

FEBRUARY 2010

BUILD AMERICA BONDS

Issuance and Trade Activity, 2009

Prepared by the MUNICIPAL SECURITIES RULEMAKING BOARD



MSRB

Municipal Securities
Rulemaking Board

BUILD AMERICA BONDS

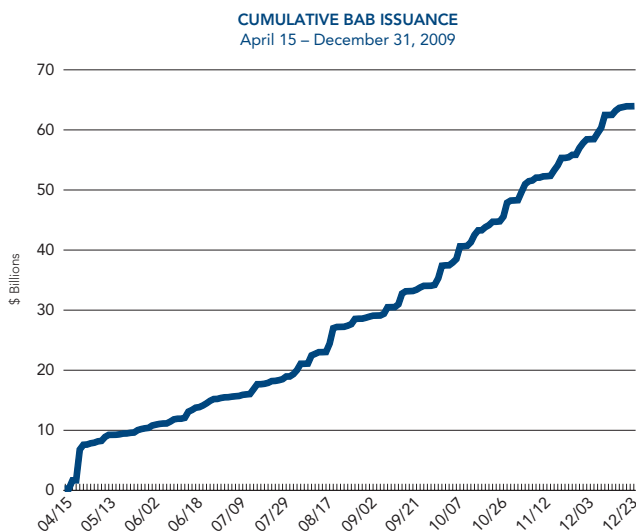
One of the most significant changes to the municipal market in 2009 was the introduction of Build America Bonds (BABs), authorized by the American Recovery and Reinvestment Act of 2009 enacted by Congress in February 2009. BABs provide state and local government with a new method of financing capital projects with the aid of a federal subsidy. The allowed subsidy was intended to ease the burden state and local governments began experiencing with the 2008 financial crisis and to stimulate spending on a variety of public projects.

The BAB program allows states and local governments to issue an unlimited amount of taxable debt through 2010. Issuers of these taxable municipal bonds can elect either to receive a direct payment from the U.S. Treasury Department or to provide bondholders with a tax credit. Under the direct payment option, the Treasury Department pays the issuer 35 percent of the interest paid on the bonds. In contrast, if the issuer elects the tax credit option, the bondholder will receive a tax credit equal to 35 percent of the coupon that can be applied against the bondholder's federal income tax liability.

NEW ISSUANCE AND TRADE ACTIVITY

During 2009, 749 BABs issues came to market totaling \$63.9 billion. Approximately 680 distinct issuers in 43 states and the District of Columbia used the program, and all used the direct payment option. The first BABs were sold on April 15, 2009.

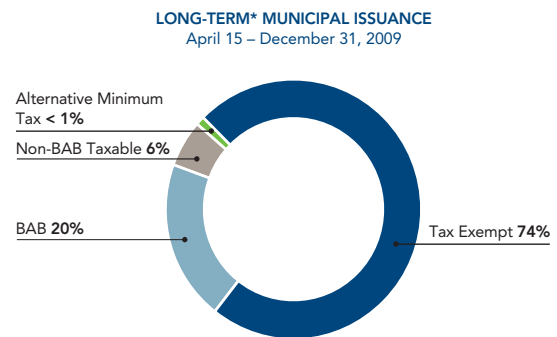
Figure 1



Source: MSRB, Thomson Reuters, Bloomberg

While states and local governments have always issued taxable debt,¹ accounting for an average of 7 percent of overall long-term issuance by par volume since 2000, BABs have pushed issuance of taxable municipal securities to record levels.² Between April 15, 2009 and December 31, 2009, issuance of BABs accounted for 20 percent of long-term securities issued in the municipal market, pushing all taxable issuance to 26 percent of the overall market. For the entire calendar year, issuance of BABs caused the municipal taxable market to account for nearly 21 percent of all long-term issuance by par volume.

Figure 2



*Long-term securities include those with maturities of 13 months or more.
Source: MSRB, Thomson Reuters, Bloomberg

Issuers of municipal securities typically include states, cities, counties, state and local government agencies and authorities, among others. Of all BABs issued, 22 percent were issued by states, 21 percent by state authorities, 18 percent by districts, 15 percent by local authorities, 10 percent by cities and the remaining 13 percent was distributed among colleges, universities and counties, based on par volume.³

Municipal securities issuers within the state of California accounted for nearly a quarter of all BAB issuance with \$15.4 billion as of December 31, 2009. Texas and New York issued the second- and third- largest volume, with issuances of \$7.0 and \$5.8 billion, respectively.

