

State of Michigan
Department of Treasury
Bureau of Bond Finance

Michigan Municipal Bond Authority

**ANNUAL REPORT
2008**

Michigan Municipal Bond Authority Mission Statement

The Michigan Municipal Bond Authority (the Authority) exists within the Bureau of Bond Finance in the Department of Treasury to provide an alternative source of financing for infrastructure projects and low cost access to the public finance market for Michigan local units of government.

The Authority Finance Division, as part of the Bureau of Bond Finance, provides financial and administrative support services on behalf of the Authority to assist with achieving these goals.

Bureau of Bond Finance Mission Statement

The Bureau of Bond Finance will achieve and maintain access to the financial market at the lowest cost to the citizens of Michigan on behalf of:

- Hospitals and their patients
- Higher education students and their families
- Private colleges and their students
- Public school academies and their students
- Public schools and their taxpayers
- Municipalities and their taxpayers
- The State-at-large for environmental, recreational, and other specific voter approved projects
- The State for cash flow financing for operating purposes.

Vision

- We are committed to fair, consistent, and courteous customer service.
- We have the training, technology, and tools to meet customer needs.
- We provide low-cost financing in order for cities and communities to be magnets for economic opportunities, with high quality education and healthcare.
- We are a division where public service and service to others is exalted.

Values

- Integrity: Michigan's schools, colleges, universities, municipalities, and healthcare providers; along with bond counsel, financial advisors, and underwriters know that they can depend upon the Authority Finance Division to follow through on their commitments.
- Excellence: The Authority Finance Division is committed to providing increasingly effective, low-cost financing to protect the interests of the citizens of Michigan.
- Teamwork: The Authority Finance Division will work together to provide effective, low-cost financing to Michigan's schools, colleges, universities, municipalities, and healthcare providers.
- Pride: In our achievements.

Michigan Municipal Bond Authority Purpose and Board Structure

The Michigan Municipal Bond Authority was established by the Shared Credit Rating Act, P.A. 227 of 1985, to provide Michigan local units of government and schools an alternative source of financing for infrastructure projects and low cost access to the public finance market. The Michigan Municipal Bond Authority Board of Trustees (Board) is comprised of seven members, consisting of the State Treasurer as chairperson and six appointees of the Governor with the advice and consent of the State Senate. Two of the appointees serve at the pleasure of the Governor and must be public officials or employees with expertise in the State's infrastructure needs. The remaining four appointees are public members. One of the public member appointees must be nominated by the speaker of the State House of Representatives and one public member appointee must be nominated by the majority leader of the State Senate. The Board provides overall governing direction for the Authority. All members of the Authority are residents of the State of Michigan and are appointed for a three-year term. The present membership of the Board is as follows:

Robert J. Kleine, Chairperson, State Treasurer

Don Gilmer

Richard Huebler

Susan Kaltenbach

Richard LeBaron

Elaine M. Madigan

Nancy L. Quarles

Michigan Municipal Bond Authority Highlights

- All Michigan cities, counties, townships, schools, public hospitals, colleges, and universities are eligible to use the Authority on a voluntary basis.
- The basis of the Authority's programs is the pooling of local obligations. At specified times the Authority negotiates the sale of securities with a common layer of security in the national and regional bond markets, and uses the proceeds to purchase bonds, notes, and installment purchase agreements from municipalities.
- By pooling issues, the Authority provides eligible borrowers with several advantages. Local governments in Michigan may take advantage of the Authority's financial expertise to access the capital markets. The Authority consistently offers interest rates that compare favorably with Michigan and national pricing indices. Also, the Authority's reputation and name recognition in the capital markets creates demand for the Authority's securities, translating to lower interest rates for borrowers. Additionally, borrowers, on a pro-rata basis, share costs of issuance, typically resulting in lower costs than each borrower would pay individually. As the Authority can lower the interest rate and the issuing costs for Michigan governments, the result is fewer tax dollars expended for debt by Michigan taxpayers. As borrowers make their payments, the Authority repays its bondholders. Careful monitoring of local repayments by the Authority has prevented any payment defaults by the local borrowers.
- The major programs of the Michigan Municipal Bond Authority are:
 - The State Revolving Fund Programs
 - The Local Government Loan Program
 - The School Loan Revolving Fund
 - The Revenue Note Program

Overview of 2008 Activity

The Authority issued bonds and notes with a total par amount of \$1.7 billion in calendar year 2008. A summary of each of the Authority's programs and the related loans is contained in the following sections of this report.

