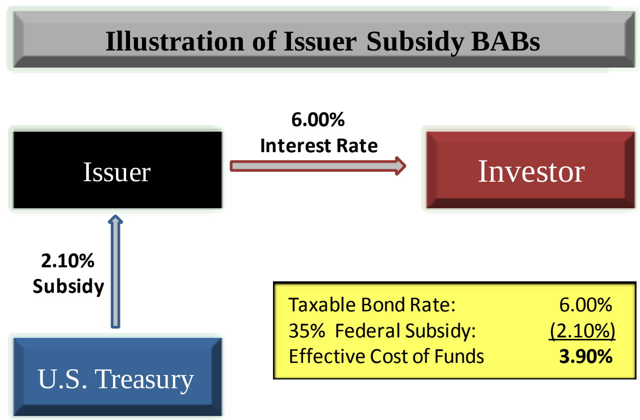
Summary of Build America Bond Program

Build America Bonds:

- The American Recovery and Reinvestment Act of 2009 created two types of direct subsidy municipal bonds called Build America Bonds ("BABs")
- BAB issuance permits local governments to issue taxable bonds for projects eligible for tax-exempt financings and receive a subsidy from the US Treasury
- Two types of BABs:
  - Issuer Subsidy BABs: Issuer receives direct subsidy from the Treasury equal to 35% of the interest payable on the bonds
  - Investor Subsidy BABs: Bond holder receives a tax credit equal to 35% of the interest payment received



- To date, BABs issuers have used the Issuer Subsidy BABs Option for all but one financing
- Issuance window limited to calendar years 2009 and 2010
- No volume limitation on amount that can be issued
- Cost of Issuance must be less than 2% of principal amount
- Taxable rate based upon a spread to US Treasury's
  - The spread of Treasury's has narrowed considerably from the initial range of about 300 basis points (3.00%) to under 200 basis points (2.00%)
- Most are priced with a 10-year call provision
- It appears that BABs can be currently refunded with tax-exempt bonds
- Issuers should find "crossover point" on the yield curve where BABs begin to provide economic benefit
  - Allows issuers to take advantage of the pricing differential on the long end of the yield curve

Questions Surrounding BABs:

- Will the federal government discontinue or decrease the federal subsidy?
  - BAB issuance has far exceeded US Treasury projections
  - Some issuers have added an Extraordinary Optional Redemption Provision
    - Allows issuers to call the bonds upon discontinuation of federal subsidy
    - Minimizes the risks associated with subsidy discontinuation
- Will the program expand to permit BABs to be used for working capital purposes?