¹ A municipal security may be issued on a taxable basis because the intended use of proceeds does not meet federal tax law requirements for the exclusion from gross income or because certain other federal tax law requirements are not met.

² According to Thomson Reuters data. Long-term securities include those with maturities of 13 months or more.

³ According to Thomson Reuters. Less than 2 percent were categorized as Direct Issuers, which are other non profit issuers issuing in the municipal market place.

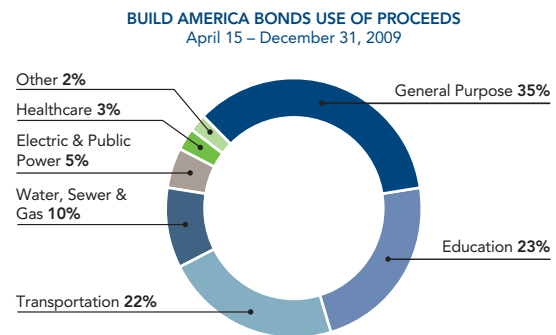
Figure 3

BAB ISSUANCE BY STATE		
State	Par Amount \$ Millions	Number of Issues
CA	15,400.6	63
TX	6,994.9	33
NY	5,776.1	16
IL	3,681.9	83
NJ	2,250.1	14
FL	2,213.0	23
MA	1,963.0	5
OH	1,846.9	32
WA	1,844.4	26
CO	1,559.2	21
KY	1,377.7	29
MO	1,374.2	27
VA	1,336.0	15
PA	1,329.7	16
MD	1,307.9	15
UT	1,285.2	17
NV	1,212.2	8
MI	1,169.4	30
DC	956.3	3
CT	844.2	5
KS	806.8	29
WI	781.4	41
NC	678.4	6
GA	620.6	5
AZ	618.8	11
IN	555.3	11
LA	531.9	7
IA	489.3	29
SC	467.3	15
MN	442.9	44
NE	333.3	13
TN	308.8	14
OK	298.5	12
NH	226.4	3
AL	218.4	5
DE	179.3	1
MS	161.6	2
AK	160.1	2
SD	141.0	7
HI	91.2	2
NM	57.9	2
ND	21.6	3
OR	21.5	2
WY	12.7	2

Source: MSRB, Thomson Reuters, Bloomberg

According to Thomson Reuters, issuers of BABs have used the proceeds for a variety of projects. Based on par amount issued, 35 percent of all BAB issues were used for general public improvement projects, 23 percent for education, 22 percent for transportation, 10 percent for water, sewer and gas facilities, 5 percent for electric and public power and 3 percent for health care related projects.

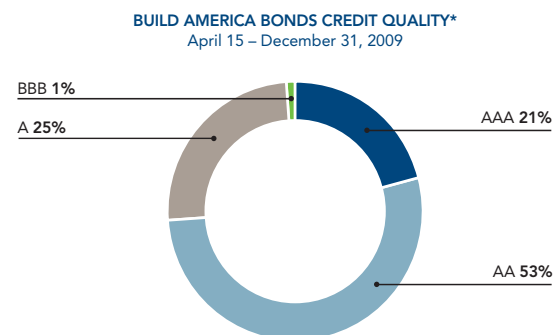
Figure 4



Source: MSRB, Thomson Reuters, Bloomberg

Most BABs issued during 2009 were investment-grade — rated “BBB-” or above — by Standard and Poor’s, Moody’s Investor Service or Fitch Ratings.⁴ Approximately 21 percent by par volume of all BABs issued acquired the highest-possible rating from at least one of the three rating agencies. Just over half of all BABs issued were assigned “AA” rating as the highest rating from at least one of the three rating agencies and 25 percent had “A” ratings.