State Revolving Fund Programs

The Authority and the Michigan Department of Environmental Quality (DEQ) jointly administer the State Revolving Fund Programs. This includes the Clean Water Revolving Fund (CWRF), the Drinking Water Revolving Fund (DWRF), and the Strategic Water Quality Initiatives Fund (SWQIF).

Clean Water Revolving Fund

Michigan's Water Pollution Control Revolving Fund, better known as the Clean Water Revolving Fund or the State Revolving Fund, provides below market 20 year fixed interest rate loans to qualified local municipalities for the construction of needed water pollution control facilities. The Michigan Legislature enacted the Clean Water Assistance Act (P.A. 317 of 1988) to establish the CWRF as Part 53 of P.A. 451 of 1994 of the Natural Resources and Environmental Protection Act.

The CWRF was operated as a direct loan program from 1989 through 1992 which loaned federal funds and state matching funds directly to the program participants. In 1992 the Authority began issuing bonds using a leveraged approach in which federal funds, state matching funds, and other program assets are pledged to a reserve fund as security for a bond issue. The proceeds from the bond issue are used to fund loans to the program participants. Using the leveraged approach the Authority is able to provide a significant interest rate subsidy to a greater number of borrowers.

The interest rate for loans made in 2008 was 2.50% and loan commitments were made for 23 CWRF projects totaling \$369 million in 2008. Through December 31, 2008, the CWRF program has provided below market interest rate loans for 326 projects totaling \$3 billion.

Drinking Water Revolving Fund

Michigan's Drinking Water Revolving Fund program was created in 1997 (Part 54 of P.A. 451 of 1994 of the Natural Resources and Environmental Protection Act) to assist water suppliers to satisfy the requirements of the Safe Drinking Water Act by providing below market fixed interest rate loans to municipalities, privately owned community water suppliers and not for profit non-community water suppliers. Loan terms are typically 20 years, but may be extend to 30 years for 'disadvantaged' borrowers.

From 1998 to 2007, the program was operated using a leveraged approach, with similar provisions to those found in the CWRF. In 2008 the program was converted to a direct loan program, however, the return to the leveraged approach will be evaluated annually.

The interest rate for loans made in 2008 was 2.50% and loan commitments were made for 21 DWRF projects totaling \$46 million. To date, the DWRF program has provided low interest rate loans for 190 projects totaling \$517 million.

Strategic Water Quality Initiatives Fund

The Strategic Water Quality Initiatives Fund was created by the passage of Proposal 2 by Michigan voters in November of 2002 in order to provide below market, 20 year fixed interest rate loans to municipalities to access financing for the construction of needed water pollution control facilities that do not qualify for CWRP assistance (Part 52, P.A. 451 of 1994 of the Natural Resources and Environmental Protection Act). Two types of projects can be financed using SWQIF; the on site upgrade/replacement of septic systems and the removal of ground water or storm water from sewer leads.

The interest rate for loans made in fiscal year 2008 was 2.5%. One new loan was made during 2008 for \$900,000. The SWQIF program has provided low interest rate loans for a total of 7 projects totaling \$7 million.

Local Government Loan Program

The Local Government Loan Program (LGLP) provides competitive interest rates for long-term financing for local units of government. The types of bonds issued for this program include Revenue Sharing, Transportation Fund, School Program Bonds, State Qualified School Bonds, Insured, and Local Project Bonds. Loans have been made for the purchase of equipment, school buses, fire trucks, real property, energy conservation improvements, infrastructure, and for refunding existing debt. The term of the local obligations for loans under this program is between 3 and 30 years. These types of loans require the borrower to pledge state revenue sharing, state transportation funds, state school aid, local tax revenue, or some other revenue source.

