



George K. Baum & Company

INVESTMENT BANKERS SINCE 1928

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American Recovery & Reinvestment Act of 2009

New Financing Structures for Colleges and Universities

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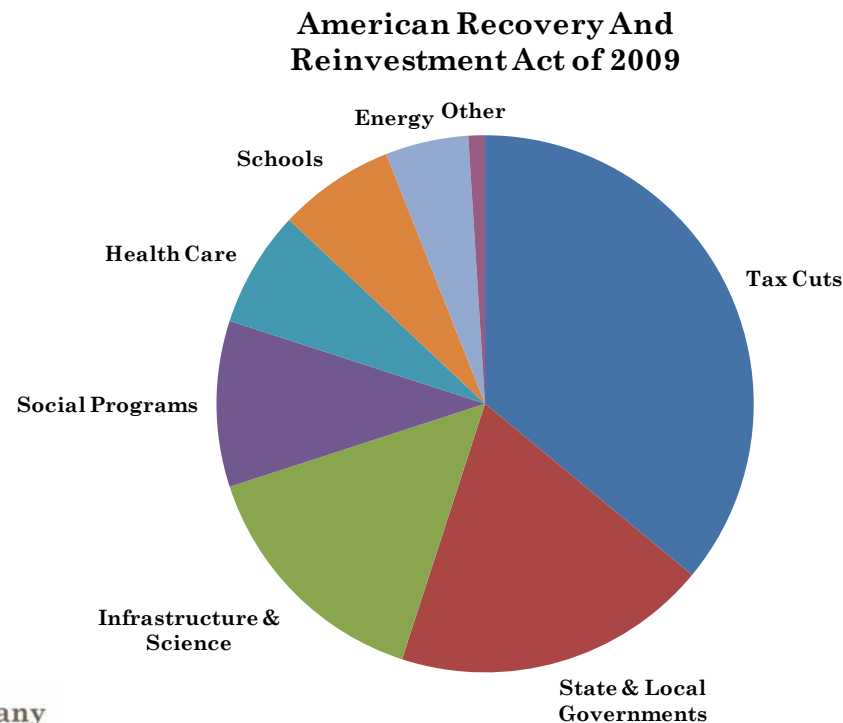


EXECUTIVE SUMMARY

American Recovery & Reinvestment Act 2009

New Types of Bonds for Colleges and Universities

- The American Recovery and Reinvestment Act of 2009 (the “ARRA”), commonly known as the 2009 Stimulus Bill, was signed in Denver by President Obama on February 17th, 2009
- The Act includes new bond provisions, tax credits, grants and loan guarantees providing federal subsidies which are intended to significantly reduce the cost of capital to both public and private institutions of higher education



American Recovery & Reinvestment Act 2009

New Types of Bonds for Colleges and Universities

- Below is a brief summary of the public finance structures included in the ARRA

Provision	Volume	Allocation	Permitted Issuers	Eligible Projects	Summary
Tax Exempt Bonds	na	na	Governmental and 501(c)(3)s	All projects that qualify for tax exemption (with the exception of 501(c)(3) issues)	Provides governmental and 501(c)(3) borrowers with lower cost financing structure
Build America Bonds (BABs)	na	na	State and local government issuers	All projects that would otherwise qualify for tax exemption (with the exception of 501(c)(3) issues)	Provides governmental borrowers with an additional structure through a subsidy/tax credit
Recovery Zone Economic Development Bonds (RZEDBs)	\$10 Billion	Proportionate to state unemployment decline	Counties and cities with populations in excess of 100,000	All projects that would otherwise qualify for tax exemption (with the exception of 501(c)(3) issues) that benefit a "Recovery Zone"	Provides governmental borrowers with an additional structure through a subsidy/tax credit
Recovery Zone Facility Bonds (RZFBs)	\$15 Billion	Proportionate to state unemployment decline	Counties and cities with populations in excess of 100,000	Private depreciable property	Provides tax exempt structure for the private sector
New Market Tax Credits (NMTCs)	\$10 Billion (5 billion for 2009)	Application to Treasury	Certified Community Development Entity	Projects located in disadvantaged areas including the purchase, construction and renovation of real property	Provides tax credit structure for the private sector stimulating investment, jobs and economic development