Figure 5



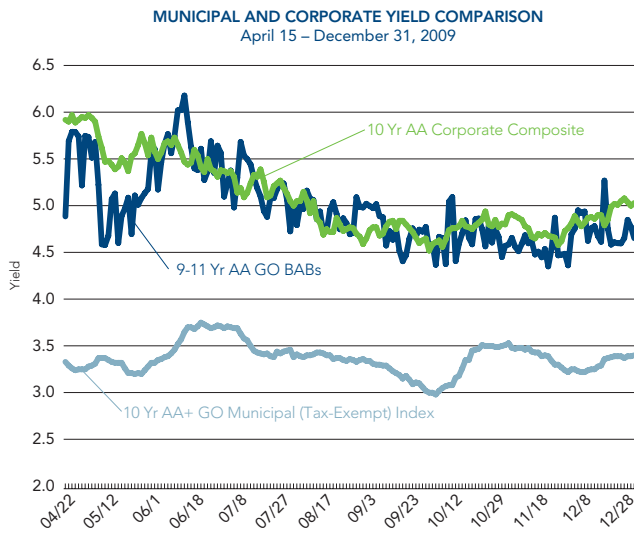
*Ratings categories based on the highest rating acquired by any of the three majority rating agencies (S&P, Moody’s and Fitch) at the time of issuance. Ratings were not available for approximately \$91 million.

Source: MSRB, Thomson Reuters, Bloomberg

⁴ For ease of reference, ratings designations use the format employed by Standard and Poor’s and Fitch, but are meant to include Moody’s ratings as well. Rating categories used in this report are based on the highest rating acquired by any of the three major rating agencies at the time of issuance.

Due to the taxable nature of BABs, yields of 9- to 11-year, AA general obligation BABs have closely tracked a corporate composite index with similar maturity and rating, as illustrated in figure 6 below.⁵ Spreads of 9- to 11-year, AA general obligation BABs to a municipal (tax-exempt) index comprised of 10-year, AA-minus general obligations securities decreased to 142 basis points in December from an average of 228 basis points in April. See figure 7.

Figure 6



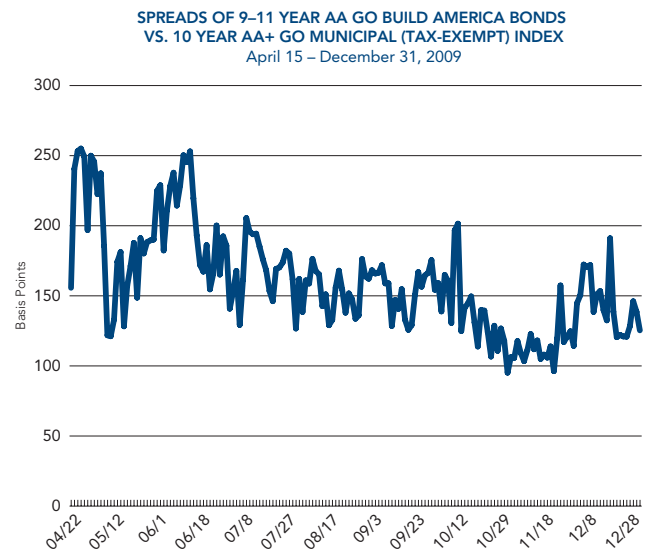
Source: MSRB, Thomson Reuters, Bloomberg

According to data disseminated by the Municipal Securities Rulemaking Board, primary and secondary trading volume of BABs totaled \$117.4 billion on 271,777 trades between April 15 and December 31, 2009. Trading activities of BABs accounted for 4.3 percent of the overall par volume and 3.7 percent of the number of trades reported to the MSRB.⁶ As a comparison, from April 15th through December 31, 2009, tax-exempt securities accounted for 78 percent of all municipal par volume traded and 89 percent of all trades reported to the MSRB. Figure 8 illustrates the relationship between new issuance and trading activity of BABs since April 15th.

⁵ Based on MSRB Data, the 9- to 11-year AA GO BAB curve is comprised of securities with maturities ranging from 8.51 years to 11.49 years with an overall average maturity of 9.99 years and it is a simple average of customer transaction yields. The 10-year AA+ GO and 10-year AA Corporate Composite indices are according to Bloomberg's Fair Market Curve Indices.