The LGLP was initiated in 1985 as part of the Shared Credit Rating Act, P.A. 227. Since its commencement, the Program has provided 773 loans totaling \$2 billion. One loan closed in 2008 for \$27 million for the City of Highland Park Local Project Bonds.

School Loan Revolving Fund

The School Loan Revolving Fund (SLRF) was established in 2005 by P.A. 93. Under the SLRF, loans are made to school districts to assist in paying debt service on qualified bonds issued by school districts for capital improvement projects. Qualification of these bonds is obtained through the State's School Bond Loan Program and requires a local election being approved by school district voters.

The SLRF issued \$553 million in bonds in 2008. To date, 136 school districts have loans outstanding totaling in excess of \$570 million.

Revenue Note Program

The Authority's Revenue Note program began in 1987. The program has increased dramatically from 96 loans in 1987 to 240 in 2008. This pooled program offers a simplified borrowing process for school districts to fund short term cash-flow needs for operating purposes. The program structure allows schools to pool their loans with those of other schools, resulting in competitive interest rates and reduced costs of issuance.

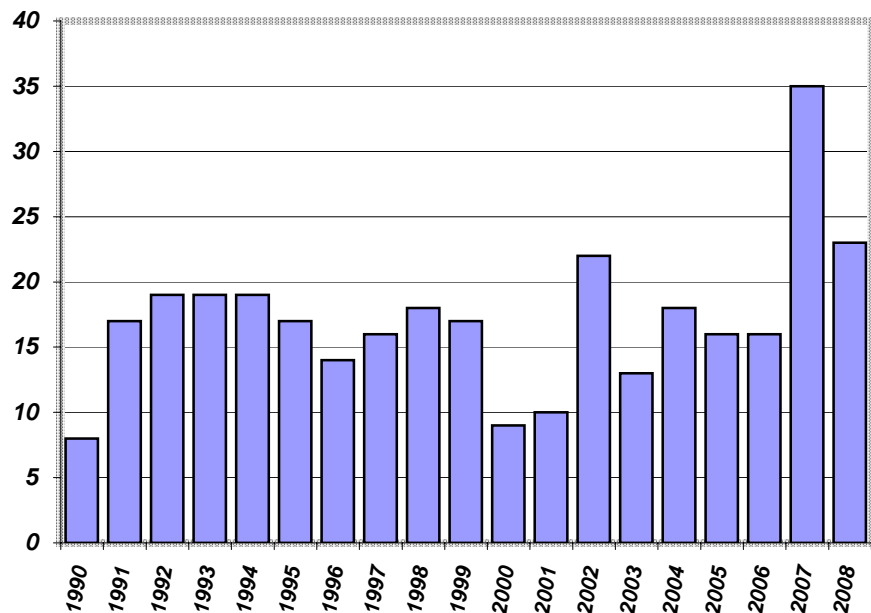
There were 2 financings with a total loan amount of \$703 million for the 2008 calendar year. The August note financing allowed school districts the option of either setting aside three, five, or seven monthly payments prior to the note maturing or repaying the entire note amount at maturity. A supplemental note, which closed in December, served schools needing to borrow for cash flow until the August 2009 note financing.

If a school elects the set-aside option and complies with program requirements, the borrower receives interest earnings on their three, five, or seven monthly loan set-aside payments from a competitively bid investment contract, thereby lowering the overall cost of borrowing. For the no set-aside borrower pool, an investment grade letter of credit provides additional security. These structures result in the school districts receiving the highest possible short-term credit rating of SP-1+ on their note issues. Primary loan security is a pledge of state aid with a state aid intercept and advance in case of default. A limited-tax general obligation provides secondary security.

