

JULY 2009

BUILD AMERICA BONDS

Issuance and Trade Activity

Prepared by the MUNICIPAL SECURITIES RULEMAKING BOARD



MSRB
Municipal Securities
Rulemaking Board

The American Recovery and Reinvestment Act of 2009 enacted by Congress in February directly affects capital raising and the issuance of bonds by states and municipalities. Among other stimulus programs designed to rejuvenate the public sector during this economic recession, the legislation introduced a new type of municipal bond, Build America Bonds (BABs), which provide state and local governments a new method of financing capital projects with a federal subsidy. The lower borrowing costs made possible by the subsidy are intended to ease the current financial burden that state and local governments are facing, and stimulate spending on a variety of public projects.

While tax-exempt securities traditionally have been the most common form of debt issued by state and local governments, the BAB program allows state and local governments to issue an unlimited amount of taxable debt through the end of 2010. Issuers can elect either to receive a direct payment from the U.S. Treasury Department or to provide the 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 their federal income tax liability.

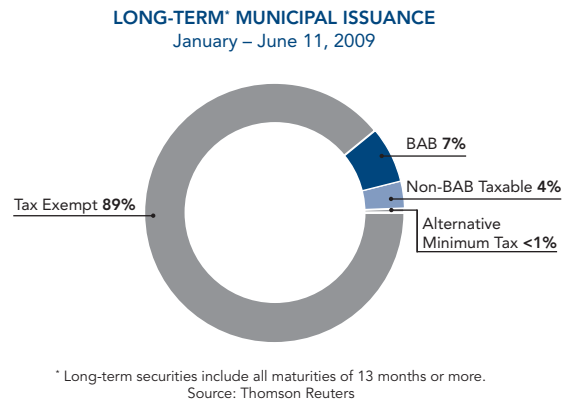
ISSUANCE OF BABS

The first BABs were issued on April 15, 2009 by the University of Minnesota and the University of Virginia. The largest BAB issue as of June 11, 2009 was the State of California's \$5 billion issue on April 22, 2009¹. Seventy-nine issuers in 25 different states and the District of Columbia took advantage of the new program between April 15, 2009 and June 11, 2009, with BAB issuance totaling \$11.9 billion and 84 different issues, according to data compiled from Thomson Reuters and Bloomberg. As of June 11, all BAB issuers have used the direct payment method.

Between April 15, 2009 and June 11, 2009, BAB issuance accounted for 16 percent of all long-term² new issues in the municipal market and accounted for over 75 percent of all long-term taxable issuance.³ Issuance

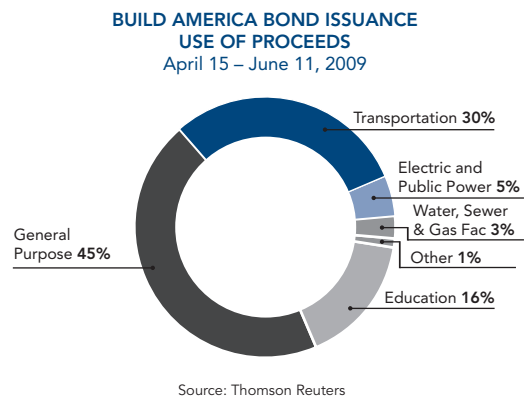
of BABs has caused the municipal taxable market to account for nearly 11 percent of all long-term issuance in 2009 through June 11, considerably higher than the historic annual average of 7 percent since 2000. According to some estimates, BAB issuance will top \$50 billion in 2009 with another \$100 billion coming to market in 2010.⁴ A list of BAB issues is provided in Figure 6.

Figure 1



BAB issues have been used for a variety of projects since the first bond was issued in April 2009. As of June 11, 2009, 45 percent of all BAB issues (based on par amount) have been used for general public improvement projects, 30 percent for transportation, 16 percent for education, 5 percent for electric and public power and 3 percent for water, sewer and gas facilities projects.

Figure 2



¹ Excluding one series of the Mandatory Put Bonds issued by the State of California.

² Long-term securities include all maturities of 13 months or more.

³ Excluding \$185 million of AMT issuance, according to Thomson Reuters.

⁴ See "Build America Bonds," *Business Week* (May 7, 2009).

