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# City of Racine

**June 8, 2009**

**Bradley D. Viegut, Director**

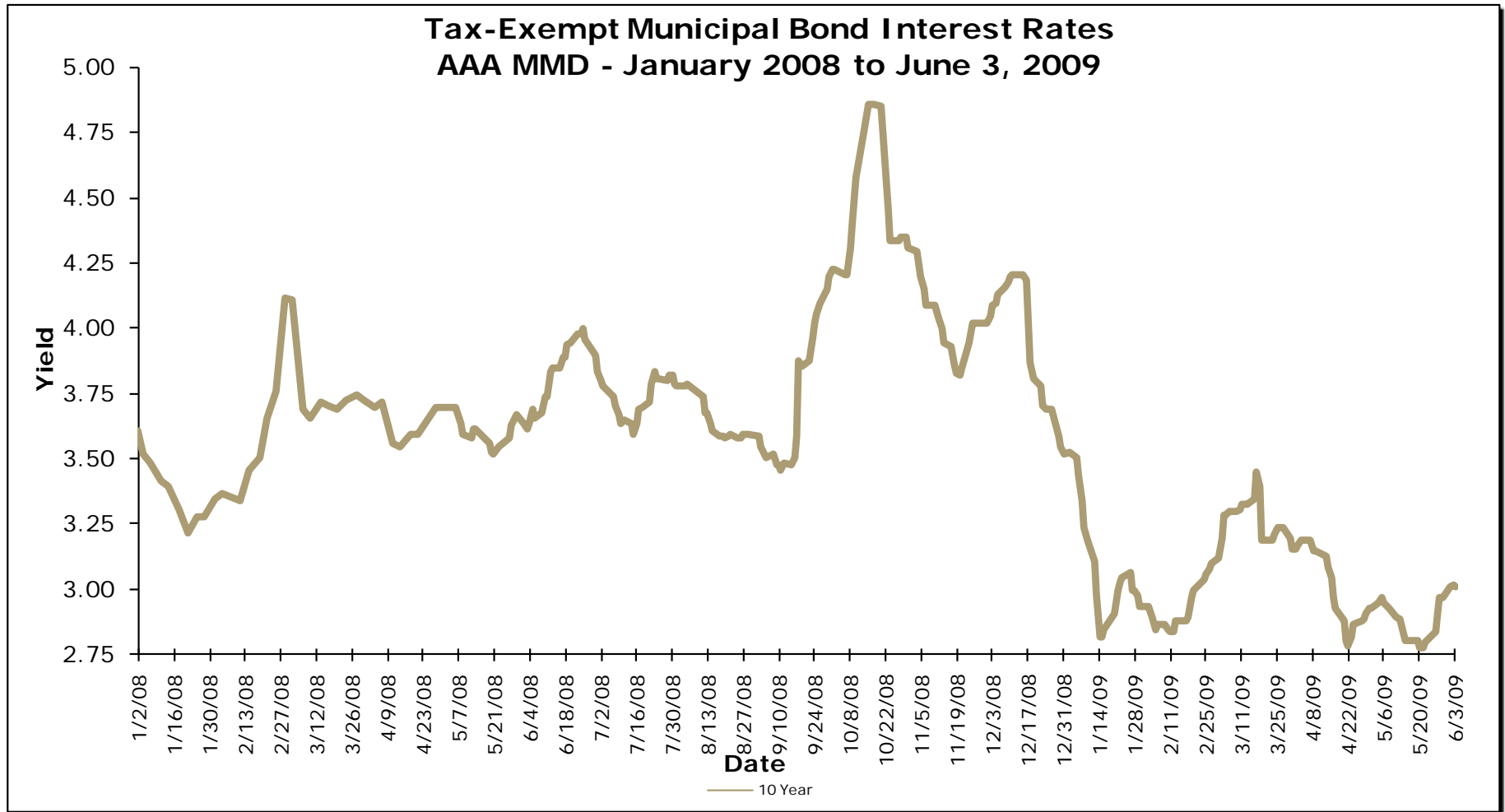
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Interest Rate Update





**I. Interest Rate Update**

**II. Estimated Amount of Borrowing / Structure**

**\$7,600,000**

**Note Anticipation Notes**

**Funds:** Project included in CIP

**Term:** Matures December 15, 2009; Noncallable

**Long-term Financing:** Fall 2009

**III. Standard & Poor's Rating (Recommended)**

Baird, in conjunction with City Staff, will prepare the necessary information for an S & P rating for the Issue.

