

BUILD AMERICA BONDS

Providing Investment Capital for Local and State Government Technology Projects

About Build America Bonds

The American Recovery and Reinvestment Act of 2009 (“ARRA”) provided an important new mechanism to help governments finance technology projects. The Act authorized state and local governments to issue Build America Bonds (“BABs”) as taxable bonds in 2009 and 2010 to finance any capital expenditures for which they otherwise could issue tax-exempt governmental bonds. Already, municipalities are utilizing this authority to upgrade their information technology infrastructure. While a new mechanism, BABs are a form of municipal bonds which governments have long-used to finance infrastructure projects.

Who can issue BABs?

BABs can be issued by almost any state, county, city or town. Collectively, there are over 50,000 different municipal bond issuers comprising that currently have over \$2.6 trillion in bonds outstanding. State laws control the procedures for approval of municipal bonds and restrict the amount of debt municipalities can incur.

Types of BABs

There are two types of BABs: tax credit bonds and direct payment bonds. Tax credit bonds provide a federal tax credit to the bondholder equal to 35% of the taxable interest. Tax credit bonds can be used to finance any government purpose for which tax-exempt governmental bonds can be issued, including financing capital expenditures and working capital expenditures. Direct payment bonds provide state and local governments with a federal subsidy equal to 35% of the interest paid by them to the bondholder. Direct payment bonds can be used to finance capital expenditures that could be financed with tax-exempt governmental bonds. Direct payment bonds may not be issued to finance working capital expenditures.

Examples of BAB projects

BABs can be used to finance nearly any public project. Voters in Plano, Texas, recently approved an \$8 million bond issuance to consolidate data centers and fund the renovation and expansion of a Technology Service Facility. Likewise, the Caddo Parish School Board in Shreveport, Louisiana, moved to sell bonds from its share of the economic stimulus package to construct a data center and implement a district wide technology plan. Combined, the BAB issuances are expected to swell to \$50 billion this year and another \$100 billion in 2010.

Why are governments issuing BABs?

With shrinking revenue streams, state and local government needs for investment capital are acute. BABs are intended to address these needs by assisting states and municipalities in financing capital projects like technology upgrades at lower borrowing costs, stimulating the economy and creating jobs.

For additional information

The Internal Revenue Service recently issued Notice 2009-26 to provide state and local governments with BABs guidance. The notice includes additional information on eligible types of projects and financings.

The authority to issue BABs expires after 2010.