2/26/09)



Build America Bonds Pricing

- In March 2009, Stevens Point, Wisconsin sold \$3.65 million of 8 year taxable general obligation promissory notes with the following bid results:

Stevens Point, Wisconsin Build America Bonds Bid Results

	<u>Tax-Exempt Rate</u>	<u>Taxable Rate</u>	<u>Taxable with 35% Subsidy</u>
Bank #1	4.02%	5.12%	3.33%
Bank #2	4.00%	5.75%	3.74%
Bank #3	4.23%	6.23%	4.05%

Source: Bond Buyer March 25, 2009

Tax Credit Financings for School Districts

■ Qualified Zone Academy Bonds (QZABs)

- ◆ Purpose: Renovate buildings, purchase equipment, develop curricula or train school personnel
- ◆ Qualifications: Participating schools must have 35% free and reduced lunch, must have a 10% matching contribution
- ◆ Utah 2008 allocation of \$2,512,000 and 2009 allocation of \$8,792,000

■ Qualified School Construction Bonds (QSCBs)

- ◆ Purpose: school facility construction or land purchase
- ◆ Qualifications: same qualifications as regular tax-exempt debt
- ◆ 2009 Utah QSCB allocation of \$50,962,000

Regional Tax Credit Financings

- CREBs for projects in Nevada priced for 1.17% and 1.3% and we expect CREBs we are working on in Reno to price at 0% interest

Utah QZAB Issuance History

School District	Ogden School District	Uintah School District	Duchesne School District, MBA	Salt Lake City School District
Year Issued	2007	2005	2004	2001
Par Amount	\$5,274,000	\$5,977,000	\$3,500,000	\$4,742,722
Borrowing Rate	0%	2.75% Reinvestment Rate	1.69%	0.83%
Final Maturity	2022	2020	2017	2015
Comments	Three total principal payments in 2020, 2021 & 2022 to wrap into other existing debt	District borrowed \$5,977,000 and repays \$4,902,840, resulting in \$1,074,162 interest earned	Financing structure allows for interest only payments and one final principal payment in final year	Financing structure allows for a single final principal payment with annual interest payments

Energy Efficiency Conservation Block Grants

- The ARRTA legislation allocated grant money to the following Utah cities and counties for energy efficiency programs. These grants must be applied for by June 25, 2009.

<u>City</u>	<u>Allocation</u>	<u>City</u>	<u>Allocation</u>	<u>County</u>	<u>Allocation</u>
Bountiful	\$177,100	Riverton	\$150,800	Box Elder	\$203,200
Cottonwood Heights	\$145,800	Roy	\$134,200	Cache	\$248,900
Draper	\$170,600	Salt Lake City	\$2,116,500	Davis	\$749,100
Layton	\$588,400	Sandy	\$893,500	Iron	\$184,700
Lehi	\$180,100	South Jordan	\$194,300	Salt Lake	\$2,282,700
Logan	\$214,600	St. George	\$701,500	Summit	\$154,500
Murray	\$209,500	Taylorsville	\$523,000	Tooele	\$225,000
Ogden	\$845,900	West Jordan	\$913,000	Utah	\$2,122,100
Orem	\$890,800	West Valley	\$1,141,400	Washington	\$257,100
Provo	\$1,144,500			Weber	\$421,300

- Information about the grant program can be found at <http://www.eecbg.energy.gov/>

New Clean Renewable Energy Bonds (CREBs)

- Tax-credit bonds that can be used to finance qualified renewable energy facilities that generate electricity from the following resources:
 - ◆ Wind
 - ◆ Closed-loop biomass
 - ◆ Open-loop biomass
 - ◆ Geothermal
 - ◆ Small irrigation
 - ◆ Hydropower
 - ◆ Landfill gas
 - ◆ Marine renewable
 - ◆ Trash combustion facilities

Qualified Energy Conservation Bonds (QECBs)

- Tax-credit bonds use to finance “qualified conservation purposes” with a broad definition including:
 - ◆ Capital expenditures
 - ◆ Research grants
 - ◆ Demonstration projects that implement or develop “green” energy technology that reduce greenhouse gas emissions

Qualified Tax Credit Bond Rates



Qualified Tax Credit Bond Rates

Section 54A of the Internal Revenue Code (IRC) provides rules for the issuance and use of qualified tax credit bonds including new clean renewable energy bonds, qualified energy conservation bonds, qualified zone academy bonds, and qualified school construction bonds. For rates on clean renewable energy bonds issued under Section 54 of the IRC, check our [CREB page](#).

Current Rates

Date	Rate	Maturity	PSFY*
03/30/2009	7.74%	15 yrs	4.98%

*Permitted Sinking Fund Yield - The maximum permitted yield for the sinking fund expected to be used to repay the issue under section 54A(d)(4)(C) of the IRC. The permitted sinking fund yield is equal to 110% of the long-term adjusted applicable federal rate (AFR), compounded semiannually. The permitted sinking fund yield is updated monthly.