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BANK QUALIFICATION

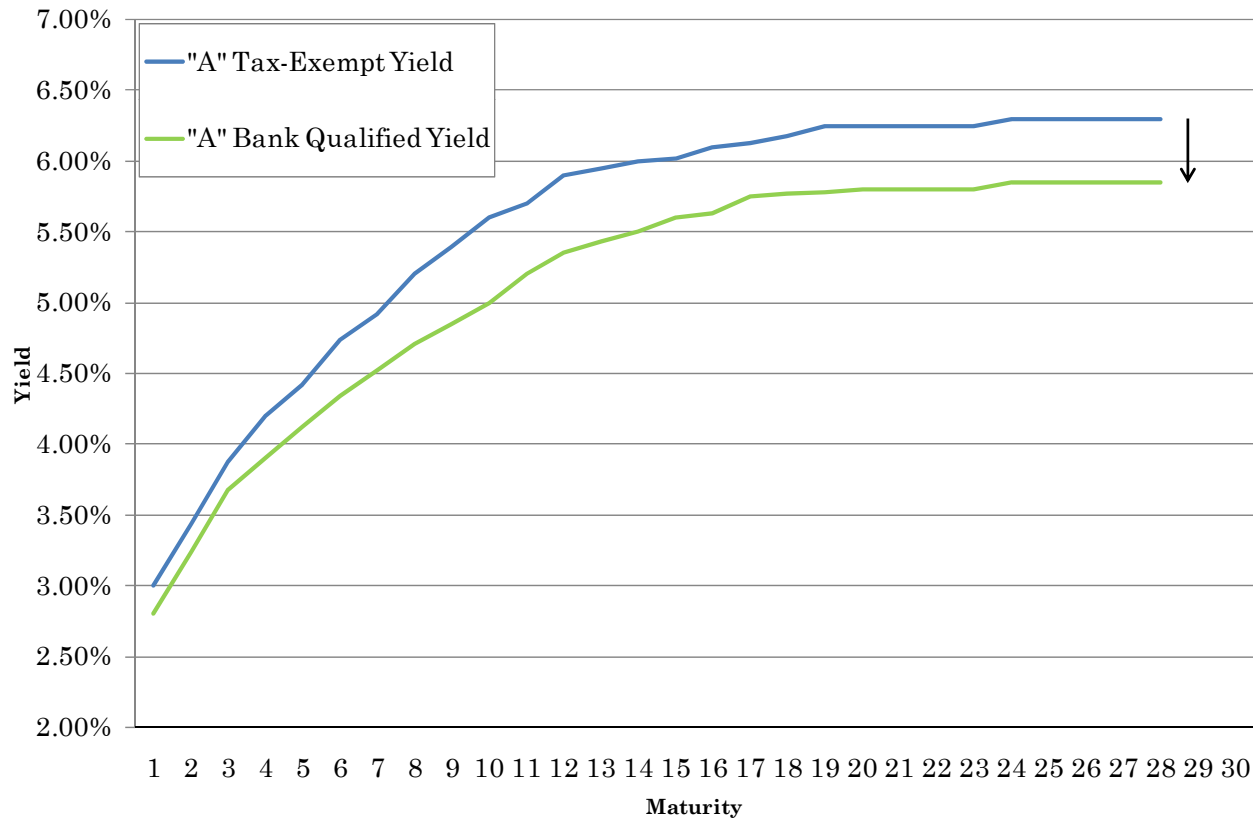
Bank Qualification

- Bank qualification refers to the amount of tax exempt bond interest expense financial institutions are allowed to deduct per IRS regulations (80%)
- Under the ARRA, the \$10 million annual limit *per issuer* for bank qualification has been increased to \$30 million for *governmental and 501(c)3* borrowers
 - Now each governmental borrower or 501(c)3 borrower is *treated as a separate issuer*
 - Applies to bonds issued in 2009 and 2010
 - For example, this applies *individually* to a private university since it is a 501(c)3, a public university, a university foundation or an LLC affiliated with a university foundation
- Additional ARRA bank qualification provisions
 - **2% De Minimis Rule.** Bank investments in tax exempt bonds must constitute less than 2% of assets held by the financial institution to qualify
 - **Pooled Transactions.** Pooled transactions can designate as bank qualified, provided that all participating entities are below their individual \$30 million annual debt limit
 - **Prior Issues.** Refunding of prior issues will not qualify unless they were originally issued as bank qualified (under \$10 million par)

Bank Qualification

- Bank qualified bonds are expected to provide a 10-15 bps net interest rate savings

Benefit of Bank Qualification



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BUILD AMERICA BONDS AND RECOVERY ZONE ECONOMIC DEVELOPMENT BONDS

Build America Bonds (“BABs”) and Recovery Zone Economic Development Bonds (“RZEDBs”)

- Below is a comparison summary of tax exempt bonds, BABs and RZEDBs as they pertain to public finance

Provision	Volume	Allocation	Permitted Issuers	Eligible Projects	Summary
Tax Exempt Bonds	na	na	Governmental and 501(c)(3)s	All projects that qualify for tax exemption (with the exception of 501(c)(3) issues)	Provides governmental and 501(c)(3) borrowers with lower cost financing structure
