

State & Local Government Series – Frequently Asked Questions
May 2, 2011

1. What is the State & Local Government Series?

Treasury Securities – State and Local Government Series”– also known as “SLGS” – are special purpose securities that the Treasury Department’s Bureau of the Public Debt issues to state and local government entities, upon request by those entities, to assist them in complying with federal tax laws and Internal Revenue Service arbitrage regulations when they have cash proceeds to invest from their issuance of tax exempt bonds. There is no statutory or other requirement for the Treasury Department to issue SLGS, so the Treasury may suspend SLGS sales during or in anticipation of a debt limit impasse.

2. Who buys SLGS?

SLGS securities are purchased only by issuers with proceeds subject to yield restrictions and arbitrage rebate requirements under the Internal Revenue Code. Issuer refers to the Government body or other entity that issues state or local government bonds described in section 103 of the Internal Revenue code.

3. How does the debt ceiling affect SLGS?

Congress sets a limit (the debt ceiling) on the amount the Government is allowed to borrow. When the debt ceiling starts approaching, Treasury may suspend the issuance of additional debt to delay reaching the limit. SLGS securities sales are usually one of the first to be suspended. In past debt issuance suspension periods, new Time and Demand Deposit SLGS securities sales have been suspended. Consistent with Treasury’s past practice, outstanding Demand Deposit securities will be rolled over into special ninety-day certificates of indebtedness. These certificates of indebtedness may be early redeemed according to the same lead time requirements that apply to Demand Deposit securities and will continue to earn simple interest at the Demand Deposit daily interest rate. Investors may choose to early redeem their SLGS securities before the SLGS window closes.

4. What did Treasury announce today regarding SLGS?

The Treasury Department announced today that on Friday, May 6, it will suspend until further notice the issuance of SLGS. Because the United States is very close to reaching the debt limit, Treasury must now take this action. This suspension will assist Treasury's management of the debt subject to limit.

5. Will the window close indefinitely? Do you know when you might open it again?

The Treasury Department will reopen the SLGS window when Congress enacts, and the President approves, legislation raising the statutory debt limit.

6. How long does it take to reopen the window once the debt ceiling is raised?

Depending on the time of day and the amount of notice given, it will take up to 3 hours to reopen the SLGS window.

7. When has Treasury suspended the sale of SLGS in the past?

Over the past 20 years, the SLGS window has been closed six times:

October 18, 1995-March 28, 1996

May 15, 2002-July 7, 2002

February 19, 2003-May 26, 2003

October 14, 2004-November 21, 2004
February 16, 2006-March 16, 2006
September 27, 2007-September 28, 2007

8. Why are you closing the window on May 6th and not May 16th?

The Treasury Department cannot precisely forecast the amounts and issuance dates of SLGS securities that state and local government entities may request from the Department, so closing the SLGS window reduces the Department's uncertainty about its projections of growth in the debt that counts against the limit. Reducing uncertainty becomes critically important to the Department the closer the debt comes to the statutory limit. SLGS regulations require that SLGS subscriptions greater than \$10 million be submitted at least seven calendar days before the issuance date. Closing the SLGS window on May 6 makes it highly likely that there will be no unexpected issuances of SLGS securities beginning on May 16.

9. Do you need to close the window this early?

There's no statutory or other requirement on the Treasury Department to issue SLGS securities, so it may suspend SLGS sales during a debt limit impasse. In recent years, Treasury gave advance notice of at least one day of its intention to stop accepting subscriptions. Five days' advance notice of the Treasury Department's intention to close the issuance window should allow state and local entities to finish up deals and submit their subscriptions prior to 12:00 noon EDT on Friday, May 6. All subscriptions received prior to 12:00 noon EDT on Friday, May 6 will be honored.

10. How much headroom will this provide?

SLGS securities count against the debt limit. Closing the SLGS window does not reduce the amount of outstanding debt that counts against the debt limit, but closing the window does stop the further increases in the debt that would be counted against the debt limit if SLGS securities continued to be issued to state and local government entities. Thus, closing the SLGS window does not provide new headroom under the debt limit, but it does conserve the remaining headroom available under the debt limit.

11. What might the impact be on state and local governments?

Some state and local governments issuing certain types of new debt after May 6 will have to invest the proceeds in alternative assets in order to remain in compliance with tax law. While this will not prevent new municipal bonds from being issued, this will impose some added cost and inconvenience on state and local governments.

12. Will this create budget issues for already cash-strapped states?

State and local governments are continuing to feel the effects of the recent recession. Although they received significant support from the Federal government over the past two years, the recession forced state and local governments to lay-off public workers and eliminate vital services. As states work to pass new budgets for the 2011-12 fiscal year, they are faced with another set of difficult decisions that will have real effects on their workers and constituents.

The added negative effects of closing the SLGS window are unfortunate and only compound the difficult situation faced by state and local governments.

13. Will this affect government services?

The added cost and inconvenience of closing the SLGS window will likely not affect the provision of most government services. However, as state and local governments are struggling with extraordinary challenges due to the recent recession, any added cost or inconvenience is unwanted and only make their challenges more difficult.