TRUSCO CAPITAL MANAGEMENT

SUNTRUST

Investing Bond Proceeds

Prepared Exclusively For:

Council of Development Finance Agencies

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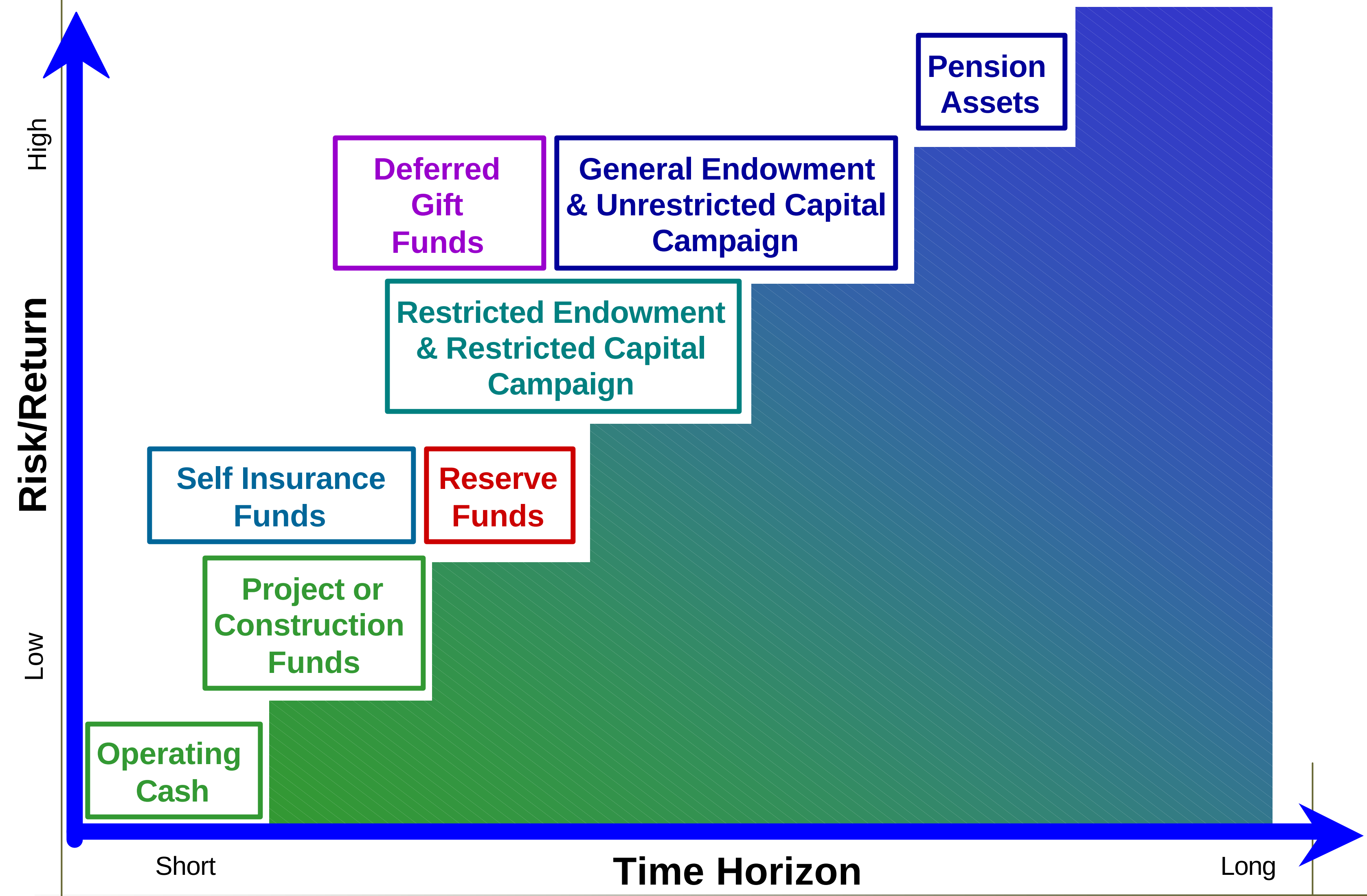
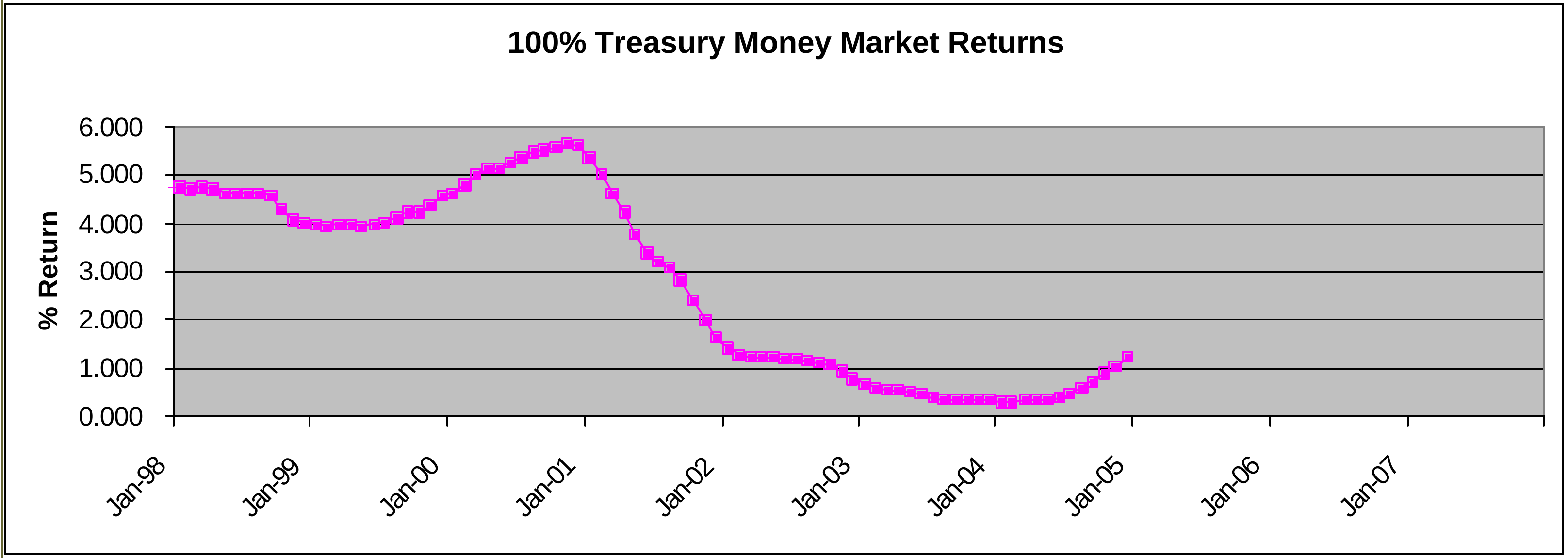

