

IFAQs (INFREQUENTLY ASKED QUESTIONS)

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Q. What is the current status of Build America Bonds?"

A. Since April 15, 2009 approximately \$27 billion of Build America Bonds ("BABs") have been issued nationally. About 290 BABs have been issued in at least 34 states. The median size BAB nationally approximates \$21 million. In recent weeks approximately one-third of new municipal bond issuance has been taxable BABs. Their market activity has been so significant that the issuance of tax-exempt bonds has decreased and are in short supply. All BABs issued so far have been the Direct Payment type with issuers receiving a subsidy towards debt service from the federal government.

As of late August, California municipalities have issued approximately 25 BABs with about \$7.3 billion in proceeds. Others are in process and will come to the market in the near future. The median BAB issuance in California is about \$56 million. The State of California has been the largest issuer in the state and it has been joined by various cities, water districts and community college districts. In Arizona six BABs have been issued and three in Nevada. California and Texas issuers alone have accounted for about half of all BABs issued. Listings of BAB issues may be found at www.bondbuyer.com and www.treas.gov/press/releases/tg221.htm. Buyers of BABs have primarily been institutional investors such as insurance companies and U.S. and foreign pension funds. It is estimated that only around 5% of BABs have been sold to retail investors. Institutions have bought BABs because of the ability to earn taxable interest rates while enjoying the security of local and state government backing.

Since the first issue in mid April, BAB structure has evolved from one more consistent with the taxable corporate bond market to a more hybrid structure with characteristics more in keeping with those of the tax-exempt bond market. Buyers of BABs have also broadened as a group and diversified. ♦

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