BABS TRADING ACTIVITY

According to data collected from the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) system, primary and secondary trading volume was strong for BAB issues from April 15 to June 11, totaling \$23 billion on 30,633 trades and accounting for 4 percent and 2 percent of the overall municipal par volume and number of trades reported to the MSRB, respectively. Even though the number of BAB trades of \$100,000 or less accounted for nearly 74 percent of all BAB trades, the par value of those trades accounted for approximately 2 percent of total par volume traded. Figures 3 and 4 summarize trading activity by trade size and different types of trades.

Trading volume for the largest BABs⁶ in terms of par value issued is shown in figure 5. As is typical in the municipal market, trading volume was heavier in the first trading days and accounted for most of the par volume traded. On average, approximately 70 percent of par volume traded for the four largest BABs occurred in the first five trading days.

Figure 3
BAB TRADING ACTIVITY BY TRADE SIZE
April 15 and June 11, 2009

TRADE SIZE	PAR AMOUNT (\$ MILLION)	NUMBER OF TRADES
0 – \$100,000	\$516	22,724
More than \$100,000	\$22,310	7,909
Total	\$22,826	30,633

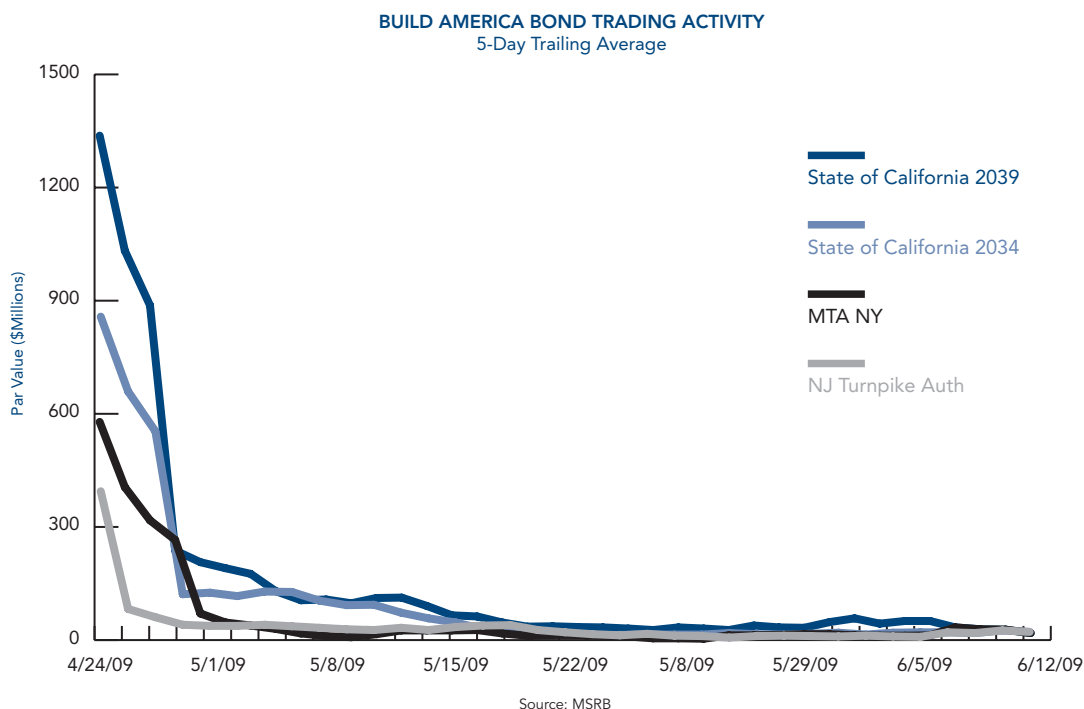
Source: MSRB

Figure 4
BAB TRADING ACTIVITY BY TRADE TYPE
April 15 and June 11, 2009

TRADE TYPE ⁵	PAR AMOUNT (\$ MILLION)	NUMBER OF TRADES
Customer Bought	\$14,856	23,646
Customer Sold	\$3,872	1,607
Inter-Dealer Trades	\$4,098	5,380
Total	\$22,826	30,633

Source: MSRB

Figure 5



⁵ Customer Bought — a municipal trade in which a customer bought the security from a broker-dealer or bank. Customer Sold — a municipal trade in which a customer sold the security to a broker-dealer or bank. Inter-dealer — a municipal securities trade between two broker-dealers, including dealer banks or broker's brokers.

⁶ Includes the following BABs: State of California 2034 maturity, State of California 2039 maturity, New York Metropolitan Transportation Authority and the New Jersey Turnpike Authority.

