CALIFORNIA STATE TREASURER BILL LOCKYER

NEWS RELEASE

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Treasurer Lockyer Announces $5.23 Billion of 'Build America Bonds' Sold in $6.85 Billion Infrastructure Bond Deal

Transaction Gives Taxpayers Substantial Savings on Interest Costs

SACRAMENTO – State Treasurer Bill Lockyer today announced the completion of a $6.85 billion sale of General Obligation bonds to fund infrastructure projects, including $5.23 billion of the new "Build America Bonds (BABs)" created by the federal economic stimulus package.

"With this sale, California's infrastructure financing program continues its recovery from the harm inflicted by chaos in capital markets and the state's prolonged budget stalemate," said Lockyer. "The funding will help secure thousands of jobs for workers and millions of dollars in revenues for businesses which depend on infrastructure projects. And with the Build America Bonds, we're providing this much-needed economic stimulus at a substantial savings for taxpayers."

All the bonds sold in the deal are taxable (interest income is federally taxable, but exempt from State income taxes). The $5.23 billion BAB component makes the California deal the nation's largest BAB transaction to date – by far. The New Jersey Turnpike Authority on Monday sold $1.37 billion of BABs.

The $6.85 billion total sale ranks as the 3rd largest U.S. investment grade, taxable bond transaction completed in 2009 by a non-financial institution issuer.

Under the BAB program, bond issuers can sell taxable bonds, but use the proceeds to finance infrastructure projects eligible for tax-exempt bond funding. The federal government pays BAB issuers a cash subsidy equal to 35 percent of the interest cost.

With the subsidy, the net interest rate on the California BABs – all in 25- and 30-year maturities – is 4.83 percent. That contrasts with the yields of 5.90 percent and 6.10 percent the State paid on the 24-year and 29-year tax-exempt GO bonds it sold March 24 in a $6.5 billion transaction. The lower yields will provide taxpayers an estimated savings of $1.68 billion over the life of the BABs, compared to the interest costs on the March 24 long-term bonds.

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The BAB net interest rate also compares favorably with the yield on California's 30-year, tax-exempt GO bonds traded in the secondary market (when investors re-sell bonds after they purchase them from the State). Those bonds were trading at 5.65 percent early Wednesday. Using 5.65 percent as a benchmark, the BAB yield will save taxpayers about $1.15 billion over the life of the bonds.

The State will pay the full, non-subsidized interest on the $1.62 billion of non-BABs, maturing in 2013 through 2016. The non-subsidized yields ranged from 5.25 percent to 5.95 percent.

The sale completed today will provide a further, vital boost to some 5,000 projects affected by an infrastructure financing freeze imposed in December 2008 by the State Pooled Money Investment Account (PMIA).

Normally, the PMIA loans money to infrastructure projects, then gets reimbursed when the State sells bonds. But in the last half of 2007, California could not sell bonds because of the State's prolonged budget stalemate and the nationwide credit crunch. At the same time, the fiscal crisis required the PMIA to conserve as much cash as possible to ensure it could help the State pay for education and other high priority services. So, the PMIA was forced to stop making infrastructure loans.

The freeze delayed or stopped projects across the state. Some got relief from the proceeds of the $6.5 billion bond sale completed on March 24.

BAB proceeds will fund roads, schools, flood control, water, environmental and other projects eligible to be financed with voter-approved <u>tax-exempt</u> bonds. Non-BABs will support stem cell research, high-speed rail, affordable housing and other projects financed with voter-approved <u>taxable</u> bonds. Approximately $1 billion of of the proceeds will replenish the PMIA for loans it provided to projects prior to the freeze.

In the BAB deal, the State tapped a new source of capital – the investment grade, taxable corporate market. Nearly every major domestic taxable investor participated in the transaction. The emergence of BABs as an alternative funding option for municipal bond issuers also has helped rally the tax-exempt market. That will benefit California and other governmental entities in future transactions.

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