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# Finance Committee Presentation

*Financing of the Courthouse and Jail Expansion*



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October 7<sup>th</sup>, 2009

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# Scott Balice Strategies

- #1 Financial Advisor in the State of Illinois, #7 in the Nation
- Professional staff of 19 focused on the needs of leading governments nationwide:
- National expertise with offices in Illinois, New York, New Jersey and Alaska
- Over 240 assignments in past six years
  - FA to \$35.0 billion of bond transactions
  - Swap advisor over \$5.5 billion of derivatives
  - Assignments for clients in 21 states

**Wall Street sophistication with  
old fashioned service**



# We Understand State of Illinois Issuers





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# Financial Strategy Considerations

*Timeline*

*Why Issue Now?*



# Project Timeline - *Courthouse & Jail*



# Interest Rates are Low Now but are Widely Expected to Rise

- Livingston Survey polls 33 of the most prominent economists in the U.S.
  - Interest rates are expected to rise 68 basis points by June 2010
- Rates are beginning to flatten on the long-end of the Treasury curve
- Given the relatively low interest rates, now may be a good time to hedge against rising yields
- As a whole, inflation is expected to be minimal for the remainder of 2009, with modest inflation returning for 2010 as the economy recovers
- If the economy appears to be through the worst of the economic recession, the Federal Reserve will likely be forced to raise interest rates by the end of 2009 at least 25 basis points to address inflationary concerns

	June 9, 2009 <sup>1</sup>	Current	Dec 2009	June 2010	Dec 2010
3-Month Treasuries	0.19%	0.09%	0.30%	0.54%	1.19%
10-Year Treasuries	3.86%	3.32%	3.75%	4.00%	4.28%
Spread	3.67%	3.23%	3.45%	3.56%	3.09%

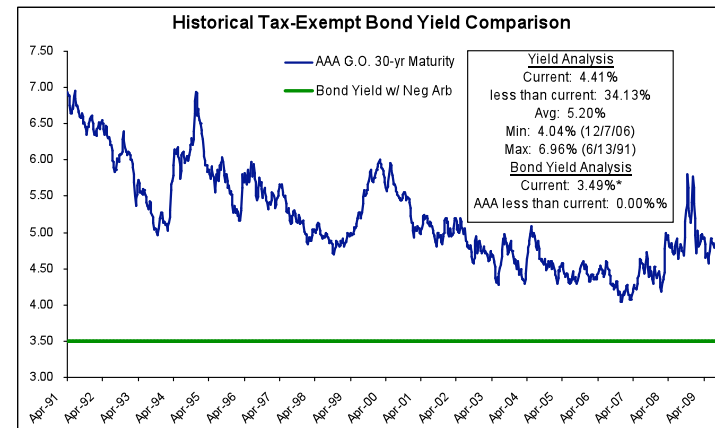
Source: Livingston Survey, June 2009

(1) Livingston Survey released June 9, 2009

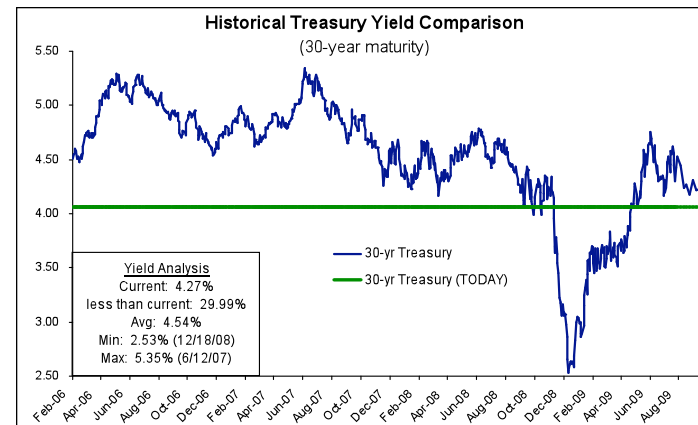


# Yields are Low Compared to Tax-Exempt Yields and Treasuries

- Utilizing Build America Bonds, the current bond yield falls below AAA-rated tax exempt General Obligation Bond yields **100%** of the time
  - Includes amortization of negative arbitrage over the life of the bond issue
  - Callable tax-exempt versus make-whole call Build America Bonds
- Traditional tax-exempt yields are below current levels 34.13% of the time since 1991
- 30-year Treasury yields are lower than the current level 30.39% of the time since the beginning of 2006
- Since Build America Bonds are priced off of the Treasury market it is an appealing time to issue



Source: Bloomberg; AAA-rated Municipal General Obligation Bonds yield curve  
 Assume: AAA-rated Build America Bonds (yield after issuer subsidy) as of 9/28/2009  
 Spread to 30-yr Treasury = 120bps + Cost of Neg Arb (2% spread)



