Build America Bonds

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BAB Program Overview

- The $787 billion American Recovery and Reinvestment Act of 2009 (the "Act") creates a new type of direct subsidy municipal bond called **Build America Bonds** ("BABs").
- The BAB Program creates two new types of tax subsidy/credit bonds that may be used by municipal issuers as an option for accessing the capital markets.
  - **Issuer Subsidy BABs:** Municipal issuers may sell taxable bonds and receive a direct tax subsidy from the U.S. Treasury equaling 35% of the interest on the bonds.
  - **Investor Subsidy BABs:** Municipal issuers may sell taxable bonds and the investor receives a tax credit equaling 35% of the interest on the bonds. This credit is transferable from the investor to a third party.
- BAB issuance is limited to calendar years 2009 and 2010.
- BABs may be issued to fund non-private activity, governmental purposes.

BAB Benefits: BABs can provide a low cost financing alternative

- The intent of the BAB program is to expand municipal issuer reach into the global taxable bond market, enhancing market access and **potentially lowering overall borrowing costs versus traditional tax-exempt debt**.
- The benefit of issuing BABs is on the long-end of the yield curve where tax benefit of muni's is less than the short-end of the curve
  - "Hybrid" transactions, where shorter maturities are structured with traditional muni's and longer maturities with BABs can provide the lowest cost financing alternative
- BAB's have had an indirect impact to tax-exempt market by lowering tax-exempt supply bringing down tax-exempt rates
- Pricing of taxable muni's has seemed to improve since introduction of BAB's by highlighting value of taxable muni bonds compared to highly rated corporate credits

Other BAB Considerations

- ***Size:*** The taxable market has a preference for large transactions, however smaller size issues are also receiving favorable economics.
- ***Amortization:*** The corporate taxable market has a preference for short, bullet maturities, however long-dated term and serial structures have been sold effectively
- ***Call Provisions:*** Taxable bonds are typically sold with a make-whole call provision, however many BABs have been sold with a typical municipal 10-year par call option
- **Advance refunding of BABs**: Loss of subsidy upon a legal defeasance reduces ability to accomplish advance refundings
- **Discount Bonds:** Reimbursement is based off coupon, not yield, so discount bonds are disadvantageous

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