



COMMONWEALTH OF VIRGINIA

Department of the Treasury

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August 16, 2010

MEMORANDUM

TO: Local Issuer's Bond Counsel Distribution List

FROM: Richard A. Davis
Public Finance Manager

SUBJECT: Virginia Public School Authority ("VPSA") School Financing Bonds
(1997 Resolution) 2010 Fall Pool Bond Sale

Attached herewith are copies of preliminary debt service schedules for localities for which you have been appointed bond counsel. Estimated debt service schedules are also being e-mailed to localities who filed applications to participate in the financing. The draft of the Bond Sale Agreement (the "BSA") can be found on the Department of Treasury website on the Internet at the address listed below. The BSA and Appendix D thereto are to be filed with VPSA at the address indicated in the BSA no later than October 8, 2010. **Please utilize an overnight delivery service to ensure timely arrival. The closing date will be on or about November 10, 2010.**

As with VPSA's 2010 Spring Pool program, VPSA will offer a Build America Bond ("BAB") option for Local Issuers. Subject to sufficient interest from Local Issuers and other considerations, Local Issuers may finance a portion of their respective capital needs through the sale to VPSA of a federally taxable, general obligation BAB. Local Issuers issuing BABs will be eligible for a 35% interest subsidy on each interest payment date, subject to continued compliance with certain restrictions contained in the Internal Revenue Code of 1986, as amended. As the BAB will be issued at the Local Issuer level, Local Issuers issuing BABs will be responsible for filing a Form 8038-CP within the prescribed time limit before each Interest Payment Date.

The electronic information package, including all form documents, is available at the Department of Treasury home page on the Internet at:

http://www.trs.virginia.gov/Debt/vpsa_bondsaleagrmt.aspx

In its traditional tax exempt program, VPSA structures its financings with a goal of purchasing each locality's local school bonds for a price substantially equal to the amount of proceeds the

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locality has requested. This method of structuring is intended to ensure that the purchase price VPSA pays will finance projects adequately and, at the same time, accommodate the range of possible loan maturities and amortization schedules within the participant pool. As in prior transactions, actual market conditions will be evaluated in the pricing and sizing of the transaction and VPSA expects to resize, to the extent permitted, the par amount of local school bonds on the VPSA sale date.

For example, if a locality's requested loan maturity and amortization schedule results in a local school bond that is valued at a price of par plus a premium, VPSA intends to reduce the par amount of such bond to the extent required to provide proceeds approximately equal to, but not less than, the amount of proceeds requested (the amount of proceeds requested by a locality is referred to herein as the "Proceeds Requested"). Conversely, if a locality's requested loan maturity and amortization schedule results in a bond that is valued at a price of par less a discount, VPSA is willing, at the locality's request, to increase the par amount of such bond by the amount required to generate the proceeds requested. To do so the locality must authorize additional bonds in excess (up to 5%) of the amount of Proceeds Requested.

Because VPSA cannot predict the interest rate coupon structure of its Fall Pool bonds at this time, VPSA requests that each locality authorize a "not to exceed" or "up to" principal amount of bonds that is sufficiently in excess of the amount of Proceeds Requested. If a locality's bond structure results in a discount purchase price and no additional bonds have been authorized in excess of the Proceeds Requested by the locality's bond resolution, the resulting purchase price paid will reflect the discount and result in a purchase price less than the Proceeds Requested.

Federally taxable bonds, including BABs, are typically reoffered at par, without taking into account an allocable portion of the underwriters' discount. Therefore, Local Issuers considering the BAB option are specifically urged to authorize additional bonds in excess of the amount of the Proceeds Requested to provide VPSA flexibility to cover that portion of the underwriters' discount allocable to any BABs.