Build America Bonds (BABs)	na	na	State and local government issuers	All projects that would otherwise qualify for tax exemption (with the exception of 501(c)3 issues)	Provides governmental borrowers with an additional structure through a subsidy/tax credit
Recovery Zone Economic Development Bonds (RZEDBs)	\$10 Billion	Proportionate to state unemployment decline	Counties and cities with populations in excess of 100,000	All projects that would otherwise qualify for tax exemption (with the exception of 501(c)(3) issues) that benefit a "Recovery Zone"	Provides governmental borrowers with an additional structure through a subsidy/tax credit

- Additional considerations of BABs & RZEDBs:
 - Direct Subsidy
 - Only for new money financings
 - Not subject to future appropriation risk
 - Tax credit
 - Tax Credit can be stripped and sold
 - Subject to future appropriation risk

Build America Bonds (“BABs”) and Recovery Zone Economic Development Bonds (“RZEDBs”)

Provision	Eligible Through	Structure	Benefit(s)	Consideration(s)
Tax Exempt Bonds	na	na	Interest rate savings	na
Build America Bonds (BABs)	December 31, 2010	Taxable bonds with either a; 1) 35% Direct Subsidy or; 2) 35% Bondholder Tax Credit	1) Interest rate savings 2) Structuring flexibility	1) Refunding/Prepayment due to taxable bond no call provisions 2) Potential Direct Subsidy spending restrictions
Recovery Zone Economic Development Bonds (RZEDBs)	December 31, 2010	Taxable bonds with either a; 1) 45% Direct Subsidy or; 2) 45% Bondholder Tax Credit	1) Interest rate savings 2) Structuring flexibility	1) Refunding/Prepayment due to taxable bond no call provisions 2) Potential Direct Subsidy spending restrictions

- BABs may be issued for
 - Refunding of tax exempt bonds and
 - Working capital purposes
- RZEDBs may be issued to promote development in a designated Recovery Zone
 - *A Recovery Zone* is an area designated because of significant poverty, unemployment, rate of home foreclosures or general distress or economically distressed because of military base closure or realignment or any area which a designation as an empowerment zone or renewal community is already in effect

Build America Bonds (“BABs”) and Recovery Zone Economic Development Bonds (“RZEDBs”)