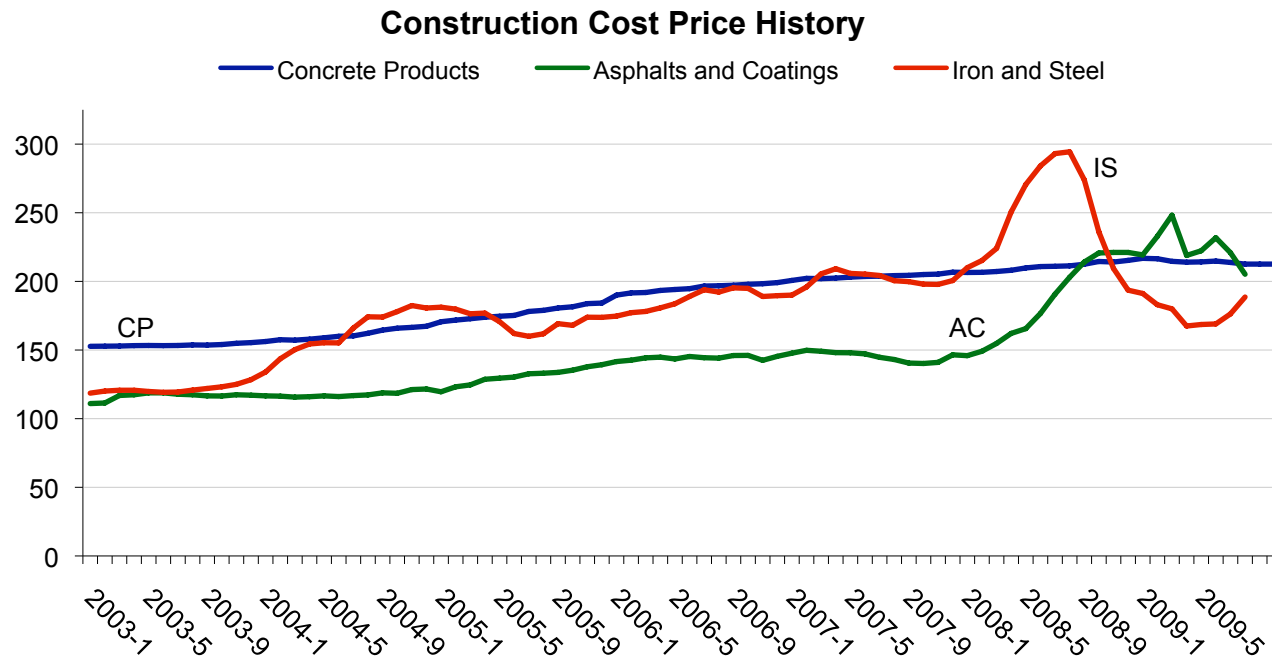
Source: Federal Reserve Statistical Releases





# Where are Construction Bids Coming In?

- Cost of materials is under control and labor and contracting costs are down due to increased bidding wars for fewer project.
- This could prove to be a benefit to the County