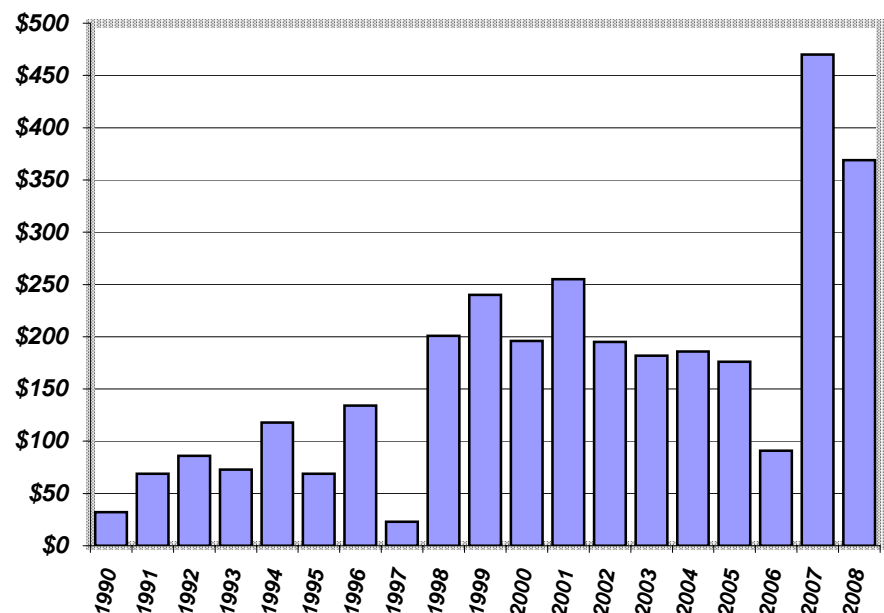
CLEAN WATER REVOLVING FUND HISTORY

Year	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
# of Loans	8	17	19	19	19	17	14	16	18	17	9	10	22	13	18	16	16	35	23	326
Loan Amount (Millions)	\$32	\$69	\$86	\$73	\$118	\$69	\$134	\$23	\$201	\$240	\$196	\$255	\$195	\$182	\$186	\$176	\$91	\$470	\$369	\$3,165

Number of Loans



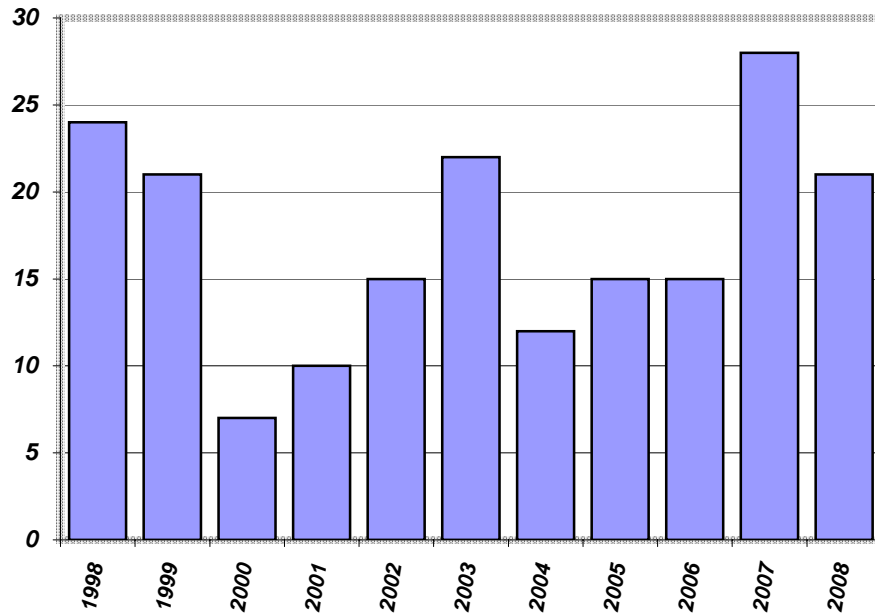
Loan Amount (millions)



