State of Connecticut

DENISE L. NAPPIER
TREASURER

Hartford

March 4, 2010

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, DC 20510

The Honorable Nancy Pelosi
Speaker of the House
U.S. House of Representatives
The U.S. Capitol, Room H-232
Washington, D.C. 20515

The Honorable Mitch McConnell
Minority Leader
United States Senate
Washington, DC 20510

The Honorable John Boehner
Minority Leader
U.S. House of Representatives
The U.S. Capitol, Room H-204
Washington, D.C. 20515

RE: House Resolution 2847 and Senate Amendment 3310

Dear Majority Leader Reid, Speaker Pelosi, Minority Leader McConnell and Minority Leader Boehner:

As a strong supporter of Congressional initiatives to stimulate the economy and create jobs, I commend the passage of House Resolution 2847 (the "Jobs Bill"). I write to register my concerns over one aspect of Senate Amendment 3310 (the "Amendment") to the Jobs Bill that relates to Qualified School Construction Bonds ("QSCB").

Specifically, the Jobs Bill adopted by the House proposed a direct subsidy rate of 100 percent of the interest rate borne by QSCBs. This accords with the original concept of QSCBs, namely that issuers were expected to achieve an effective zero interest rate on such bonds. However, Senate Amendment 3310 reduces the subsidy rate to 45% or 65% (depending on the ultimate issuer). While this subsidy rate remains attractive, and better than the 35% applicable if QSCBs were instead issued as BABs, it is not equivalent to a net effective zero interest rate that was the original objective for this important program. Therefore, I strongly encourage the final adoption of provisions more similar to the House version which provides a subsidy at the 100 percent level.

In my role as State Treasurer, a constitutional office of the State of Connecticut, I am principally responsible for the issuance of State debt – including virtually all financing for school construction financing within our State. Given that role, I have closely followed developments related to QSCBs with a view toward issuing QSCBs as part of the State's overall financing of school construction. However, the market for tax credit bonds such as QSCBs has not developed as expected. As adopted by the American Recovery and Reinvestment Act of 2009 ("ARRA"), QSCBs were intended to be issued at effectively a zero interest rate. Those entities who have issued QSCBs so far have generally not been able to achieve this effective interest rate. As a result, the QSCB program has not yet achieved its goals.

Thank you, in advance, for taking into consideration the spirit of the original language of the Jobs Bill as passed by the House, and preservation of the subsidy for QSCBs at 100 percent.

Please feel free to call on me should you require my assistance in furthering this important program.

Sincerely,

Denise L. Nappier
State Treasurer

SIFMA®
Securities Industry and
Financial Markets Association

February 22, 2010

The Honorable Harry Reid
Majority Leader
United States Senate
Washington, D.C., 20510

The Honorable Mitch McConnell
Republican Leader
United States Senate
Washington, D.C., 20510

The Honorable Max Baucus
Chairman, Senate Finance Committee
United States Senate
Washington, D.C., 20510

The Honorable Charles Grassley
Ranking Member, Senate Finance Committee
United States Senate
Washington, D.C., 20510

Dear Majority Leader Reid, Republican Leader McConnell, Chairman Baucus and Ranking Member Grassley:

The Securities Industry and Financial Markets Association ("SIFMA")[1] is grateful for the steps Congress has taken to help state and local governments regain access to capital during the financial crisis, particularly through provisions contained in the American Recovery and Reinvestment Act of 2009 ("ARRA"). While many of those provisions related to states' and municipalities' ability to issue bonds, Congress has correctly identified the need for adjustment related to the Qualified School Construction Bond ("QSCB") program, which has not proven as effective. We applaud Congress for considering legislation that would enhance the QSCB program and other tax-credit bonds by allowing bonds issued under those programs to be converted to a "direct-pay" taxable bond as an alternative to tax-credit bonds and thus provide a tool for increasing school construction and economic development. However, we believe the structure proposed in the Senate bill will not prove to be as efficient and beneficial to issuers as that proposed by the House.

Qualified School Construction Bonds

QSCBs are designed to provide school districts with zero-cost financing for new school construction by offering investors a federal income tax credit in lieu of interest that would have been paid by school district borrowers. The QSCB program in its current form, however, has not been able to deliver its intended benefits.

Most QSCB borrowers, in practice, have had to offer supplemental cash interest payments of about two percent on top of the tax credits to attract investors. As a result, while school districts are eager to access the program, only $2.9 billion of the $22.4 billion QSCBs authorized in the ARRA for 2009 and 2010 have been sold so far.