Figure 6
BUILD AMERICA BOND ISSUANCE

SALE DATE	ISSUE	PAR AMOUNT \$ MILLIONS	RATINGS ⁷		
			S&P	MOODY'S	FITCH
04/15/09	University of Minnesota, MN	37.3	AA	Aa2	NR
04/15/09	University of Virginia, VA	250.0	AAA	Aaa	AAA
04/16/09	Plainfield Fire Protection District, IL	8.2	NR	Aa3	NR
04/20/09	New Jersey Turnpike Authority, NJ	1,375.0	A+	A3	A
04/21/09	City of De Pere, WI	2.7	NR	Aa3	AA
04/22/09	State of California	5,000.0	A	A2	A
04/22/09	Du Page Community College District #502, IL	62.5	AAA	Aaa	NR
04/22/09	Riley County Unified School District #383, KS	54.3	NR	Aa3	NR
04/23/09	Metropolitan Transportation Authority, NY	750.0	AA	NR	A+
04/23/09	Milan Area School District, MI	49.2	AA-	Aa3	NR
04/28/09	Lake County Township High School District #121, IL	23.7	AA	NR	NR
04/28/09	City of Oshkosh, WI	2.9	NR	Aa3	NR
04/28/09	City of Oshkosh, WI	16.7	NR	Aa3	NR
05/05/09	Sacramento Municipal Utility District, CA	200.0	A+	A1	A
05/06/09	State of Louisiana	103.1	AA	Aa3	NR
05/07/09	Johnson County Unified School District #233, KS	95.0	AA	Aa3	NR
05/07/09	City of Mesa, AZ	59.9	AA-	A1	NR
05/07/09	Southern Illinois University, IL	53.7	AAA	Aa2	NR
05/07/09	Victor Valley Community College District, CA	12.0	AA-	Aa3	NR
05/11/09	City of Glendale, WI	2.9	NR	A1	NR
05/11/09	Johnson County Unified School District #229, KS	73.0	AA	Aa1	NR
05/11/09	Villa Park, IL	7.0	AA	NR	NR
05/12/09	Brier Creek School Building Corp, IN	27.7	AA+	-	-
05/12/09	Illinois State Toll Highway Authority, IL	500.0	AA-	Aa3	AA-
05/12/09	Sedgwick County Unified School District #259, KS	132.5	AA	Aa3	NR
05/12/09	City of Staples, MN	2.0	A	NR	NR
05/13/09	Utah Transit Authority, UT	261.5	AAA	Aa3	AA
05/13/09	Van Buren Public Schools, MI	79.0	AA-	Aa3	NR
05/14/09	Council Bluffs, IA	7.2	NR	A1	NR
05/15/09	Brea Public Financing Authority, CA	12.9	AA-	-	-
05/18/09	Central Weber Sewer Improvement District, UT	51.0	AAA	NR	AA
05/18/09	City of Fort Dodge, IA	9.0	NR	A1	NR
05/18/09	City of O'Fallon, IL	9.3	AAA	-	-
05/19/09	City of Green Bay, WI	8.7	NR	Aa2	NR
05/19/09	City of Saint Paul, MN	9.3	AAA	NR	NR
05/19/09	West Valley-Mission Community College District, CA	120.8	AA	Aa2	NR
05/20/09	City of Albany, MN	0.8	NR	Baa1	NR
05/20/09	Brown County, WI	13.5	NR	Aa1	NR
05/20/09	City of Rugby, ND	4.8	A+	NR	NR
05/21/09	Grand Rapids Community College, MI	12.0	AA	Aa2	NR
05/21/09	South Dakota University, SD	90.3	AAA	NR	NR

Sources: MSRB, Thomson Reuters, Bloomberg

⁷ Ratings as of Sale Date; NR stands for non-rated.