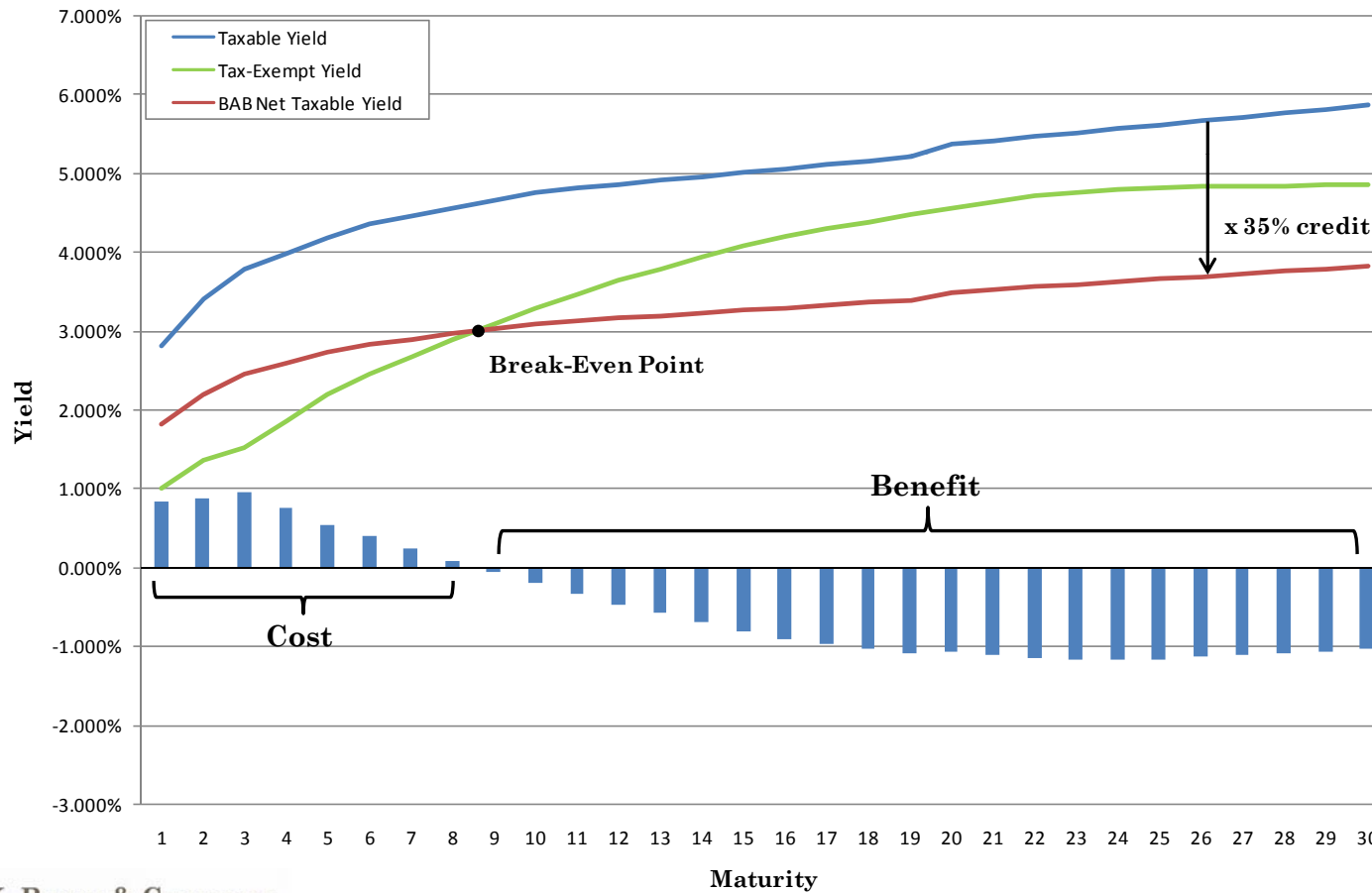
- Publicly placed bonds will most likely be sold at competitive rates if:
 - Large enough issue size to attract taxable buyers (probably over \$50 million)
 - Credit rating of “AA” or higher
- Private placements may also be an option
 - \$3.65 million of Stevens Point, WI taxable direct subsidy BABs will close this week (March 31st) as the first BAB program, via private placement with Wells Fargo at 5.12%
- Additional Considerations
 - Direct subsidy presents most economically advantageous structure in the current market
 - Greater interest cost savings on the long end of the BABs or RZEDBs yield curve
 - Potential to structure short tax-exempt bonds and long BABs or RZEDBs