[1] The Securities Industry and Financial Markets Association (SIFMA) brings together the shared interests of hundreds of securities firms, banks and asset managers. SIFMA's mission is to support a strong financial industry, investor opportunity, capital formation, job creation and economic growth, while building trust and confidence in the financial markets. SIFMA, with offices in New York and Washington, D.C., is the U.S. regional member of the Global Financial Markets Association (GFMA). For more information, visit www.sifma.org.

Washington • New York • London • Hong Kong
1101 New York Avenue NW, 8th Floor • Washington DC 20005-4629 • P:202.962.7300 • F:202.962.7305 • www.SIFMA.org

The main cause of these issues is that the investor base interested in buying tax-credit bonds is smaller than either the tax-exempt or taxable markets. There simply are not many investors who can handle the operational, accounting and tax issues associated with the structure in lieu of a cash coupon bond. In addition, the weak economy has exacerbated the problem by eroding the taxable income of corporations that might otherwise be buyers.

Legislative Proposals

On December 16, 2009, the House of Representatives passed legislation (H.R. 2847) that would provide QSCB borrowers with the option to issue interest-bearing taxable bonds instead of tax credit bonds, like the highly successful Build America Bonds ("BABs") program[2]. School districts that chose this option would receive a direct cash reimbursement from the federal government of their interest expense up to a ceiling interest rate.

Under this option, school districts would receive a zero cost of borrowing as QSCBs were originally intended to provide. Instead of the federal government "paying" interest to investors in the form of tax credits, the government would simply reimburse interest payments directly to the borrower. The cost to the federal government per dollar of financing would, at worst, be identical to tax-credit bonds, and would likely be lower, as the tax-credit rate set by the Department of Treasury is indicative of entities that are lower credit quality than most issuers of QSCBs and other tax-credit bonds.

The Senate Amendment to H.R. 2847 ("the Senate Amendment") under consideration would also provide for a direct-pay option for QSCBs and other tax-credit bonds, but instead of the 100 percent subsidy in the House version, it would only offer a 45 percent interest expense reimbursement to issuers, and 65 percent for small school districts that borrow less than $30 million per year. This would subject many, if not most, school districts to the lower subsidy rate. And regardless, the overall substantially lower subsidy rates under the Senate Amendment does not offer issuers of any size any more reason to utilize the program. Rather, school districts would still face a 2 to 4 percent cost of financing and would be no better off than under current law.

Conclusion

Direct-pay QSCBs and other tax-credit bonds would offer benefits to issuers, investors and the federal government; as proposed by the House, direct-pay QSCBs at a reasonable rebate rate would avoid the inefficiencies associated with tax-credit bonds and would allow school districts to take full advantage of the assistance offered by the ARRA while potentially lowering the cost to both state and local municipalities, as well as the federal government.

---

[2] BABs have provided a crucial new financing vehicle and investor base to state and local government borrowers. In addition to broadening the buyer base for taxable financing, the BABs program has improved the undercapitalization of the tax-exempt market by decreasing tax-exempt supply, thereby lowering borrowing costs in this market. However, there remains a significant concern among investors that BABs will either not be extended (or will be extended at a rebate rate that will lower the supply of BABs significantly) and liquidity in the bonds will suffer. The Senate's actions on the QSCB structural adjustment, as well as on BABs extension, is crucial to ensuring that states and local municipalities fund themselves as efficiently as possible going forward.

We thank you for your consideration and look forward to working with Congress to help ensure that this valuable program be implemented in such a way that is most beneficial to all parties.

Sincerely,

Kenneth E. Bentsen, Jr.
Executive Vice President, Public Policy and Advocacy
SIFMA

cc: Sen. John D. Rockefeller IV
Sen. Kent Conrad
Sen. Jeff Bingaman
Sen. John F. Kerry
Sen. Blanche L. Lincoln
Sen. Ron Wyden
Sen. Charles Schumer
Sen. Debbie Stabenow
Sen. Maria Cantwell
Sen. Bill Nelson
Sen. Robert Menendez
Sen. Thomas Carper
Sen. Orrin G. Hatch
Sen. Olympia J. Snowe
Sen. Jon Kyl
Sen. Jim Bunning
Sen. Mike Crapo
Sen. Pat Roberts
Sen. John Ensign
Sen. Mike Enzi
Sen. John Cornyn
Rep. Charles Rangel
Rep. David Camp