U.S. TREASURY DEPARTMENT
OFFICE OF PUBLIC AFFAIRS

BUILD AMERICA BONDS AND SCHOOL BONDS
INVESTING IN OUR STATES, INVESTING IN OUR WORKERS, INVESTING IN OUR KIDS

The United States is facing the most severe financial crisis in generations. Extraordinary challenges require extraordinary action by our government to ensure the economy gets back on track and that millions of Americans get back to work. The American Recovery and Reinvestment Act of 2009, along with the Financial Stability Plan, are critical steps. In just two months, the Obama Administration, in conjunction with Congress, has enacted legislation to create or save 3.5 million jobs; give a tax break to 95% of working families; and has put forward detailed programs to address falling home prices, frozen credit markets, weak bank balance sheets and legacy assets.

Creating the conditions for an economic recovery also requires addressing the challenges facing state and local governments in the midst of the current economic climate. Budgets are being scaled back, government jobs are being cut, and services are being curtailed. These cuts contribute to a deeper recession, while restricting access to services at a time when the need for them is greatest. Turning things around requires innovative thinking.

Today Treasury announces two new, innovative bond programs to help states pursue capital projects. This funding means much needed infrastructure projects can begin to revitalize our communities while putting Americans back to work.

BUILD AMERICA BONDS
First, Treasury announces the implementation of the Build America Bond program under the American Recovery and Reinvestment Act of 2009 to provide much-needed funding for state and local governments at lower borrowing costs. This will enable them to pursue necessary capital projects, such as work on public buildings, courthouses, schools, roads, transportation infrastructure, government hospitals, public safety facilities and equipment, water and sewer projects, environmental projects, energy projects, governmental housing projects and public utilities.

Traditionally, tax-exempt bonds provide a critical source of capital for state and local governments, but the recession has sharply reduced their ability to finance new projects. Supplementing this existing market, the Build America Bond program is designed to provide a federal subsidy for a larger portion of the borrowing costs of state and local governments than traditional tax-exempt bonds in order to stimulate the economy and encourage investments in capital projects in 2009 and 2010.

HOW BUILD AMERICA BONDS WORK

Build America Bonds are a new financing tool for state and local governments. The bonds, which allow a new direct federal payment subsidy, are taxable bonds issued by state and local governments that will give them access to the conventional corporate debt markets. At the election of the state and local governments, the Treasury Department will make a direct payment to the state or local governmental issuer in an amount equal to 35 percent of the interest payment on the Build America Bonds. As a result of this federal subsidy payment, state and local governments will have lower net borrowing costs and be able to reach more sources of borrowing than with more traditional tax-exempt or tax credit bonds. For example, if a state or local government were to issue Build America Bonds at a 10 percent taxable interest rate, the Treasury Department would make a payment directly to the government of 3.5 percent of that interest, and the government's net borrowing cost would thus be only 6.5 percent on a bond that actually pays 10 percent interest.

This feature will make Build America Bonds attractive to a broader group of investors, and therefore create a larger market than typically invest in more traditional state and local tax-exempt bonds, where interest rates, due to the federal tax exemption, have historically been about 20 percent lower than taxable interest rates. They should be attractive to investors without regard to their tax status or income tax bracket (e.g., pension funds and other tax-exempt investors, investors in low tax brackets, and foreign investors).

GUIDANCE TO STATES ON BUILD AMERICA BONDS

The IRS is releasing Notice 2009-26 to provide state and local governments with prompt guidance on implementation of the new direct federal subsidy payment procedures for Build America Bonds so that issuers can begin issuing these bonds with confidence about how these federal payments will be made. This guidance covers the direct federal subsidy payment procedures regarding:

- how (on new IRS Form 8038-CP available now) and when (by 45 days before an interest payment date) to request these payments;
- when the IRS will begin making these payments (July 1, 2009);
- how to make necessary elections to issue these bonds (in writing in an issuer's books and records);
- how to satisfy the information reporting requirement for these bonds (modified IRS Form 8038-G); and
- future implementation plans (electronic platform in 2010).

Finally, the Notice solicits public comments on all of the plans for this program.

SCHOOL BONDS

In addition, Treasury also announces today guidance on allocations of national bond volume cap authorizations for two innovative tax credit bond programs for schools, known as Qualified School Construction Bonds and Qualified Zone Academy Bonds. The American Recovery and Reinvestment Act of 2009 provided new or expanded authorizations, respectively, for these two programs. These tax credit bond programs allow state and local governments to finance public school construction projects and other eligible costs for public schools with interest-free borrowings. These tax credit bond programs provide this federal subsidy by giving those who buy these bonds a federal tax credit that essentially allows state and local governments to issue these bonds without interest cost.

The guidance that Treasury is issuing today allocates the national bond volume authority for these school bond programs among the states and certain large local school districts pursuant to statutory formulas. These volume cap allocations are important to enable State and local governments to use these low-cost borrowing programs to finance school projects to promote economic recovery and job creation.

For Qualified School Construction Bonds, the guidance divides the $11 billion national bond volume authorization for 2009 among the states and 100 largest local school districts based on Federal school funding.

For Qualified Zone Academy Bonds, the guidance divides the $1.4 billion bond national bond volume authorizations for each of 2008 and 2009 among the states based on poverty levels.