Build America Bonds (“BABs”) and Recovery Zone Economic Development Bonds (“RZEDBs”)

- Direct Subsidy Example
 - Issuer pays bondholder taxable interest payment of \$1,000
 - Interest payment is higher because the bondholder does not receive a tax credit
 - The U.S. Treasury pays issuer \$350 ($\$1,000 \times 35\%$),
 - Issuer net interest payment = \$650
- Tax Credit Example
 - Issuer pays bondholder taxable interest payment of \$740
 - Claims a tax credit of \$260 ($\$740 \times 35\%$)

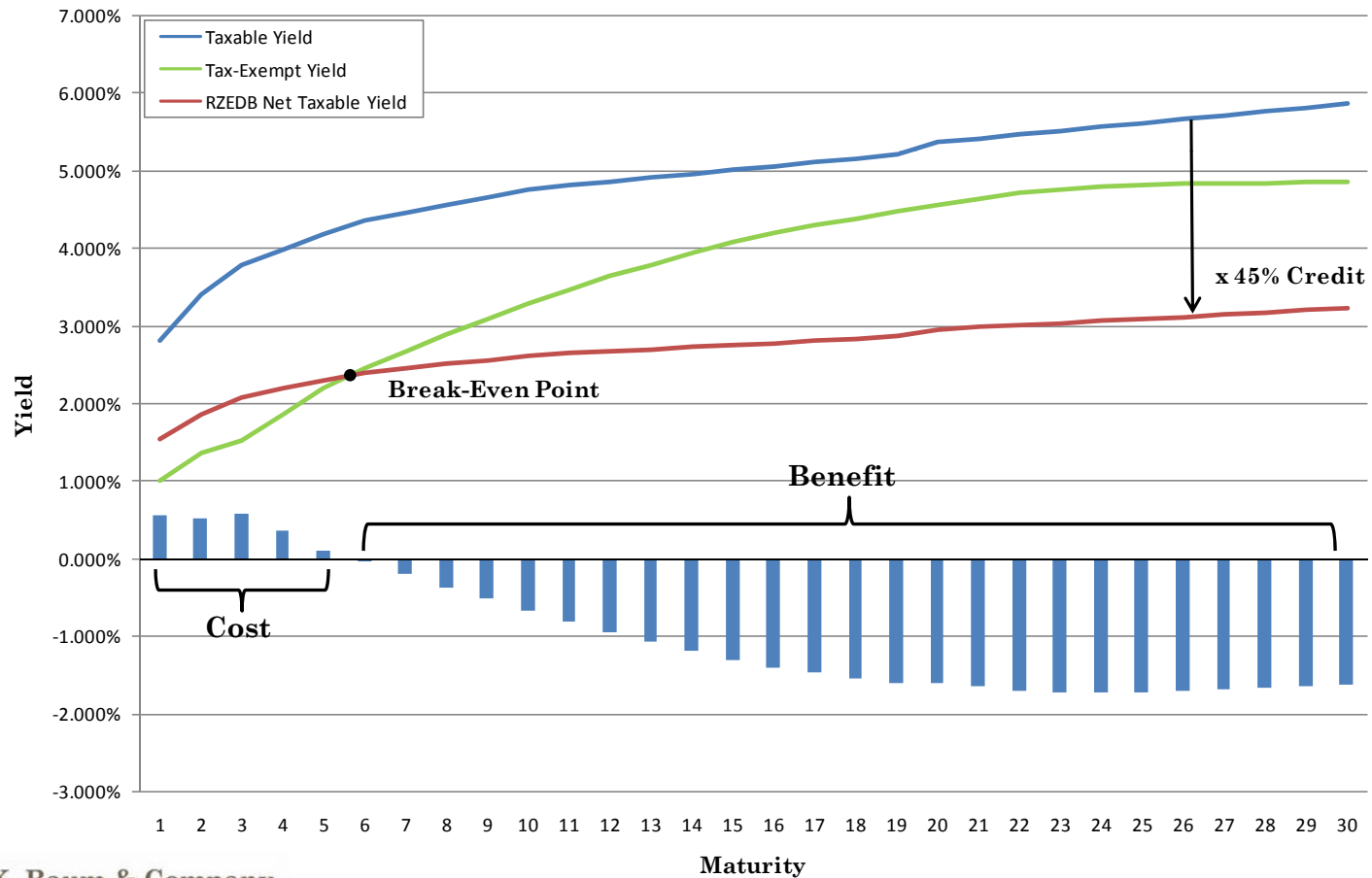
Build America Bonds (“BABs”) and Recovery Zone Economic Development Bonds (“RZEDBs”)

