United States Senate
Committee on Finance

Sen. Chuck Grassley · Iowa
Ranking Member

http://finance.senate.gov
Press_Office@finance-rep.senate.gov

Contact: Jill Kozeny, 202/224-1308
Jill Gerber, 202/224-6522

M E M O R A N D U M

TO: Reporters and Editors
RE: House enrichment of Build America Bonds
DA: Wednesday, March 10, 2010

Senator Chuck Grassley today made the following comment about the House "jobs" legislation's expansion of the Build America Bonds provision. The Senate could take up the House bill this week. Grassley also released two responses from Goldman Sachs to his inquiries about the fees Goldman Sachs has received from Build America Bonds.

"Build America Bonds were created in the stimulus last year as a temporary program. A recently-passed House bill included an expansion. The Senate then passed a further expansion and sent the bill back to the House. The House took the Senate's bill and made it richer. Now a temporary program is becoming bigger, and Wall Street is seeking to make it permanent. Wall Street is profiting and cheering the expansion.

"Build America Bonds result in higher underwriting fees for the Wall Street banks that underwrite the bonds than for traditional tax-exempt bonds. According to Bloomberg News, Build America Bonds provide 37 percent higher underwriting fees to the large Wall Street banks when compared with traditional tax-exempt bonds. According to an article in today's Wall Street Journal, Wall Street banks have made more than $1 billion in underwriting fees on Build America Bonds deals in less than a year. The taxpayers pay for those lucrative fees to Wall Street.

"Build America Bonds are portrayed as an easy way to help school kids and green energy. What's left out is that this is a spending program disguised as a tax cut, getting bigger each year, and Wall Street takes a healthy share. In an era of bailouts and disgust with government spending, House members should have to answer for giving yet more taxpayer dollars to Wall Street and foreign investors. Senators should understand the vote they're about to take."

Background on Build America Bonds:

The 2009 stimulus bill created the Build America Bonds program on a temporary basis, and provides a check from the Treasury Department to the state or local government that issues the bonds equal to 35 percent of the interest costs on the bonds. The President has proposed in his fiscal year 2011 budget to make the Build America Bonds program permanent but at a reduced 28 percent subsidy level. The House passed a "jobs" bill that would expand the Build America Bonds program created in the 2009 stimulus bill to two tax-credit bonds — Qualified School Construction Bonds and Qualified Zone Academy Bonds. The Senate then expanded the House bill to cover two additional tax-credit bonds — Qualified Energy Conservation Bonds and Clean Renewable Energy Bonds, and set the federal subsidy for interest costs at 45 percent (65 percent for small issuers, defined as those issuing less than $30 million in bonds per year). Just last week, the House increased the subsidies from the Senate bill to 100 percent for Qualified School Construction Bonds and Qualified Zone Academy Bonds, and 70 percent for Qualified Energy Conservation Bonds and Clean Renewable Energy Bonds. The increase in the subsidy percentages made by the House increased the cost of the Build America Bonds provision by more than $2 billion. The subsidy has gone from big, bigger, to biggest. Under the House bill, the outlays, which are scored as spending by the Congressional Budget Office, from these bonds will be $13.2 billion through 2020, which will be paid for by federal taxpayers.

Build America Bonds have been popular with industry and states because they are uncapped and provide higher subsidies to local governments and foreign investors than traditional tax-exempt bonds. The Congressional Budget Office originally underestimated the popularity and had to issue a revised cost estimate of an additional $26 billion. The bonds in the Senate and House "jobs" bills are capped, but the subsidy for the interest expense on school projects in the House bill could cost the federal government more than 100 percent of the financing cost in some cases. This is because unlike with tax credit bonds, where the federal government collects revenue from taxpayers that have to include the tax credits in income, revenue is not collected from investors such as foreigners, pension funds, or other tax-exempt entities that make up the majority of the holders of Build America Bonds.

Attached are Goldman Sach's responses to Senator Grassley's inquiry on Build America Bonds. Following is his initial inquiry.

For Immediate Release
Wednesday, February 24, 2010

Grassley Asks Goldman Sachs About Underwriting Fees for Build America Bonds

WASHINGTON – Sen. Chuck Grassley, ranking member of the Committee on Finance, today asked Goldman Sachs whether it would collect double-digit underwriting fees for participating in a newly expanded Build America Bonds program, as included in the "jobs" bill promoted by the Senate Democratic leaders and passed by the Senate today.

Grassley's inquiry came after Goldman Sachs published a newspaper ad in support of the Build America Bonds program, identifying itself as "one of the principal underwriters." Earlier, an analyst was quoted in the media saying that the generous amount of federal money available in the program gives states and cities leeway to spend generously on underwriting fees.

"I'm interested in finding out whether the big Wall Street investment banks being so involved in, and profiting from, the Build America Bonds program siphons off a lot of taxpayer dollars that are meant to help cities and states," Grassley said.

The text of Grassley's letter today follows.

February 24, 2010

Mr. Lloyd C. Blankfein
Chairman and Chief Executive Officer
The Goldman Sachs Group, Inc.
85 Broad Street
New York, NY 10004

Dear Mr. Blankfein:

I was interested to see your company's full-page advertisement in support of Build America Bonds in yesterday's edition of the Politico newspaper that stated that Goldman Sachs is "one of the principal underwriters…" of Build America Bonds. The "jobs bill" that passed the Senate today contained an expansion and an increase in the subsidy levels of the Build America Bonds program. This increased subsidy allows non-taxpaying entities to receive a check from the American taxpayers equal to either 65 percent or 45 percent (depending on the amount of bonds issued) of these non-taxpaying entities' interest costs on Build America Bonds. The American Recovery and Reinvestment Act of 2009, more commonly known as the stimulus bill, allowed non-taxpaying entities to receive a check from the American taxpayers equal to 35 percent of these non-taxpaying entities' interest costs. The President has proposed in his most recent budget for non-taxpaying entities to receive a check from the American taxpayers equal to 28 percent of these non-taxpaying entities' interest costs.

A November 27, 2009, Bloomberg article by Jeremy R. Cooke stated that:

"States and municipalities paid an average 37 percent more to investment banks for underwriting Build America Bonds than for handling tax-exempt sales since offerings of the subsidized taxable debt began in April…. 'The large subsidy gives them leeway to charge more because the issuer probably cares less about the underwriting fee,'" said Matt Fabian, managing director and senior analyst at Concord, Massachusetts-based independent research firm Municipal Market Advisors. 'They shouldn't care because federal taxpayers will cover the difference. As a federal taxpayer, I'm highly concerned.'"

I, too, am concerned that American taxpayers are subsidizing larger underwriting fees for Wall Street investment banks, including Goldman Sachs, as a result of the Build America Bonds program. I have raised concerns about the increased subsidy levels in the Build America Bonds program that passed the Senate today.

As “one of the principal underwriters” of the Build America Bonds program, please answer the following questions:

1. How much in total underwriting fees has Goldman Sachs collected to date on Build America Bonds’ issuances?
2. How has Goldman Sachs determined its underwriting fees on Build America Bonds’ issuances?
3. Are these underwriting fees larger than the underwriting fees that Goldman Sachs has charged on tax-exempt bond issuances? If so, how much larger are these underwriting fees?
4. Has Goldman Sachs received any money, in addition to the underwriting fees, in connection with the Build America Bonds program?
5. Does Goldman Sachs expect to receive additional underwriting fees if the Build American Bonds expansion and subsidy increase that passed the Senate today is enacted into law?

Thank you in advance for your prompt response to these questions.

Sincerely,

Charles E. Grassley
Ranking Member