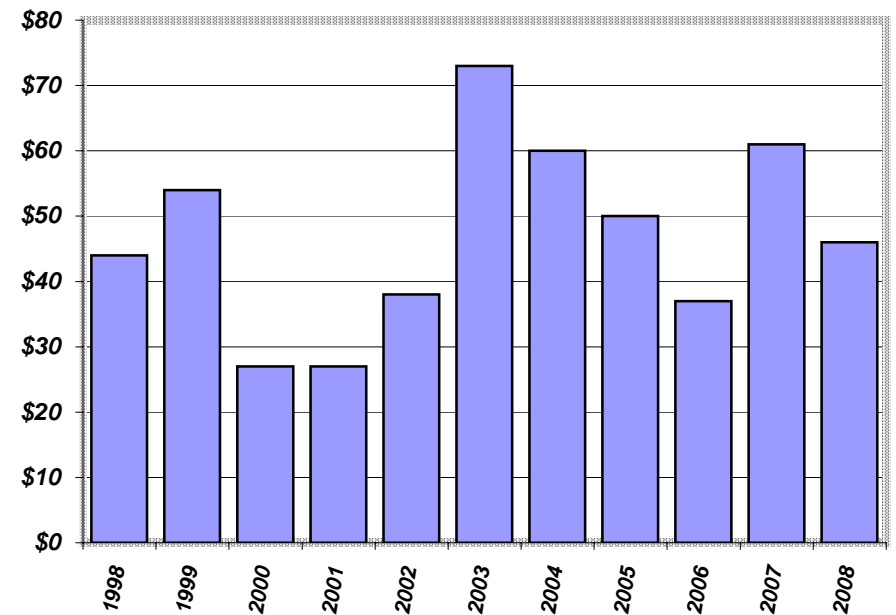
DRINKING WATER REVOLVING FUND HISTORY

Year	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
# of Loans	24	21	7	10	15	22	12	15	15	28	21	190
Loan Amount (Millions)	\$44	\$54	\$27	\$27	\$38	\$73	\$60	\$50	\$37	\$61	\$46	\$517

Number of Loans



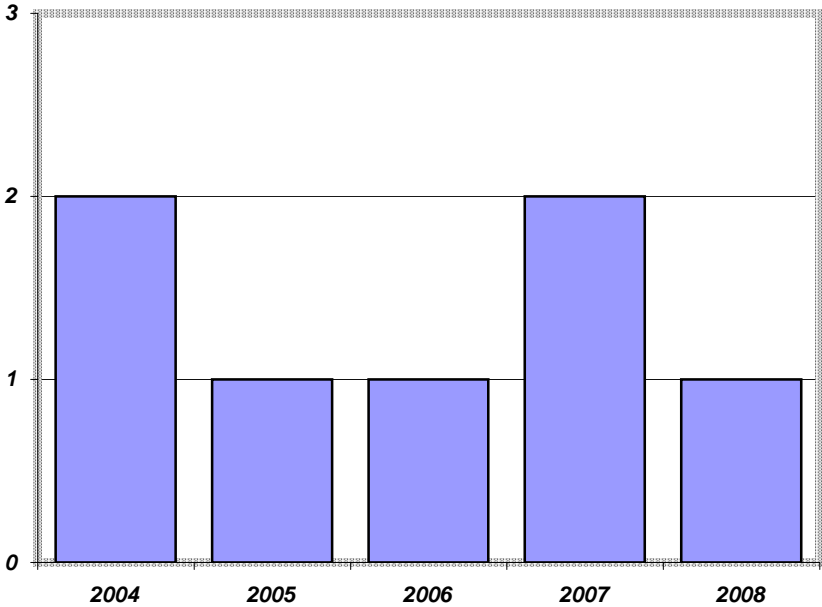
Loan Amount (millions)