BAB vs Tax-Exempt Yield Comparison



Build America Bonds ("BABs") and Recovery Zone Economic Development Bonds ("RZEDBs")

RZEDB vs Tax-Exempt Yield Comparison



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RECOVERY ZONE FACILITY BONDS

Recovery Zone Facility Bonds

Provision	Volume	Allocation	Permitted Issuers	Eligible Projects	Summary
Recovery Zone Facility Bonds (RZFBs)	\$15 Billion	Proportionate to state unemployment decline	Counties and cities with populations in excess of 100,000	Private depreciable property	Provides tax exempt structure for the private sector

Eligible Through	Structure	Benefit(s)	Consideration(s)
December 31, 2010	Tax exempt bonds	Interest rate savings over taxable debt	1) Limited allocation 2) 95% of proceeds must be spent on Recovery Zone Property

- RZFBs are allocated by the state and is based upon the proportion of each state's employment decline as compared to the national unemployment decline (same method as RZEDBs)
 - 95% of the bonds must be spent on Recovery Zone Property (with the exception of “bad projects” such as liquor stores, country clubs, gambling)
- RZFBs are similar to private activity bonds in that an allocation is made by the state to the issuer

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NEW MARKETS TAX CREDITS

New Markets Tax Credits

Provision	Volume	Allocation	Permitted Issuers	Eligible Projects	Summary
New Market Tax Credits (NMTCs)	\$10 Billion (5 billion for 2009)	Application to Treasury	Certified Community Development Entity	Projects located in disadvantaged areas including the purchase, construction and renovation of real property	Provides tax credit structure for the private sector stimulating investment, jobs and economic development
			Structure	Benefit(s)	Consideration(s)
			Tax credit	1) 39% tax credit 2) 20% of investment forgiven after year 7; free equity	1) Limited authorizations 2) Must remain fully invested for 7 years 3) Tax credits can be sold

- Created to stimulate investment, create jobs and spur economic development in low-income communities (ex. real estate, energy financings, campus branch, etc.)
- If project is located in a qualified area (significantly disadvantaged areas), project is eligible for a Qualified Low Income Community Investment (“QLICI”)
 - Qualified financings include the purchase, construction and renovation of real property
 - New Market Tax Credits (“NMTCs”) can be used for projects that are in part financed with tax exempt bonds
 - 20% of the QLICI is forgiven after year 7, providing free equity (i.e. \$10 million of the investment equates to approximately \$2.5 million of free equity)