High
Low
Risk/Return
Pension Assets
Deferred Gift Funds
General Endowment & Unrestricted Capital Campaign
Restricted Endowment & Restricted Capital Campaign
Self Insurance Funds
Reserve Funds
Project or Construction Funds
Operating Cash
Short
Time Horizon
Long

Short-Term Treasury Returns



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Current Interest Rates

Term	Federal Agency	Repurchase Agreement
2 Years	4.94%	4.85%
3 Years	4.94%	4.90%
4 Years	4.93%	4.90%
10 Years	5.03%	5.09%
20 Years	5.22%	5.20%
25 Years	5.18%	5.20%
January 28, 2007		

Investment Options

Common Investment Choices

- Money Market Mutual Fund
- Portfolio
- Actively Managed

Alternatives

- Flexible Repurchase Agreement
- Forward Delivery Agreement
- Guaranteed Investment Contracts

What Is The Strategy?

- **Example 1: Issues that Qualify for an Exception from Rebate**
  - Liquidity for construction draws
  - Maximize Earnings
- **Example 2: Issues that Don't Qualify for an Exception from Rebate**
  - Liquidity for construction draws
  - Maximize earnings at the arbitrage yield
  - Build in cushion of arbitrage to hedge against future decline in rates
  - Minimize out-of-pocket expenses (e.g., portfolio management fees, custodian fees) – fees not deductible for arbitrage rebate purposes

Flexible Repurchase Agreements

Advantages	Disadvantages

▪ "Locks" in fixed rate of return on investment
▪ Liquidity to cover uncertain draws
▪ No market risk
▪ Legal investment for many public entities in Virginia
▪ Placement fees netted from earnings for computing arbitrage rebate (may result in no out-of-pocket costs to Participant)
	▪ Contract may limit number of draws per month
	▪ Collateral value must be monitored
	▪ Can be more expensive (lower yield) than structured portfolio
	▪ Works best for:
	  ▪ Project funds over $30 million that have draw schedules with an average life of longer than 1 year
	  ▪ DSR over $5 million

Forward Delivery Agreement

Advantages	Disadvantages
▪ Locks in yield	▪ Underlying security risk (CP)
▪ Higher yield than short-term investments	▪ Reinvestment risk in the event of counterparty default
▪ Secured by short-term Treasury, Agency or corporate obligations	▪ May lock in rates at historically low levels
▪ Investor owns security	▪ Not cost efficient for small investments
▪ Limited market value fluctuations	▪ "Clean" bankruptcy opinion requires specific structure
▪ Earnings can be received up front	▪ Works best for: ▪ DS Funds with an average annual debt service of $10 million ▪ DSR over $5 million
▪ Placement fees are netted from earnings (FREE to investor)	

Debt Service Reserve Funds

- Debt Service Reserve Funds have special investment requirements
  - Long term investment horizon
  - Bond covenant restrictions
  - Valuation requirements
  - Call provisions on underlying debt
- Investment Agreements can help to achieve investment objectives
  - Achieve higher returns than short-term investments (possibly above arbitrage yield)
  - Eliminate market risk
  - Placement fees can be netted from earnings
  - Maturity and interest payment dates can be customized

Investing Bond Proceeds - Summary

1. Determine if issue will meet spend-down exception from rebate
2. Identify investment options
3. Formulate investment strategy based on rebate status
4. Implement strategy
5. Actively manage to maintain optimization
6. Monitor compliance with spend-down exception
7. Maintain all necessary records
8. Calculate arbitrage rebate, if needed