**IV. Procedure**

- Finance Committee considers plan of finance.....June 8, 2009
- Council considers Finance Committee recommendation ..... June 16, 2009
- Baird and City staff prepares necessary information and submits it to S & P for credit rating.
- Preparations are made for the issuance (compilation of Preliminary Official Statement, marketing).
- Baird underwrites the issues and presents available interest rates to the Council .....July 7, 2009

**V. Example Financing Plan / “Build America Bonds” Program**

Summary of Recommended Financing Plan  
Long-term Capital Improvement Plan

LEVY YEAR	YEAR DUE	EXISTING DEBT SERVICE (A)	PRELIMINARY \$7,600,000 NANS Dated: July 27, 2009 Due: December 15, 2009		PRELIMINARY \$7,675,000 G.O. Refunding Bonds Dated: November 17, 2009 14-Year Amortization		\$7,650,000 G.O. Bonds Dated June 1, 2010 14-Year Amortization		\$7,805,000 G.O. Bonds Dated June 1, 2011 14-Year Amortization		NEW ISSUES DEBT SERVICE	FUTURE ISSUES (B)	COMBINED NET DEBT SERVICE	GROWTH
			INTEREST AVG = 2.75%	PRINCIPAL (12/1)	INTEREST (6/1 & 12/1) AVG = 3.90%	PRINCIPAL (12/1)	INTEREST (6/1 & 12/1) AVG = 5.00%	PRINCIPAL (12/1)	INTEREST (6/1 & 12/1) AVG = 5.00%					
2008	2009	\$8,624,568	\$80,117								\$0		\$8,624,568	
2009	2010	\$8,640,570		\$380,000	\$290,071						\$670,071		\$9,310,641	7.95%
2010	2011	\$8,906,720		\$390,000	\$269,713	\$0	\$573,750			\$1,233,463			\$10,140,183	8.91%
2011	2012	\$9,136,864		\$400,000	\$259,963	\$115,000	\$382,500	\$110,000	\$585,375	\$1,852,838	\$0		\$10,989,701	8.38%
2012	2013	\$9,655,351		\$410,000	\$249,963	\$145,000	\$376,750	\$115,000	\$384,750	\$1,681,463	\$597,000		\$11,933,814	8.59%
2013	2014	\$10,140,546		\$520,000	\$239,713	\$185,000	\$369,500	\$135,000	\$379,000	\$1,828,213	\$1,007,000		\$12,975,759	8.73%
2014	2015	\$10,459,043		\$535,000	\$224,113	\$230,000	\$360,250	\$240,000	\$372,250	\$1,961,613	\$1,605,000		\$14,025,655	8.09%
2015	2016	\$11,024,918		\$550,000	\$208,063	\$370,000	\$348,750	\$340,000	\$360,250	\$2,177,063	\$2,082,375		\$15,284,355	8.97%
2016	2017	\$11,325,770		\$570,000	\$188,813	\$365,000	\$330,250	\$340,000	\$343,250	\$2,137,313	\$2,310,375		\$15,773,458	3.20%
2017	2018	\$9,466,803		\$590,000	\$168,863	\$665,000	\$312,000	\$585,000	\$326,250	\$2,647,113	\$3,652,000		\$15,765,915	-0.05%
2018	2019	\$6,551,550		\$610,000	\$146,738	\$820,000	\$278,750	\$730,000	\$297,000	\$2,882,488	\$6,332,375		\$15,766,413	0.00%
2019	2020	\$4,590,236		\$635,000	\$120,813	\$860,000	\$237,750	\$765,000	\$260,500	\$2,879,063	\$8,303,125		\$15,772,424	0.04%
2020	2021	\$3,287,218		\$665,000	\$93,825	\$905,000	\$194,750	\$805,000	\$222,250	\$2,885,825	\$9,599,375		\$15,772,418	0.00%
2021	2022	\$2,486,381		\$695,000	\$63,900	\$950,000	\$149,500	\$845,000	\$182,000	\$2,885,400	\$10,401,875		\$15,773,656	0.01%
2022	2023	\$1,697,025		\$725,000	\$32,625	\$995,000	\$102,000	\$885,000	\$139,750	\$2,879,375	\$11,197,875		\$15,774,275	0.00%
2023	2024					\$1,045,000	\$52,250	\$930,000	\$95,500	\$2,122,750	\$13,656,625		\$15,779,375	0.03%
2024	2025							\$980,000	\$49,000	\$1,029,000	\$14,744,625		\$15,773,625	
		<u>\$115,993,562</u>	<u>\$80,117</u>	<u>\$7,675,000</u>	<u>\$2,557,171</u>	<u>\$7,650,000</u>	<u>\$4,068,750</u>	<u>\$7,805,000</u>	<u>\$3,997,125</u>	<u>\$33,753,046</u>	<u>\$85,489,625</u>	<u>\$235,236,232</u>		

(A) Levy Supported; includes UFPL refinancing.