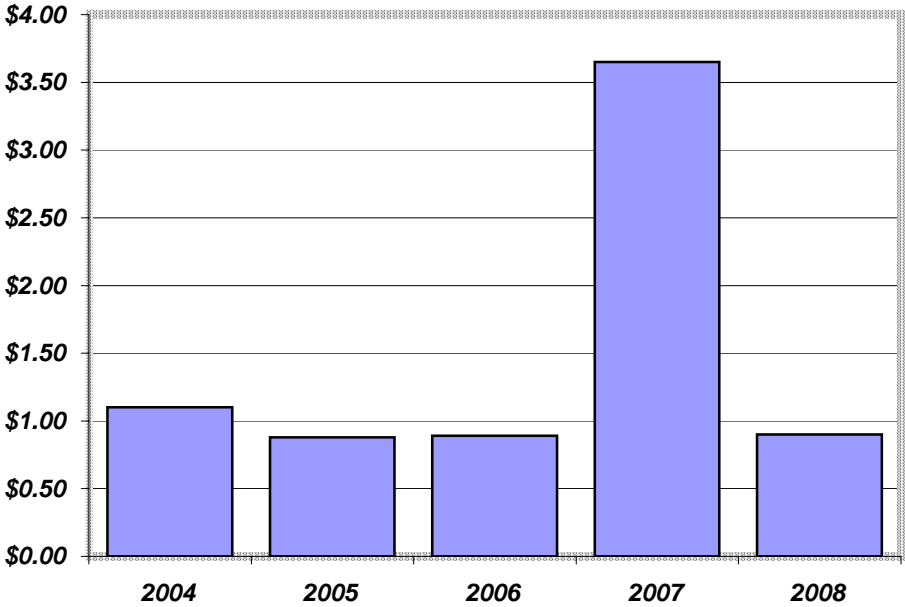
STRATEGIC WATER QUALITY INITIATIVES FUND HISTORY

Year	2004	2005	2006	2007	2008	Total
# of Loans	2	1	1	2	1	7
Loan Amount (Millions)	\$1.10	\$0.88	\$0.89	\$3.65	\$0.90	\$7

Number of Loans



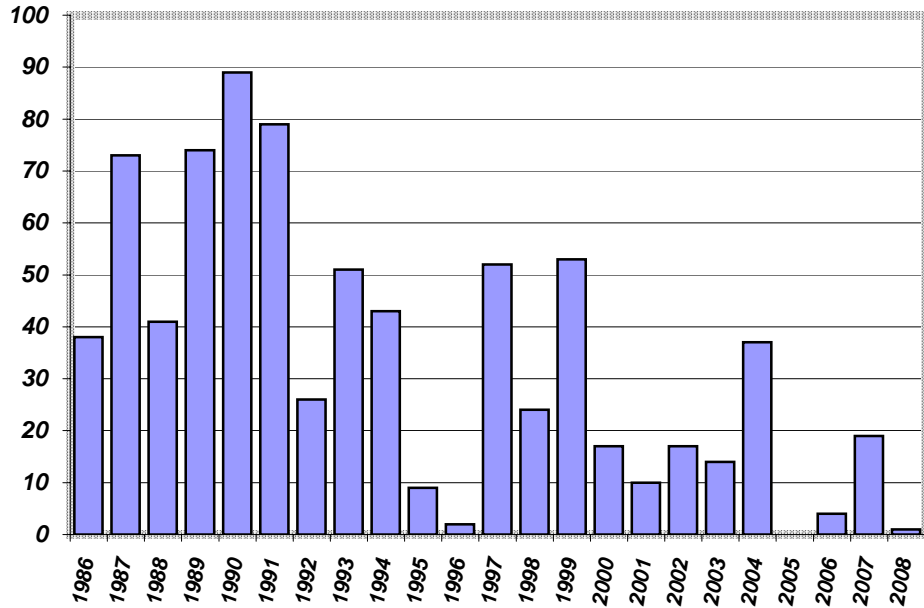
Loan Amount (millions)



