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State Auditor Vaudt Shines Light on I-JOBS Bonds

(Des Moines, Iowa)—This week Iowa received the net proceeds from the sale of \$601 million of bonds for the I-JOBS program. The announcements about the recent I-JOBS bond sale attributed the lower than anticipated interest costs to Iowa's AAA bond rating, overall strong financial position, investor confidence, and "the structure of the bonds." While each of the factors cited would likely impact the interest rate on the bonds, only one component—the structure of the bonds—is easily quantifiable. The announcements, however, provided no information on this extremely important element.

Under the structure Iowa used, slightly more than one-third of the total bonds sold (\$221 million) were Build America Bonds (BABs) provided for in the American Recovery and Reinvestment Act (Recovery Act). The BABs are taxable bonds, which opened a new market for state and local government debt and eased the volatility of the traditional tax-exempt market, but the interest rate for Iowa's BABs is 6.75%. Traditional tax-exempt bonds of \$380 million were also sold by the State at an average interest rate of only 4.14%. The higher interest rate on the BABs is subsidized by the Federal Treasury, which effectively reduces Iowa's interest rate on the BABs to 4.50% because the Federal government will pay 35%, or \$118 million, of Iowa's interest. In other words, the BABs simply shift which government pays the interest. The interest cost of Iowa's BABs is still 6.75%, and the additional interest being subsidized by the Federal Treasury could have been avoided entirely if tax-exempt bonds were issued. For taxpayers, no matter which level of government spends it, it's still taxpayer money. It just brings you to that ultimate question—Shouldn't taxpayers be told what will be taken from their right pocket as well as what will be taken from their left pocket?

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