The Bond Sale Agreement and form of local bond resolution are specifically drafted to accommodate VPSA's approach to structuring its transactions. First, in the header section on the first page of the Bond Sale Agreement, there are two line entries for dollar amounts. The Maximum Authorized Par Amount should equal the Proceeds Requested plus a cushion of up to 5%. VPSA and its financial advisor will be pleased to assist you in quantifying an appropriate cushion. Second, the Bond Sale Agreement and bond resolution do not include a purchase price parameter as a percentage of par. Rather, the purchase price is to be "substantially equal" to the Proceeds Requested except in the cases where issuing at the maximum authorized amount would not be sufficient to generate the Proceeds Requested. In instances where a discount would be paid, bracketed language is included in the bond

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resolution for a minimum purchase price parameter as a percentage of Proceeds Requested, if such a figure is required the locality, and its bond counsel, should consult with VPSA and its financial advisor in developing the parameter. An acknowledgment relating to the possibility of receiving a discount is included in the Bond Sale Agreement. Third, the resolution includes certain recitals (similar to the acknowledgments in the Bond Sale Agreement), which explain sizing adjustments and VPSA's objective to pay a purchase price that reflects the market value for the local school bonds.

Certain revisions have been made to the forms of the Bond Sale Agreement and bond resolution to accommodate the issuance of BABs. In respect of the Bond Sale Agreement, certain changes have been made to the delivery requirements and ongoing responsibilities of the Local Issuers which reflect the different character of the BABs. Two substantive changes have been made to the form of the bond resolution. First, as BABs are not typically competitive from a pricing perspective with traditional tax-exempt bonds in the early years, it will be highly unlikely that any Local Issuers choosing the BABs option would issue only BABs. Rather, a Local Issuer choosing the BABs option will most likely issue a traditional tax-exempt bond and a BAB. The form of the bond resolution addresses this likelihood by authorizing a maximum par amount of bonds, which may consist of both a tax-exempt bond and a BAB. Second, because federally taxable bonds do not typically include a ten-year call provision, such call provisions can prove to be expensive, diminishing the value of the interest rate subsidy. As a result, many BAB issues typically contain two separate call provisions: (a) a make-whole call provision and (b) a extraordinary optional call which may only be triggered upon the loss or diminution of the federal subsidy. Here, VPSA expects that its taxable bonds allocable to a locality's BABs would have these redemption provisions, and as is typical with the tax exempt bonds of Local Issuers, the Local Issuer's BABs would be subject to redemption on terms similar to the VPSA taxable bonds.

As soon as practicable after closing, bond counsel to the Local Issuers should send one original transcript to Sidley Austin LLP.

Please ensure that the minutes for any resolution/ordinance taken by your client's school board and board of supervisors/council list, by name, each board/council member voting, and the member's vote (or abstention). The Virginia Supreme Court in Town of Madison v. Ford held that the minutes of the town council's meeting stating that all members were present and that the motion to adopt ordinance carried unanimously, were **insufficient** to comply with Article VII, Section 7 of the Virginia Constitution. That provision states, "On final vote on any ordinance or resolution, the name of each member voting and how he voted shall be recorded." The forthcoming Bond Sale Agreement resolution forms will accommodate this requirement.

Please note when accessing the electronic information on the website that there are *three* versions of Appendix C (Use of Proceeds Certificate). Please complete the applicable version (New Money,

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Current Refunding or New Money and Current Refunding) as it applies to your client's situation.

At the VPSA Board meeting on September 9, 2010, the Board will consider approval of the applications received from localities interested in participating in the financing. Applications are being reviewed and approval of funding amounts is expected on that date. If approved, localities and their counsel will be notified of their anticipated funding amount. If not approved, you will be notified as soon as possible following the Board meeting. If you have any questions about the BSA, or need assistance, please call Connie Vaughan at (804) 225-2268 or Melissa Palmer at (804) 225-4926.

RAD:mwp

Attachments

c: Donald R. Ferguson, Esq.
Office of the Attorney General
A. Francis Robinson, Jr., Esq.
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