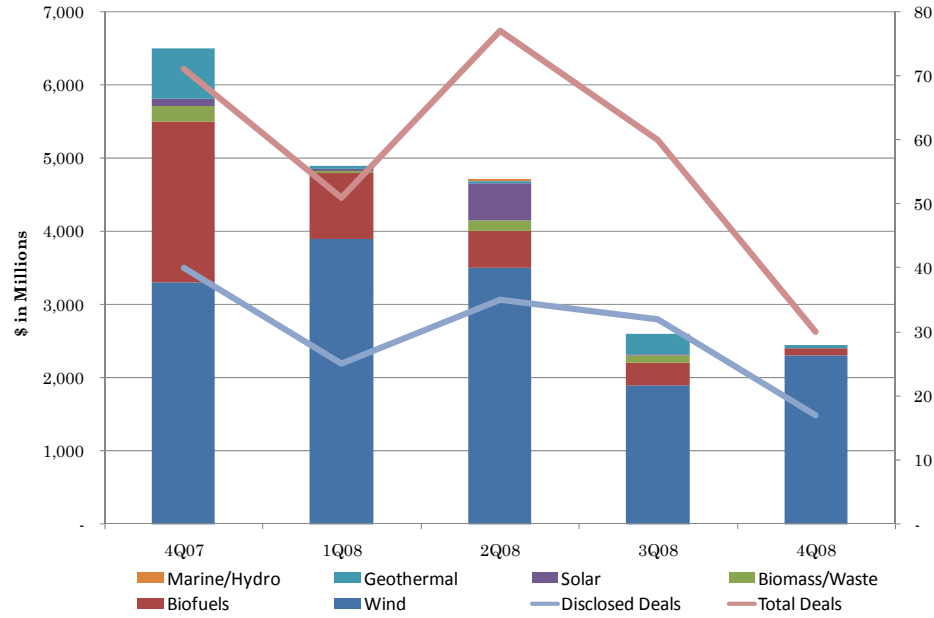
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OTHER CONSIDERATIONS

Other Considerations

- Stimulus Money
 - Stimulus money received by the State and distributed must meet:
 - Davis-Bacon prevailing wage requirements
 - “Buy American” standards – all iron, steel, and manufactured goods used on the project must be produced in America... can be potentially waived if the increased project cost is in excess of 25%

Asset Finance - North America



ENERGY RELATED PROVISIONS

Energy Related Provisions

- George K. Baum & Company has a group dedicated to renewable energy financings
 - Familiar with the all of financing structures available to private and public colleges and universities
- As many of you are beginning to explore sustainability initiatives and renewable energy, we are including some information on the energy related provisions of the ARRA

Provision	Volume	Allocation	Permitted Issuers	Eligible Projects	Summary
New Clean Renewable Energy Bonds (CREBs)	\$2.4 Billion	Federal application to IRS	Governmental, municipal, electric cooperatives	Wind energy facilities, solar energy facilities, landfill gas facilities, hydropower facilities, geothermal facilities, trash combustion facilities, etc.	Provides tax credit structure for renewable energy projects
Qualified Energy Conservation Bonds (QECBs)	\$3.2 Billion	By Treasury based on population	State and “large local governmental” issuers	Same as CREBS with an expanded list of capital expenditures	Provides tax credit structure for expanded list of renewable energy projects

Energy Related Provisions

- Below are the basic tax credit bonds structuring mechanics

Investor Incentive	Rather than receiving tax-exempt interest, investors receive a federal tax credit in lieu of interest
Rates	Credit rates are determined by the U.S. Treasury on the date the bonds are sold and vary by the specific type of tax credit bond
Credit Calculation	Tax credit equal to 70% of the interest on the bonds
Structure	Tax credit bonds are often “bullet” maturity bonds, but can have a mortgage style amortization, maximum maturity is established by the U.S. Treasury
Cost to Issuer	The issuer is responsible for principal payments and, in certain cases, a “supplemental coupon” payment depending on the credit of the project credit
Other Criteria	100% of the proceeds must be spent on project costs (up to 2% for cost of issuance) within 3 years from the issue date

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CLEAN RENEWABLE ENERGY BONDS

New Clean Renewable Energy Bonds

Provision	Volume	Allocation	Permitted Issuers	Eligible Projects	Summary
New Clean Renewable Energy Bonds (CREBs)	\$2.4 Billion	Federal application to IRS	Governmental, municipal, electric cooperatives	Wind energy facilities, solar energy facilities, landfill gas facilities, hydropower facilities, geothermal facilities, trash combustion facilities, etc.	Provides tax credit structure for renewable energy projects

