

MINUTES OF WORKSHOP MEETING

DOWNERS GROVE, ILLINOIS

MARCH 31, 2008

Mayor Sandack called the Special Workshop meeting of the Village Council of the Village of Downers Grove to order at 6:03 p.m. in the Committee Room of the Village Hall.

Present: Mayor Ron Sandack; Commissioners Marilyn Schnell, Martin Tully (6:04 p.m.), William Waldack, Sean P. Durkin, Geoff Neustadt, Bruce Beckman; Village Manager Cara Pavlicek; Village Attorney Enza Petrarca; Village Clerk April Holden

Absent: None

Visitors: **Northern Trust:** Allan Ambrose, Senior Vice President, Public Finance
Staff: Judy Buttny, Finance Director; Mike Baker, Assistant Village Manager; Steve Sanderson, Budget Officer; Doug Haywood, Assistant Direct, Finance; Dave Fieldman, Deputy Village Manager; Megan Bourke, Management Analyst

Mayor Sandack explained that this is an informal special Workshop meeting to allow for Council discussion regarding the issuance of General Obligation bonds for the purpose of watershed improvements.

MANAGER

1. Active Agenda and Informational Items

- a. **Discussion of Bond Issuance for Watershed Improvements.** The Mayor introduced the Village's Financial Advisor, Allan Ambrose, Senior Vice President, Public Finance, at Northern Trust to discuss options available relative to the General Obligation bond issuance as well as the potential for any refunding of existing debt.

Allan Ambrose, Senior Vice President, Public Finance, Northern Trust, began with a market update to review the current interest environment. Historically the municipal market has been very stable. The current instability relates to the subprime mortgage market filtering into the municipal market through bond insurance companies. Many bond insurers have been downgraded and other bond insurers have a negative credit outlook. As a result of downgrades and uncertainty in the bond insurance market, insured municipal bonds have been trading based on their underlying rating and not to the insured rating.

Auction Rate Securities, which are typically supported by bond insurance, have recently had many failed auctions. In February 2008, there were over 2,000 failed auctions which drove interest rates on auction rate securities to maximum levels. Mr. Ambrose explained that this impact has been on bonds already issued. Currently, problems are only on variable rate bonds; however, a ripple has been sent throughout the rest of the municipal bond market.

Mr. Ambrose clarified that if the bond rating is downgraded, it is the holder's issue. When a municipality goes out to bid, it reserves the right to reject a bid.

Steps to Approve a Bond Issuance

Mr. Ambrose then reviewed the steps taken to approve a bond issuance. Before going to bid, there is a rating agency perspective, a preliminary official statement (prospectus), and a meeting with Standard & Poor's for a required rating of the municipality prior to the sale of bonds. Statements are mailed to all known investors and bids are taken on a date certain through a parity program. He explained that institutional purchasers would be purchasing the bonds. Typically municipalities either create a draft bond ordinance or a parameters ordinance. A draft bond ordinance would include a number of blank spaces that the bond counsel would help to complete. The sale would occur and the Council would authorize the sale on the night of their meeting. A parameters ordinance would outline guidelines and within those guidelines, staff could sign the bond order on the day of the sale.

Negotiated Bids vs. Auctions

Mr. Ambrose then discussed the value of a negotiated bid vs. an auction. He said there are two methods for selling a long-term bond issue. The competitive sale is scheduled for a time and date certain and the buyer with the lowest interest rate will be the winner. In a negotiated sale, one could choose from several underwriters through an RFP process. The negotiated sale provides for flexibility and would need a parameters ordinance in place. The benefits of a negotiated sale are timing and the ability to conduct a presale. Mr. Ambrose said if timing is important and there is a volatile market, a negotiated sale is slightly more advantageous to the municipality. In a negotiated sale, the seller gets ideas they would not otherwise receive.

Mr. Ambrose clarified that Northern Trust would only serve as financial advisor, not an underwriter, to the Village in this transaction.

In response to questions, Mr. Ambrose said federal interest rate cuts do not necessarily affect the long-term rate on a bond as potential cuts are already factored into the rates. As a result of the credit and liquidity crisis, Mr. Ambrose said municipal bonds are trading at 100% to 120% of treasuries. In a typical market, this ratio would be 70-80%.

Historic Interest Rates

Mr. Ambrose then discussed historic interest rates. He reviewed the historic average of the bond buyer 20-year General Government Index that consists of AA rated 20-year general obligation secured debt. The current interest rate is 4.88% as opposed to 4.54% on November 26, 2007. According to Mr. Ambrose, the market is still good and stability has come back to the market.

With respect to refunding opportunities, Mr. Ambrose said that as financial advisor, he would advise Council if refunding was recommended. He said it is important that refunding options not be lost.

Stormwater Financing Assumptions

Mr. Ambrose then turned to a discussion of stormwater financing assumptions. He updated the figures provided in November 2007. He said \$4.0 million in debt service can potentially support up to \$71,105,000 in project costs plus costs of issuance. As of November 20, 2007, this analysis generated total net proceeds of \$72,267,000 or a difference of \$1,162,000.

Mr. Ambrose reiterated the scenario of three series of bonds: In year 2008, 2012 and 2015.

Timing

Council members discussed the timing of the bond issuances and the consequences of considering three issuances but only doing one or two issuances. Mr. Ambrose said each issuance is an independent action. The Council is not tied to anything in the second or third issuance. There would be no consequence other than not raising funds at that later time. The first bond issuance would be for \$24,680,000. Council would not be locking themselves or any future Council into a \$320 million obligation.

Costs of Issuance

Regarding costs of issuance, Mr. Ambrose's analysis assumes total cost of issuance to be \$10.00/\$1,000 excluding bond insurance premium fees. This would include the underwriter's discount, legal fees, financial advisor fees, and rating agency fees.

Impact of Debt Service

Council then discussed the impact of the debt service on the Village's debt/valuation, debt per capital, and debt amortization. Mr. Ambrose said he has discussed this with rating agencies. He explained that the bonds would be used for long-term capital projects with long-term benefits. The Village would expect the watershed improvements to have a useful life of approximately 50 years. Because of this, there should not be a significant impact on the Village's AA+ bond rating. In response to rating agencies, Mr. Ambrose said only Standard & Poor's has rated the Village. He said he felt that is sufficient at this time.

Refunding Update

Mr. Ambrose said that based on the current interest rates, there are no refunding candidates that generate greater than a 2.0% savings threshold on a maturity-by-maturity basis. Northern Trust will continue to monitor the markets and advise the Village of potential refunding opportunities.

Audience Questions

Dr. Gordon Goodman asked about call provisions. Mr. Ambrose said the bonds could be defeased, but could not be called earlier than 10 years before maturity. With respect to call provisions, Mr. Ambrose said the recent standard is a 10 year par call, but an 8 year par call may be possible. He discussed decision points for future Councils.

A question was asked as to where funds are invested prior to the projects. Finance Director Judy Buttny said the funds would be tracked within the Stormwater fund. Ms. Buttny and Mr. Ambrose discussed investment options.

Mark Thoman asked about Council policies with respect to investing the proceeds of the bonds in the Stormwater fund. The Manager said staff would follow existing policies. Proper fund accounting would not require a new Council policy.

Closing Remarks

The Manager said staff will present recommendations at a regular Workshop meeting. She said staff is looking for a consensus from Council as to a competitive vs. a negotiated sale and needs the funding identified for projects. She asked Council to forward their comments to the Manager's Office as soon as possible.

Adjournment

There being no further discussion, the Workshop meeting was adjourned at 7:28 p.m.

April K. Holden
Village Clerk