(B) Future Issues consist of a borrowing of \$7,650,000 in 2010 growing at 2% annually with an average interest rate of 5%.

(C) Indicates Maturities callable on 12/1/2019 or any day thereafter.

## Taxable “Build America Bonds” (Direct Payment)

### What is the Benefit

- The Issuer receives a federal subsidy equal to 35% of the annual interest cost on taxable Build America Bonds (“BABs”)
- The issuance of BABs may create savings over the interest cost of a traditional tax-exempt borrowing

### Program Eligibility

- All state and local governments are eligible including school districts
- BABs can be issued for any governmental purpose for which tax-exempt bonds could be issued (only capital expenditures), not including private activity bonds
- Refunding Bonds are not eligible except to refinance short-term obligations issued after February 17, 2009

### How much will be available for this program

- There is no cap on the issuance of BABs
- Must be issued before January 1, 2011

### Issuer Requirements

- Address first year levy requirements
- Issuers are required to complete IRS form 8038-CP at least 45 days prior to each interest payment date to request the tax credit
- Taxable bonds are typically issued with semi-annual interest payments, likely requiring semi-annual filings of form 8038-CP
  - Consider hiring fiscal agent services to handle 8038-CP filings

### Other Considerations

- Risk of Legislative changes modifying the subsidy
- Issuers do not need to access the bond market to take advantage of BABs
  - State Trust Fund Loans issued for tax-exempt purposes may be designated as BABs with the opinion of bond counsel
  - Taxable Bank Loans issued for tax-exempt purposes may be designated as BABs with the opinion of bond counsel
- Davis Bacon Act Applicable does not apply (prevailing wage requirements)

Comparative Analysis of Tax-Exempt Traditional Bonds vs. Taxable Build America Bonds

YEAR DUE	TRADITIONAL TAX-EXEMPT BORROWING			TAXABLE BUILD AMERICA BONDS - DIRECT PAY				BABs vs. TRADITIONAL SAVINGS / (COST) OF BABs DEBT SERVICE
	PRINCIPAL (12/1)	INTEREST (6/1 & 12/1) 3.90%	TOTAL DEBT SERVICE	PRINCIPAL (12/1)	INTEREST (6/1 & 12/1) 5.26%	LESS: DIRECT SUBSIDY	NET DEBT SERVICE	
	<b>\$7,675,000</b>			<b>\$7,780,000</b>				
	Tax-Exempt General Obligation Refunding Bonds Dated November 17, 2009 (First interest 6/1/10)			Taxable General Obligation Refunding Bonds (BABs) Dated November 17, 2009 (First interest 6/1/10)				
2010	\$380,000	\$290,071	\$670,071	\$425,000	\$371,218	(\$129,926)	\$666,292	\$3,779
2011	\$390,000	\$269,713	\$659,713	\$430,000	\$348,823	(\$122,088)	\$656,735	\$2,978
2012	\$400,000	\$259,963	\$659,963	\$425,000	\$339,148	(\$118,702)	\$645,446	\$14,517
2013	\$410,000	\$249,963	\$659,963	\$430,000	\$327,460	(\$114,611)	\$642,849	\$17,114
2014	\$520,000	\$239,713	\$759,713	\$530,000	\$313,485	(\$109,720)	\$733,765	\$25,947
2015	\$535,000	\$224,113	\$759,113	\$540,000	\$293,345	(\$102,671)	\$730,674	\$28,438
2016	\$550,000	\$208,063	\$758,063	\$555,000	\$270,395	(\$94,638)	\$730,757	\$27,306
2017	\$570,000	\$188,813	\$758,813	\$575,000	\$245,420	(\$85,897)	\$734,523	\$24,290
2018	\$590,000	\$168,863	\$758,863	\$590,000	\$216,670	(\$75,835)	\$730,836	\$28,027
2019	\$610,000	\$146,738	\$756,738	\$610,000	\$186,285	(\$65,200)	\$731,085	\$25,652
2020	\$635,000	\$120,813	\$755,813	\$630,000	\$153,650	(\$53,778)	\$729,873	\$25,940
2021	\$665,000	\$93,825	\$758,825	\$655,000	\$118,370	(\$41,430)	\$731,941	\$26,885
2022	\$695,000	\$63,900	\$758,900	\$680,000	\$81,035	(\$28,362)	\$732,673	\$26,227
2023	\$725,000	\$32,625	\$757,625	\$705,000	\$41,595	(\$14,558)	\$732,037	\$25,588
	<b>\$7,675,000</b>	<b>\$2,557,171</b>	<b>\$10,232,171</b>	<b>\$7,780,000</b>	<b>\$3,306,898</b>	<b>(\$1,157,414)</b>	<b>\$9,929,484</b>	<b>\$302,687</b>

Subsidized Rate  
3.48%