Office of the
New York City Comptroller
John C. Liu

STATEMENT

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Contact: Sharon Lee, (212) 669-3747

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SENATE JOBS BILL SHORTCHANGES NEW YORK CITY SCHOOL CONSTRUCTION

Comptroller Liu Urges Washington to Approve 100% Subsidy for School Construction Bonds

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NEW YORK, NY – New York City Comptroller John C. Liu stated the following in response to questions about the Senate's approval today on a $15 billion jobs bill, which included a provision for a 45% subsidy rate for Qualified School Construction Bonds (QSCBs):

"While it is great the Senate has passed a much needed action to create jobs, a 45% subsidy rate for QSCBs is not only bad for the city's bottom line, but it does not go far enough to help our kids. Approval of a 45% subsidy rather than the original interest-free model will place additional strain on an already overburdened budget. This will mean potential cuts to the City's capital budget -- specifically school construction -- or yet another increase in New York's debt level. QSCBs at a 100% subsidy rate are critically needed not just for jobs, but also for schools and classroom seats that we so desperately need."

In a letter to the New York Congressional Delegation earlier this month, Comptroller Liu had urged the Senate and the House to extend QSCBs at a 100% subsidy rate as an interest-free source of funding for the City's crumbling educational needs. The full text of the letter is below.

Last May, the Mayor announced the City would not make any reductions to the five-year school construction program, counting on federal stimulus tax-credit bonds -- including QSCBs -- to maintain funding for all planned school construction (link: http://bit.ly/cWMoo2): "No reductions will be made to the five-year school construction program - the City will utilize federal stimulus tax-credit bonds to maintain funding for all school construction."

Comptroller Liu continued: "Unfortunately, overcrowded classrooms are a reality in schools throughout New York City, putting enormous pressure on our teachers, while preventing so many talented students from receiving the individual attention they need and deserve. And the

Department of Education's recent decision to close 19 schools will only exacerbate this crisis. School capital comprises more than 20% of the City's four year capital commitment plan, so being able to borrow via QSCBs at a net rate of zero, as the program was intended to do, would help us fill the tremendous needs of our school system while creating jobs for New Yorkers."

Below is the full text of the letter sent on February 11, 2010 to Senators Charles E. Schumer and Kirsten E. Gillibrand, and Congress Members Barney Frank, Charles B. Rangel, Gary Ackerman, Yvette D. Clarke, Joseph Crowley, Eliot Engel, Carolyn Maloney, Michael McMahon, Gregory W. Meeks, Jerrold Nadler, José E. Serrano, Edolphus Towns, Nydia M. Velázquez and Anthony D. Weiner.

February 11, 2010

United States Senate
313 Hart Senate Building
Washington, DC 20510

Dear Senator:

The Build America Bonds (BABs) program has been a tremendous success for New York City. Created by the American Recovery and Reinvestment Act of 2009, BABs have helped reduce debt service costs, maintain essential services and preserve jobs during these challenging economic times. As you consider President Obama's proposal to make the program permanent, and examine the level of subsidy, I urge you to consider our success and the continuing value of BABs to New York City.

Since the program's inception, Build America Bonds have become an integral part of New York City's debt issuance profile. Of the $4.74 billion of new capital raised this fiscal year to date by the City and its directly-controlled debt-issuing authorities, $3.15 billion, or 66 percent, has been BABs. In addition to lowering debt service expenses and funding projects that keep people working while rebuilding aging infrastructure, BABs have also helped the City attract new investors. This is especially important to New York given the size of its capital program and the amount of debt it issues, expected to top $12 billion this fiscal year including refundings. And because BABs have spread national municipal bond supply across both tax-exempt and taxable markets, they have facilitated improved market stability and lower interest rates after the dislocations of 2008.

I urge you to support the permanent extension of the BABs program and expansion of its coverage to include refundings and 501(c)(3) borrowers. This will carry on the benefits the City has accrued to date, and more. For all that BABs have accomplished, many potential investors remain on the sidelines due to the currently limited duration of the program. Making this program permanent will address their concerns about future liquidity and provide an incentive to embrace a new type of asset that will only grow in significance over time. An extension will also provide the time needed to reach and educate individual investors, a critical segment for New York City that will find these bonds an attractive savings vehicle.

Additionally, the BABs subsidy level should remain at the current 35 percent level. Some have suggested that this rate is too high because municipalities have saved money with it – a curious argument against a stimulus program designed to benefit municipalities. New York City's budget remains under severe pressure despite strong financial management. The potential to save money through BABs is as important now as it was a year ago.

There are also sound bond market-driven reasons to hold the subsidy at 35 percent. Coming out of the severely disrupted bond market of 2008, the relationship between municipal and Treasury bond rates in much of 2009 remained distorted compared to historical levels. Municipal rates were much higher relative to Treasuries, so that the BABs – priced off the Treasury curve – were closer in yield to tax-exempts bonds than would be expected in less volatile markets. If this caused the 35 percent subsidy to benefit issuers, rather than just make their net cost equivalent to tax-exempt borrowing, it is an effect that may not persist as markets normalize. Even in today's market, reducing the subsidy level would cause many fewer bonds to be sold as BABs, undercutting the intent of the program. It is premature to conclude that a lower subsidy rate is appropriate or will succeed with the twin objectives of market stability and municipal issuer assistance.

Finally, I have commended the House of Representatives' support of revisions to the Qualified School Construction Bond (QSCB) program so that it can perform as intended, as an interest-free source of funding for critical school capital needs. By creating a direct subsidy option, HR 2847 overcomes the problem of the poorly-accepted tax credit form of QSCBs. I urge you to support this QSCB program modification, including a 100 percent subsidy, when it comes before you as part of the jobs bill.

Thank you for your attention to these important and beneficial debt initiatives. I look forward to working with you in the years ahead to serve our City and its residents.

Sincerely,

John C. Liu

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