



# SPEER FINANCIAL, INC.

INDEPENDENT PUBLIC FINANCE CONSULTANTS SINCE 1954

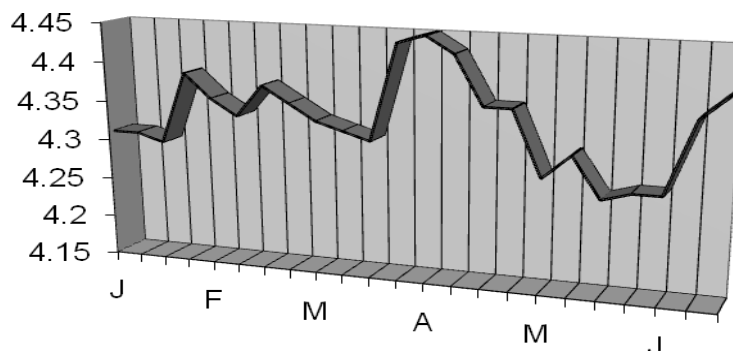
## The Market

The Bond Buyer Index for General Obligation Bonds (defined as the average tax-exempt market value, expressed in terms of yield, on general obligation bonds of twenty selected issuers with ratings averaging Aa2/AA and maturing in twenty years) is shown below. The June 24<sup>th</sup> rate is 4.40%. The comparable revenue bond rate is 4.85%. The Index is used as a market barometer.

### 20-Bond G.O. Index

Monthly Rate Average	Jan	Feb	Mar	Apr	May	June
	4.32 %	4.77 %	4.37 %	4.40 %	4.29 %	4.36 %
Week 1	7...4.31%	4...4.36%	4...4.34%	8...4.45%	6...4.29%	3...4.28%
Week 2	14...4.31%	11...4.34%	11...4.33%	15...4.43%	13...4.32%	10...4.37%
Week 3	21...4.30%	18...4.38%	18...4.32%	22...4.37%	20...4.27%	17...4.40%
Week 4	28...4.39%	25...4.36%	25...4.44%	29...4.37%	27...4.28%	24...4.40%
Week 5			31...4.44%			

20 G.O. Bond Buyer Index – 2010 Weekly Average



## Build America Bonds, Recovery Zone Bonds, et al

It has been over one year since the federal government created a variety of new categories of debt. Over \$100 Billion of Build America Bonds (BABs) have been issued. While the initial authorization sunsets at the end of 2010, it is certain that these debt categories will be extended for some term, although probably not at such favorable conditions.

Briefly, a BAB is a taxable bond issued for a tax exempt capital project, for which the federal government will rebate 35% of the interest cost. Recovery Zone (RZ) bonds for government projects receive a 45% rebate, but are limited to certain authorized amounts. The resulting interest cost is less than the comparable tax exempt rate if the interest rebate is applied, making these types of debt attractive.

Having issued many of these bonds, we have some observations:

BABs and RZ bonds are not black box instruments – normal sale methods work well. We have seen a number of issuers convinced that only negotiated sales work, where a very strong competitive market exists. A number of firms that show little interest in tax exempts bid on taxable bonds.

These bonds are not new authority for debt, but rather go to tax treatment. Debt limits, tax cap limits, normal types of debt instruments and authorizations all apply.

A strong market exists for this debt among non-traditional muni buyers, such as pension funds and foreign investors. However, many of these are used to corporate and national government debt, where bonds tend to be non-callable or have only a “make whole” call, neither of which enables refundings for saving like a traditional tax-exempt bond call of 7 to 10 years at par value. Our experience is that issues of a size less than \$50,000,000 are not likely to realize any significant penalty for a normal call in a competitive sale. An issue that is so large as to be a national institutional issue may experience a significant penalty if a normal tax exempt call is used. In such situations, we recommend splitting the larger issues into multiple sales.

Issuers are more likely to get an IRS audit of their issue if these taxable instruments are issued. While the major benefit of such debt is a reduction in net interest rate of some 0.25% to 0.60%, shorter issues benefit less and the overall benefit may not offset the perceived audit risk.

To receive the rebate, the issuer must file a request for each payment. A number of paying agent banks will now do this for a reasonable fee, reducing the risk of loss due to oversight on the part of small or overworked staffs.

Both types of bonds have limits of 2% of the issue for costs of issuance. For large issues, this should not be a burden but very small issues may need supplemental funding for costs, which include underwriting and insurance.