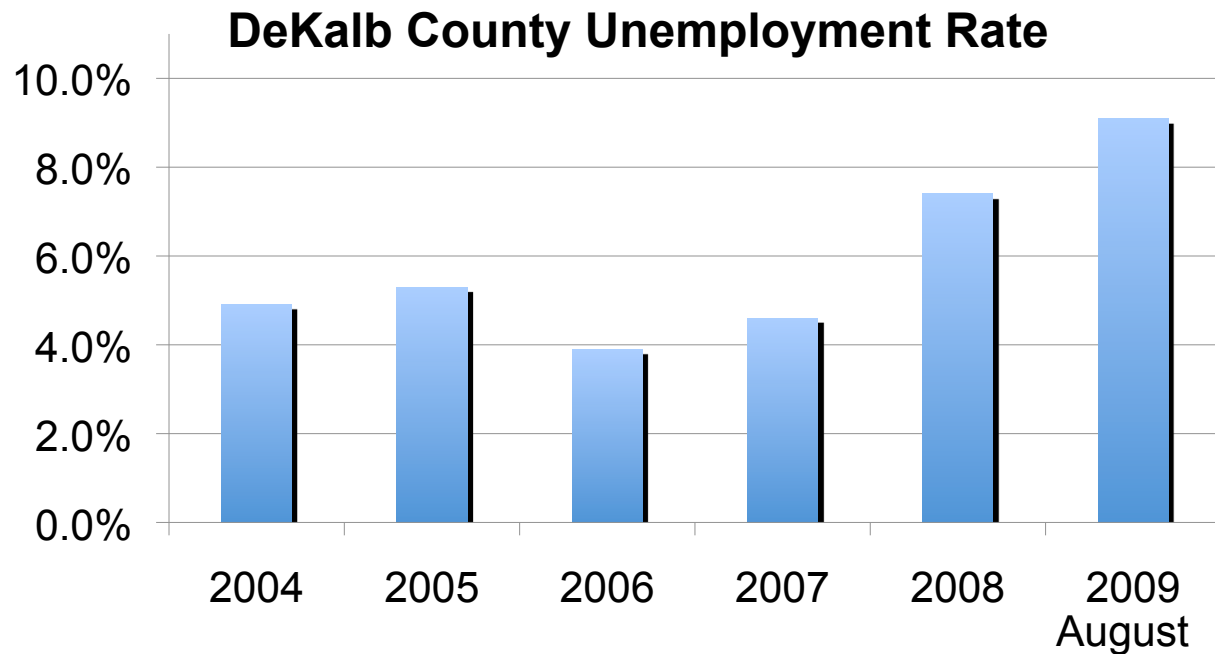


# Where Will the Money Come From?

- The County has unobligated Sales Tax Revenues of around \$1.2 million annually from the County Farm Site (East of Sycamore Road).
  - Given the current market and certain credit assumptions this revenue stream can accommodate a \$14 million bond issuance.
  - This money can be used by the County to pay for the Court House expansion which is estimated to cost between \$10-\$12 million.
- The County is working with Waste Management to enter into a contract starting in December of 2012 that will produce roughly \$120 million for the County over 30 years.
  - Given the current market and certain credit assumptions this revenue stream can accommodate a bond issuance in excess of the \$30 million estimated project costs for the Jail expansion.

# Unemployment in DeKalb County

- The expansion of the Courthouse and Jail will create jobs within DeKalb County that can help to counteract the recent increase in unemployment.





# American Recovery and Reinvestment Applications

*Expires 12/31/2010*



# ARRA Overview

- ARRA created several new types of tax-exempt bonds and tax credit bonds
  - Build America Bonds (BABs) & Recovery Zone Economic Development Bonds (RZEDB) –  
*may be issued before January 1, 2011*
- ARRA Tax-Exempt Bond Provisions\*
  - New Taxable Bond Option: BABs
    - ✓ Taxable option allows issuers to receive a 35% reimbursement of interest paid from the federal government
  - New Recovery Zone Bonds
    - ✓ Authorizes \$10 billion in taxable bonds (RZEDBs)
    - ✓ State or local government receive a 45% reimbursement of interest paid

*\*Only apply to bonds issued in 2009 and 2010*

# BAB Provisions

- Taxable bond with either a bondholder credit provided to investors or an issuer payment in the amount of 35% of interest payment
- Bonds can be used for any capital project that qualifies for governmental purpose tax-exempt bonds
- Bonds must be issued in 2009 and 2010
- No limits on bonding authority by state. Issuers may issue without application, although filing requirements will be necessary to receive subsidy
- Structure can be used for fixed and floating rate debt

# Illinois Tollway BABs – May 12, 2009

- Illinois State Toll Highway Authority (Aa3/AA-/AA-) sold a \$500 million Build America Bond Issuance, for which Scott Balice served as Financial Advisor

## \$100 million 2024 Term Bond

12 year average life  
10 Year Par Call  
Spread to 10-year Treasury of 210 basis points (5.293% rate)  
Effective rate of 3.4404%

## \$400 million 2034 Term Bond

25 year average life  
Make Whole Call  
Spread to the Feb 2039 Treasury of 200 basis points (6.184% rate)  
Effective rate of 4.0196%

- Value provided by the BABs vs. Tax Exempt Bonds was approximately 66 basis points on the 2024 maturity (callable scales) and 89 basis points on the 2034 maturity (non-call scales)
- 10-year par call on the shorter maturity cost the Tollway approximately 8 basis points which was justified given the added flexibility. The markets appetite for the call was right at the \$100 million range
- Initial price views had the Tollway 5 times oversubscribed on the 2034 maturity, which allowed the underwriters to price more aggressively

# Recovery Zone Economic Development Bond (RZEDB) Provisions

- DeKalb County declared itself a Recovery Zone recently.
- RZEDBs facilitate financing for urgent economic development projects at the local government level
  - Operate similar to BABs – taxable bonds provide state/local government issuers with a direct federal subsidy payment equal to 45% (deeper subsidy than provided under BABs)
  - Increased marketability and demand
- Generally used to finance capital and working capital expenditures that promote development or other economic activity in a Recovery Zone, including:
  - Infrastructure and public buildings
  - Job training and education
  - New Money (refinancing of existing debt not authorized)
- Timing and Allocations
  - RZEDBs apply to bonds issued before January 1, 2011
  - State formula allocation to counties and cities over 100,000

**DeKalb County RZEDB allocation: \$5.973 million**



# Comparison of Interest Rates

- The ARRA bond options create value for the County, but go away after 2010.