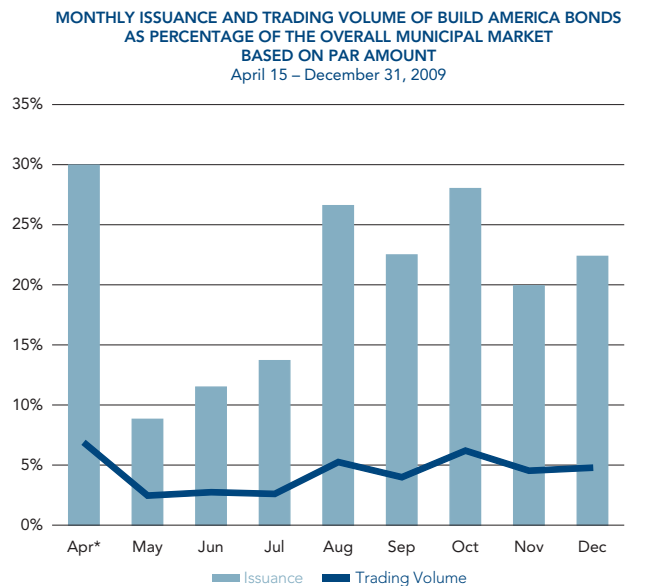
⁶ Includes all trades reported for transparency and market surveillance purposes.

Figure 7



Source: MSRB, Thomson Reuters, Bloomberg

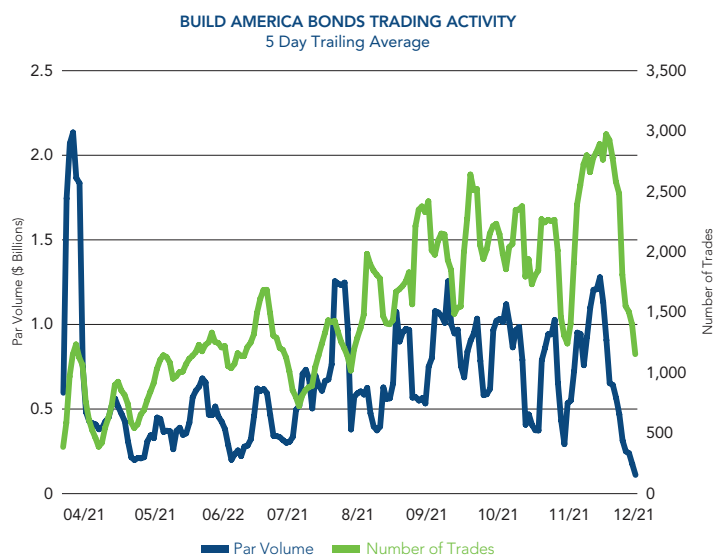
Figure 8



*April includes data from the 15th through the 30th of the month.
Source: MSRB, Thomson Reuters, Bloomberg

Figure 9 shows the 5-day trailing average of daily transaction activity and par volume traded for BABs.

Figure 9



Source: MSRB, Thomson Reuters, Bloomberg

Trades of \$100,000 or less accounted for 4 percent of all BAB trades based on par volume and 81 percent based on the number of trades. Larger institutional trades of more than \$1,000,000 accounted for 6 percent of all BABs traded but the par value of those trades accounted for approximately 82 percent of BABs traded. Figures 10 and 11 summarize trading activity by different trade size and types of trades.

Figure 10

BAB TRADING ACTIVITY BY TRADE SIZE
April 15 – December 31, 2009

	Par Amount (\$ Million)	Number of Trades
0 – \$100,000	\$4,714	220,559
\$100,001 – \$250,000	\$2,573	13,202
\$250,001 – \$1,000,000	\$13,530	21,498
More than \$1,000,000	\$96,553	16,518
Total	\$117,370	271,777

Source: MSRB, Thomson Reuters, Bloomberg

Figure 11

BAB TRADING ACTIVITY BY TRADE TYPE
April 15 – December 31, 2009

	Par Amount (\$ Million)	Number of Trades
Customer Bought	\$74,397	212,854
Customer Sold	\$13,399	9,537
Inter-Dealer Trades	\$29,574	49,386
Total	\$117,370	271,777

Source: MSRB, Thomson Reuters, Bloomberg

Trading activity of AA-rated BABs accounted for over half of all transactions based on the number of trades in 2009. Triple-A rated BABs accounted for 19 percent of all trades while A-rated issues accounted for 29 percent.