There is a controversy over the initial pricing of these bonds. The issuance rules limit the price to approximately 102% of par between initial sale and bond delivery. In the event the price is exceeded during this time period, the issuer could be penalized, even though it has no control. There is controversy over the policing and enforcement of this.

Recovery Zone bond projects must comply with the Davis Bacon Act on wages. A second type of RZ bonds for private projects was also authorized; these are similar to traditional industrial revenue bonds, that are tax exempt.

### To BAB Or Not To BAB – That Is The Question

In recent months issuers are beginning to question whether or not they are interested in issuing bonds through the Build America Bond (BABs) program. Although the economics are favorable for BABs with the 35% interest rebate and Recovery Zone Economic Development Bonds (RZEDBs) with the 45% interest rebate other issues are being considered.

Issuers have been informed they will **all** be required to complete a questionnaire. The questionnaire asks whether or not certain written policies have been implemented. No one wants to answer incorrectly.

The Internal Revenue Service has indicated that it plans to audit a significant number of BAB issuers, perhaps as high as half of all issuers. This is a much higher level than the random audits on traditional tax exempt issues.

Pricing of BABs is more restrictive than traditional tax exempt bonds and it appears that the IRS may be monitoring sale prices for compliance during the period between bond pricing and bond closing. Issuers are thus subject to compliance requirements that are the result of actions of a third party, the underwriter, not through their own actions.

Amounts of money owed by an issuer to the Federal Government can be deducted from the Treasury rebate.

Failing to fully comply with the regulations by an issuer's actions, or by an underwriter, can conceivably result in denial of interest rebates.

It is for the above reasons that some issuers of all sizes have made the decision to forgo the financial benefit of BABs or RZEDBs in favor of issuing traditional tax exempt bonds.

Please contact your bond counsel to discuss all of the requirements affiliated with issuing BABs or RZEDBs so that you are fully informed.

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### The Bond Insurance Industry

How valuable is it today? Who are the remaining players? With the recent changes in the bond insurance industry, from the downgrades of all insurers to the more recent upward recalibration of ratings by agencies such as Moody's Investors Service and Fitch, no wonder the demand for bond insurance has declined. Underwriters are not looking to insure bond deals today that are rated Aa and above. Bond insurance is not being purchased directly by the issuer nor on a bidder's option basis by the underwriters.

About 10% of the current market is using bond insurance down from 50% a couple years ago. With the recent recalibration of ratings, this will probably go down since many issuers with Baa1 ratings have now moved up to A1 and Baa2 to A2. This has allowed these issuers to sell bonds that would have previously needed bond insurance. The recalibration of ratings has to be quite challenging for the bond insurance industry. In addition, with the economic and financial stress that issuers are experiencing, the insurance industry risk of paying claims is financially challenging as well.

As the changes took place with the bond insurance industry, so did the selection or the preference of a particular insurer by the underwriters. As a result, the remaining bond insurance companies have changed their strategies. Insurance companies that were taking only issues \$5M or more several years ago are now impartial to the size and pricing their insurance accordingly.

**Qualified School Construction Bonds (QSCBs) Now Direct Pay Option**  
**(Similar to BABs and RZEDBs)**

The American Recovery and Reinvestment Act of 2009 (the "ARRA") permitted school districts which receive a special allocation from a state to issue bonds through 2010 to finance the construction, rehabilitation, or repair of a public school facility and certain land acquisition costs. The bonds are called qualified school construction bonds (QSCBs). QSCBs can be issued as (1) tax credit bonds, where all or the portion of the interest on the QSCBs are received as tax credits to the investors; or (2) direct pay bonds, where all of the interest on the bonds paid to investors can be rebated directly from the U.S. Treasury to the school district. Speer Financial, Inc. has completed several QSCB financings in Iowa. For more information, please contact Mr. Larry Burger, Speer Financial, Inc. at 319-291-2077 or [lburger@speerfinancial.com](mailto:lburger@speerfinancial.com).

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**Electronic Communication - Going Green Saving Green**

Speer Financial, Inc. is changing, just as your agency is changing to adapt to the use of technology in communication among yourselves internally as well as to your residents and others. One way you'll see this change is in the direct electronic communication to those on our mailing list where e-mail addresses have been made available. Where we don't yet have an e-mail address, we'll continue to send a printed newsletter or a seminar announcement unless you can forward your e-mail address to our attention. We naturally do not sell or give away any information about our clients and friends on our distribution list. Your assistance is essential for this communication migration to continue to expand, so please go to our web site ([www.SpeerFinancial.com](http://www.SpeerFinancial.com)) and register for our electronic communication for newsletters and seminar announcements.

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