Structure	Benefit(s)	Consideration(s)
Tax Credit	Tax credit provides near zero cost of financing depending on underlying securing revenues	1) Limited allocation 2) Eligible projects

- Increased the national limit on New CREBs by \$1.6 billion to \$2.4 billion
 - 1/3 allocated to public power providers, 1/3 governmental bodies and 1/3 cooperative electric
 - CREBs are also available to public colleges and universities
 - Allocations have historically been awarded to smaller projects first
- Lower cost of capital than a tax exempt bond issuance
 - Any supplemental interest cost will be fixed for the life of the financing
- A few higher education institutions that have secured CREBs (must be used to generate electricity) include:
 - University of Minnesota, Morris
 - Oakland University in Rochester, Michigan
 - \$1.5 million CREB toward a proposed \$7.5 million wind power project

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QUALIFIED ENERGY CONSERVATION BONDS

Qualified Energy Conservation Bonds

Provision	Volume	Allocation	Permitted Issuers	Eligible Projects	Summary
Qualified Energy Conservation Bonds (QECBs)	\$3.2 Billion	By Treasury based on population	State and “large local governmental” issuers	Same as CREBS with an expanded list of capital expenditures	Provides tax credit structure for expanded list of renewable energy projects

Structure	Benefit(s)	Consideration(s)
Tax Credit	Tax credit provides near zero cost of financing depending on underlying securing revenues	1) Limited allocation 2) Broader project scope

- QECBs are “enhanced” CREBs
 - May be particularly useful for the retrofitting academic buildings to be more energy efficient or to fund energy conservation-related research
 - At least 70% of each state’s allocation must be used for governmental purpose bonds
 - 30% of QECBs allocated for private activity bonds (i.e. private colleges, private developers, hospitals, independent schools, etc.)

Rank	State	Population*	% of Total Population	QECB Allocation (Billions)
1	California	36,756,666	11.95%	\$38.240
2	Texas	24,326,974	7.81%	\$24.992
3	New York	19,490,297	6.31%	\$20.192
4	Florida	18,328,340	5.97%	\$19.104
5	Illinois	12,901,563	4.20%	\$13.440
6	Pennsylvania	12,448,279	4.06%	\$12.992
7	Ohio	11,485,910	3.75%	\$12.000
8	Michigan	10,003,422	3.29%	\$10.528
9	Georgia	9,685,744	3.12%	\$9.984
10	North Carolina	9,222,414	3.08%	\$9.856

Qualified Energy Conservation Bonds

“Qualified Conservation Purposes”

Private Activity Bond
Issuers can only use
QECBs for Uses #1 & #2

1. All projects eligible for CREBs **PLUS**:
2. Capital expenditures for projects related to:
 - Reducing energy consumption in publicly-owned buildings by at least 20%
 - Implementation of “green” community programs
 - Rural renewable energy development
3. Research facilities grants to support:
 - Development of cellulosic ethanol and other biofuels
 - Technologies for CO₂ capture and sequestration
 - Technologies to reduce fossil fuel consumption in transportation
 - Energy conservation in buildings
4. Mass transit facilities and expenditures to reduce pollution caused by mass transit facilities
5. Demonstration projects to encourage:
 - Green building technology & technologies to reduce “peak demand”
 - Waste-to-fuel projects
 - Advanced battery technologies
 - Technologies for CO₂ capture and sequestration
6. Public education campaigns to promote energy efficiency

In Summary

- Municipal finance ARRA provisions were designed to incentivize a broader investors base in municipal bonds and intended to provide a larger financing toolbox
- Despite the initial rationale for creating many of the provisions (i.e. bank qualification limits, BABs, etc.), the actual impact may have mixed results
- Concepts discussed are based on currently information and may change based on future guidance from the U.S. Treasury.
 - Additional guidance is expected “within 30-60 days”
 - GKB will continue to update its clients as additional details become available
- If you have any questions regarding the ARRA we would be more than happy to provide greater detail and look into any opportunities