Figure 12

BAB TRADING ACTIVITY BY RATING*
April 15 – December 31, 2009

	Par Amount (\$ Million)	Number of Trades
AAA	\$24,441	51,015
AA	\$57,280	138,396
A	\$34,734	79,983
BBB	\$857	1,833

* Rating categories used in this report are based on the highest rating assigned by any of the major rating agencies (Standard & Poor's, Moody's and Fitch Ratings).

Source: MSRB, Thomson Reuters, Bloomberg

MSRB RULES REGARDING BABS

BABs are municipal securities subject to all MSRB investor protection and other rules on dealers' municipal securities activities, including rules on fair practice, political contributions and other conflicts of interest. MSRB rules also govern dealers in the areas of uniform practice (including automated clearance and settlement), official statement submission and dissemination requirements, trade reporting and the professional qualifications of registered representatives and principals. Although BABs may be sold by some dealers' taxable sales desks, MSRB rules require municipal securities principals to supervise all municipal securities activities, including these taxable municipal bond sales.

MSRB rules require underwriters to submit official statements to the MSRB for most primary offerings and dealers selling municipal securities to report transaction prices to the MSRB, usually on a real-time basis. Thus, official statements and real-time trade price information for BABs is available for free through the MSRB's EMMA website at www.emma.msrb.org. Investors interested in learning more about an individual BAB or any other type of municipal security can go to the EMMA website to view or download relevant documents and data.

ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) was established in 1975 by Congress to protect investors and the public interest by promoting a fair and efficient municipal securities market. To accomplish this mission, the MSRB regulates securities firms and banks that underwrite, trade and sell municipal securities, and collects and disseminates market information. The MSRB operates the Electronic Municipal Market Access (EMMA) website to promote transparency and widespread access to information, provides education and conducts extensive outreach as part of its mission-driven activities.

The MSRB is composed of members from the municipal securities dealer community and the public, and is a

self-regulatory organization subject to oversight by the Securities and Exchange Commission. The MSRB's day-to-day operations are run by a 75-member professional staff in Alexandria, VA.

ABOUT EMMA

The Electronic Municipal Market Access system, or EMMA, is the official online repository for electronic municipal disclosure documents and market data. EMMA, available at www.emma.msrb.org, provides comprehensive and free access to key information about municipal securities presented in a manner specifically tailored for retail, non-professional investors who may not be experts in financial or investing matters.

EMMA houses municipal disclosure documents including offering documents, called official statements, for most new offerings of municipal bonds, notes, 529 college savings plans and other municipal securities issued since 1990. EMMA also provides access to advance refunding documents, which detail arrangements made when new bonds are issued to establish escrows to pay off existing bonds (usually to refinance their debt at a lower interest rate). Ongoing disclosures about municipal bonds throughout the life of the bonds also are available on EMMA. These continuing disclosures, which include annual financial statements and notices of material events, reflect the financial or operating condition of the issuer and events that can affect the ability of an issuer to repay its bonds and the value of the bond, among other things.

EMMA provides market transparency data, which includes real-time prices and yields at which bonds and notes are bought and sold, for most trades occurring on or after January 31, 2005. Interest rates for municipal securities, including those for auction rate securities and variable rate demand obligations, are available on EMMA as well. A market statistics section on EMMA provides a summary of municipal securities transaction activity since 2006 and EMMA's Education Center houses useful information for the public and investors about municipal bonds.

EMMA is a service of the Municipal Securities Rulemaking Board.

The information and data provided in this report are provided without warranties or representations and on an "as is" basis. The MSRB hereby disclaims all representations and warranties (express or implied), including, but not limited to, warranties of merchantability, non-infringement and fitness for a particular purpose. Neither the MSRB, nor any supplier, shall in any way be liable to any recipient of the information and/or data contained in this report, regardless of the cause or duration, including, but not limited to, any inaccuracies, errors, omissions or other defects in the information and/or data or for any damages resulting therefrom.