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MEMORANDUM

TO: BARRY ATWOOD, DIRECTOR OF FINANCE

FROM: JULIE SANTAMARIA

RE: UPDATE ON FINANCING MARKET

DATE: JANUARY 16, 2009

As Financial Advisor to the City of Boynton Beach, we have been requested to provide an update on the current market conditions for municipal bonds and the outlook for a future City financing.

The tax-exempt bond market continues to be very volatile and changes on a daily basis. Currently, a bank loan would be the most cost-effective structure for a City financing in the \$30 million range. Following are the estimated costs for the three scenarios requested based on current market conditions:

1. **20 year bonds** - all-inclusive cost of 6.00%
 - Annual debt service for a \$25 million borrowing: \$2.0 million
 - Annual debt service for a \$30 million borrowing: \$2.5 million

2. **20 year bank loan** - all inclusive cost of 5.10%
 - Annual debt service for a \$25 million borrowing: \$1.9 million
 - Annual debt service for a \$30 million borrowing: \$2.3 million

3. **15 year bank loan** - all-inclusive cost of 4.15%
 - Annual debt service for a \$25 million borrowing: \$2.2 million
 - Annual debt service for a \$30 million borrowing: \$2.6 million

Based on the current market and economic crisis, it is difficult to know where interest rates will be in September 2009, so it is most conservative to assume that they will be higher. Given this unknown, estimating \$2.5 million in debt service for a \$25 million borrowing and \$2.8 million in debt service for a \$30 million borrowing should be sufficient for all of these scenarios.

In absence of the ability to issue a general obligation bond, which requires approval by voter referendum, the strongest credit that the City can pledge as security for the borrowing will most likely be a covenant to budget and appropriate from legally available non-ad valorem revenues (often abbreviated as a CBA). Should the City wish to minimize the debt service in fiscal year 2010, the City has the flexibility to borrow for that interest payment in the financing (capitalize interest), or defer the first principal payment and pay interest only in 2010. An interest only payment would be in the \$1.5 - \$1.8 million range for all of these scenarios. Capitalized interest is a more expensive option as the City is essentially paying interest on interest.

Bank loans are currently the most cost effective financing as banks' costs of funds are tied to the Federal Funds Rate and Discount Rate, which have decreased over the past several months. As a result, an anomaly has occurred in the bond market where bank loans are more cost-effective than publicly offered bond issues. This would be a similar structure that we utilized for the City's 20 year utility financing in February 2008.

Thank you for the opportunity to provide this analysis. Please contact me if you have any questions or need any additional information.