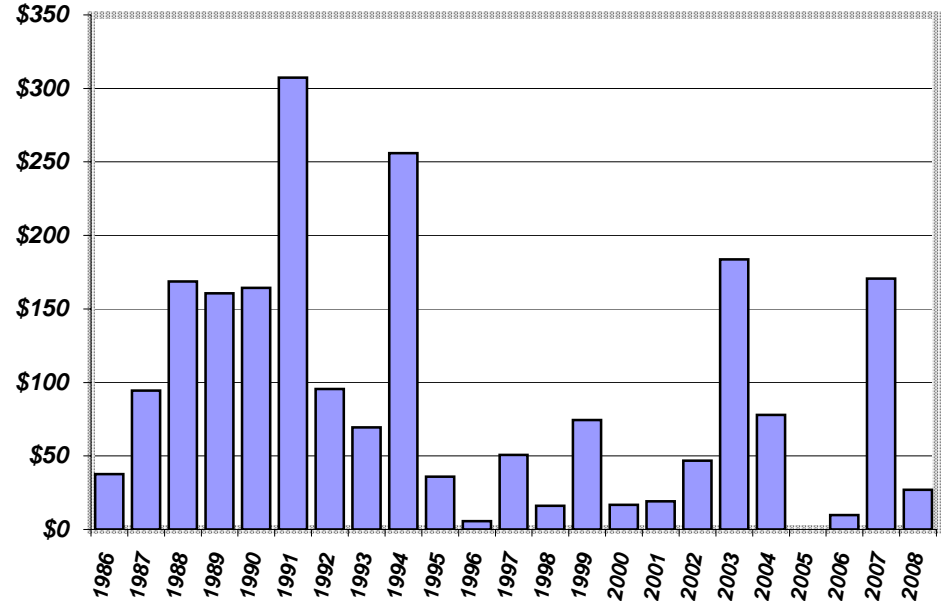
LOCAL GOVERNMENT LOAN PROGRAM HISTORY

Year	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
# of Loans	38	73	41	74	89	79	26	51	43	9	2	52	24	53	17	10	17	14	37	0	4	19	1	773
Loan Amount (Millions)	\$38	\$94	\$169	\$161	\$164	\$307	\$96	\$69	\$256	\$36	\$6	\$51	\$16	\$74	\$17	\$19	\$47	\$184	\$78	\$0	\$10	\$171	\$27	\$2,089

Number of Loans



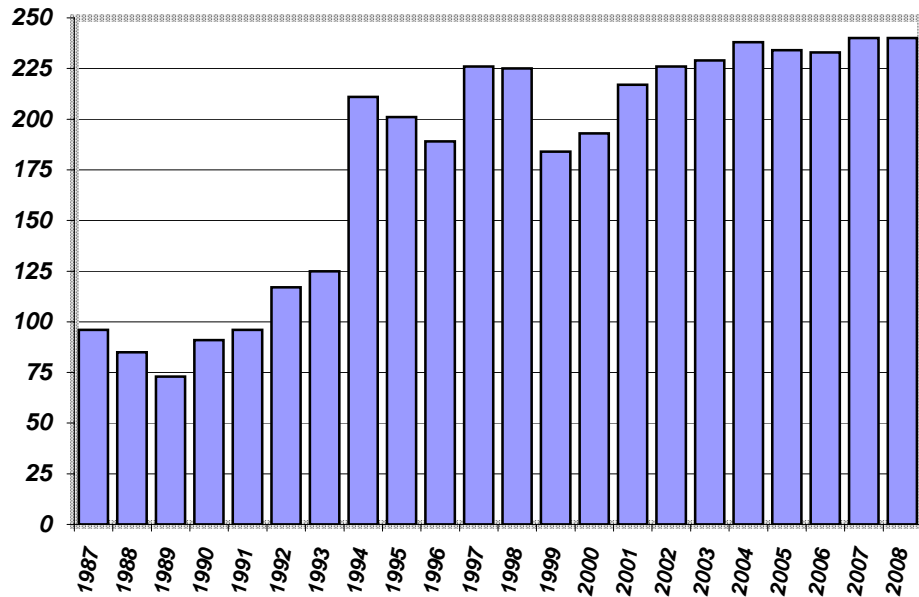
Loan Amount (millions)



REVENUE NOTE PROGRAM HISTORY

Year	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	Total
# of Loans	96	85	73	91	96	117	125	211	201	189	226	225	184	193	217	226	229	238	234	233	240	240	3,969
Loan Amount (Millions)	\$222	\$190	\$116	\$93	\$111	\$178	\$198	\$380	\$324	\$266	\$407	\$406	\$370	\$523	\$629	\$877	\$735	\$832	\$534	\$543	\$721	\$703	\$9,359

Number of Loans



Loan Amount (millions)