Figure 6 continued

BUILD AMERICA BOND ISSUANCE

SALE DATE	ISSUE	PAR AMOUNT \$ MILLIONS	RATINGS ⁷		
			S&P	MOODY'S	FITCH
05/26/09	Fayette County School District Finance Corp, KY	41.2	AA	Aa3	NR
05/26/09	Staples Economic Development Authority, MN	0.6	A-	NR	NR
05/27/09	City of Cold Spring, MN	1.0	NR	A3	NR
05/27/09	State of Louisiana	121.3	AA	Aa3	NR
05/27/09	New Jersey Transportation Trust Fund Authority, NJ	273.5	AA-	A1	A+
05/28/09	City and County of Denver Bd of Water Commissioners, CO	44.0	AAA	Aa2	AA+
05/28/09	Harris County Metropolitan Transit Authority, TX	82.6	AA	Aa3	NR
05/28/09	Jefferson Parish Sales Tax District, LA	50.0	AAA	Aa2	NR
05/28/09	Oswegoland Park District, IL	2.4	NR	Aa2	NR
05/29/09	Des Moines Area Community College, IA	4.0	NR	A1	NR
05/29/09	Eastern Michigan University, MI	79.2	A-	A2	NR
05/29/09	Weber Basin Water Conservancy District, UT	15.7	AA	NR	AA
06/01/09	City of Altoona, IA	3.8	NR	Aa3	NR
06/01/09	City of Altoona, IA	5.3	NR	A2	NR
06/02/09	Finney County Unified School District #457, KS	63.2	AAA	NR	NR
06/02/09	City of San Antonio, TX	375.0	AA	Aa1	AA+
06/02/09	City of Vadnais Heights, MN	7.0	AA	NR	NR
06/02/09	City of Waterloo, IA	7.4	NR	A1	NR
06/03/09	City of Des Moines, IA	19.6	AAA	Aa2	NR
06/03/09	Maricopa County Deal Valley Unified School District #97, AZ	17.0	-	Aa3	AA+
06/03/09	Washington Metropolitan Area Transit Authority, DC	55.0	A	A1	NR
06/03/09	State of Wisconsin	54.5	AA-	Aa3	AA-
06/04/09	Newaygo County Fremont Public Schools, MI	43.9	AA-	Aa3	NR
06/04/09	Southern California Metropolitan Water District, CA	78.4	AAA	Aa2	AA+
06/05/09	Broward County School Board, FL	63.9	A+	A1	A+
06/05/09	Village of Lomira, WI	1.9	NR	NR	NR
06/08/09	Washington County West Bend Joint School District #1, WI	15.0	AA	NR	NR
06/09/09	Anderson School District #1, SC	25.0	AA	Aa1	NR
06/09/09	Clark County, NV	210.0	AA+	Aa1	NR
06/09/09	City of Independence School District, MO	1.5	AAA	NR	NR
06/09/09	San Bernardino Community College District, CA	60.2	AA-	Aa3	-
06/09/09	Southwestern Michigan College, MI	7.5	AA	NR	NR
06/10/09	City of Cedar Rapids, IA	29.2	NR	Aaa	NR
06/10/09	City of Tempe, AZ	9.3	AAA	Aa2	NR
06/10/09	University of Texas, TX	330.5	AAA	Aaa	AAA
06/11/09	Huron School District #2-2, SD	3.5	AAA	-	-
06/11/09	East Detroit Public Schools, MI	8.6	AA-	Aa3	NR
06/11/09	Montague Area Public Schools, MI	19.7	AA-	NR	NR
06/11/09	Nebraska Public Power District, NE	50.4	A	A1	A+
06/11/09	State of Ohio	23.7	AA	Aa3	A+
06/11/09	Jackson County Community Unit School District #186, IL	3.3	AAA	-	-

Sources: MSRB, Thomson Reuters, Bloomberg

⁷ Ratings as of Sale Date; NR stands for non-rated.

MSRB RULES REGARDING BABS

Although the bonds are taxable, 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, all 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. For more information on the application of MSRB rules to BABs, please see [MSRB Notice 2009-15](#) and [MSRB Notice 2009-30](#).

ABOUT THE MSRB

The Municipal Securities Rulemaking Board (MSRB) was established as a self-regulatory organization by Congress in 1975 under the Securities Exchange Act to develop rules regulating securities firms and banks involved in underwriting, trading and selling municipal securities. The MSRB also operates information systems, including the Electronic Municipal Market Access (EMMA) system, to promote transparency and access to municipal bond information, and conducts extensive outreach and education.

The MSRB is composed of 15 members from the municipal securities dealer community and the public, and is charged with protecting investors and promoting a fair and efficient market. Members of the MSRB meet throughout the year to make policy decisions,

DISCLAIMER

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.

approve rulemaking, enhance information systems and review developments in the municipal securities market. The operations of the MSRB are funded through assessments on dealers and a professional staff in Alexandria, Virginia manages the MSRB's day-to-day operations.

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.