These rates will normally be published by 10:00 am ET each federal business day.

For more information on qualified tax credit bonds, call the Internal Revenue Service's Office of Associate Chief Counsel (Financial Institutions & Products) at (202) 622-3980.

https://www.treasurydirect.gov/govt/rates/irs/rates_qtcb.htm

Tax Credit Bond Pricing Calculations

Bond Type	Taxable Cost of Funds	Tax Credit Rate	Qualifying % of Tax Credit Rate	Qualifying Tax Credit Rate	Cost of Funds (minus) Tax Credit Rate	Supplemental Coupon (Effective Interest Rate)
School QZABs	7.59%	7.74%	100%	7.74%	-0.15%	0%
School QSCBs	7.59%	7.74%	100%	7.74%	-0.15%	0%
New CREBs	7.59%	7.74%	70%	5.42%	2.17%	2.17%
QECBs	7.59%	7.74%	70%	5.42%	2.17%	2.17%

Tax Credit Reinvestment Model (2.17% rate)

- A tax credit bond with a 2.17% borrowing rate with a 15 year sinking fund reinvested at 3.00% results in total interest paid of approximately \$396,000 vs. accrued interest of \$976,500

QZAB Par Amount:	\$3,000,000
Years Outstanding:	15
Borrowing Rate:	2.17%
Reinvestment Rate:	3.00%
Total Annual Payment	\$161,300
Dated and Delivered:	5/1/2009
Total Interest Earned (Paid):	(\$395,996.12)

Sinking Fund

Year	Date	Deposit	Interest Earnings	Sinking Fund Balance
1	5/1/2010	\$161,299.74	0	\$161,299.74
2	5/1/2011	\$161,299.74	\$4,838.99	\$327,438.48
3	5/1/2012	\$161,299.74	\$9,823.15	\$498,561.37
4	5/1/2013	\$161,299.74	\$14,956.84	\$674,817.95
5	5/1/2014	\$161,299.74	\$20,244.54	\$856,362.23
6	5/1/2015	\$161,299.74	\$25,690.87	\$1,043,352.84
7	5/1/2016	\$161,299.74	\$31,300.59	\$1,235,953.17
8	5/1/2017	\$161,299.74	\$37,078.60	\$1,434,331.51
9	5/1/2018	\$161,299.74	\$43,029.95	\$1,638,661.19
10	5/1/2019	\$161,299.74	\$49,159.84	\$1,849,120.77
11	5/1/2020	\$161,299.74	\$55,473.62	\$2,065,894.13
12	5/1/2021	\$161,299.74	\$61,976.82	\$2,289,170.70
13	5/1/2022	\$161,299.74	\$68,675.12	\$2,519,145.56
14	5/1/2023	\$161,299.74	\$75,574.37	\$2,756,019.67
15	5/1/2024	\$161,299.74	\$82,680.59	\$3,000,000.00
Total		\$2,419,496.12	\$580,503.88	\$3,000,000.00

Debt Service Payments

Principal	Coupon	Interest Due	Total P&I
\$0.00	2.17%	\$65,100.00	\$65,100.00
\$0.00	2.17%	\$65,100.00	\$65,100.00
\$0.00	2.17%	\$65,100.00	\$65,100.00
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\$0.00	2.17%	\$65,100.00	\$65,100.00
\$0.00	2.17%	\$65,100.00	\$65,100.00
\$3,000,000.00	2.17%	\$65,100.00	\$3,065,100.00
\$3,000,000.00		\$976,500.00	\$3,976,500.00

Summary

Total Interest Paid	Sinking Fund Deposit	Total Annual Payment
\$65,100.00	\$161,299.74	\$226,399.74
\$65,100.00	\$161,299.74	\$226,399.74
\$65,100.00	\$161,299.74	\$226,399.74
\$65,100.00	\$161,299.74	\$226,399.74
\$65,100.00	\$161,299.74	\$226,399.74
\$65,100.00	\$161,299.74	\$226,399.74
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\$65,100.00	\$161,299.74	\$226,399.74
\$65,100.00	\$161,299.74	\$226,399.74
\$976,500.00	\$2,419,496.12	\$3,395,996.12

Other Information

- “Bank-Qualification” limit raised from \$10 million to \$30 million
- “Tribal Economic Development Bonds”- introduced for tax-exempt financing of projects for which traditional government entities could issue tax-exempt bonds
- Small Issue Manufacturing Bonds – expanded definition to include facilities that manufacture intangible property, including patent, copyrights, formula, process, design, know-how, etc.
- Davis-Bacon labor standards apply to all public works projects financed with the newly approved financing tools, except BABs