

VILLAGE OF DOWNERS GROVE
REPORT FOR THE VILLAGE COUNCIL WORKSHOP
APRIL 22, 2008 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
General Obligation Bond Issuance for Watershed Improvements	Resolution Ordinance ✓ Motion Discussion Only	Cara Pavlicek Village Manager

SYNOPSIS

A motion is requested to authorize the Village Manager to proceed with a negotiated sale of General Obligation (GO) bonds for the purpose of watershed improvements, which includes Village Council selection of an underwriter and Village Council consideration of a Parameters Ordinance.

A second motion is requested to authorize the Village Attorney to engage Chapman and Cutler of Chicago, Illinois for bond counsel services in an amount not to exceed \$42,350.

STRATEGIC PLAN ALIGNMENT

The Five Year Plan and Goals for 2007-2012 identifies *Top Quality Infrastructure and Facilities*. A supporting objective is *Improve Neighborhood Infrastructure Curbs, Gutters, Streets, Sidewalks, Stormwater and Drainage System*. The Policy Agenda for 2007-2008 identifies *Watershed Infrastructure Improvement Plan: Development and Funding* as a Top priority.

FISCAL IMPACT

Pursuant to the bond issuance parameters recommended by the Village's Financial Advisor, the annual principal and interest payments would not exceed \$4.0 million and the principal amount of the bond issuance would not exceed \$28 million. Please note that the principal amount of the bond issuance will be determined based on the interest rate and the annual principal and interest payments.

The FY08-12 CIP includes approximately \$27.3 million of expenditures in the Stormwater Fund over three fiscal years for the construction of selected projects identified in the Watershed Infrastructure Improvement Plan. These expenditures would include design and construction.

In August 2007, staff presented a comprehensive financial review to the Village Council regarding funding strategies for the proposed Watershed Infrastructure Improvement Plan. Those alternatives were discussed with the Council as well as at a series of four public meetings prior to a more detailed review of these financial alternatives as a part of the annual budget process in October. On November 6, 2007, the Village Council authorized a professional services agreement with Northern Trust to provide an analysis of the Village's financial position and to provide a general strategy for the issuance of bonds to fund construction of the stormwater projects. On November 20, 2007, Northern Trust provided a report to the Village Council. The recommended strategy for three separate bond issuances (2008, 2012 and 2015) included the issuance of GO bonds with constant annual debt service payments in the amount of approximately \$4.0 million. This recommended strategy is consistent with the adopted FY08 Municipal Budget and FY08-12 CIP.

During the review and approval of the FY08 Municipal Budget, the Village Council and staff discussed options for financing these project expenditures. Given the nature of these public capital improvements, it is recommended that GO bonds be issued to finance the projects over thirty years. The FY08 Municipal Budget includes for the first time a Stormwater Improvement Fund which is supported by a quarter cent

increase in the Home Rule sales tax, an annual property tax levy of \$2,130,000 (to fund debt service payments and annual stormwater maintenance expenses) and the pre-existing detention variance fee. The Home Rule sales tax increase will be effective July 1, 2008. It is anticipated that a GO bond of approximately \$24,679,000 will be issued in FY08, followed by a GO bond issuance of approximately \$24,124,000 in FY12 and finally a GO bond issuance of approximately \$23,464,000 in FY15. The debt service on these issuances will be covered by the above mentioned quarter cent Home Rule sales tax, property taxes and detention variance fees. The resulting bond proceeds will allow the Village to complete the most critical capital improvements identified in the Watershed Infrastructure Improvement Plan.

The cost of bond counsel services will be paid from the bond proceeds.

RECOMMENDATION

Approval on the May 6, 2008, active agenda.

BACKGROUND

The proposed motion will authorize the Village Manager to proceed with a negotiated sale of GO bonds to fund the High priority projects identified in the Watershed Infrastructure Improvement Plan. The Village Manager would work closely with the Village's Financial Advisor, Northern Trust, and the Village's Bond Counsel, Chapman & Cutler, to prepare the documents and take the steps required to issue the bonds through a negotiated sale. A negotiated sale allows the Village to select an underwriter for the bonds through direct negotiations. The process is competitive in that the Village's Financial Advisor will accept and review proposals from multiple underwriters and recommend the selection of an underwriter that will underwrite the bonds within the established parameters and with the lowest overall cost to the Village. Negotiated sales are generally used when market conditions are volatile or when the proposed bond issuance includes unique characteristics. In this case, the Village's Financial Advisor recommends the issuance of bonds through a negotiated sale due to the recent volatility in the municipal bond market.

The key steps for the issuance of GO bonds through a negotiated sale are as follows:

Village Council Selection of an Underwriter (May 13 Workshop, May 20 Council Meeting) – The Village Council would select an underwriter based on the proposals submitted. Northern Trust will prepare a Request for Proposals for underwriting services. Staff and Northern Trust will review the proposals and recommend an underwriter to the Village Council. The Council will select the underwriter and approve the contract with the selected underwriter.

Village Council Consideration of a Parameters Ordinance (May 13 Workshop, May 20 Council Meeting) – The Village Council would consider a Parameters Ordinance that establishes the conditions under which authorized Village officials can sell the bonds and, if applicable, refund existing bond issuances that achieve established minimum savings to the Village. Approving a Parameters Ordinance will allow the Village to issue the bonds at the time the Village's Financial Advisor feels the market conditions are most favorable to the Village. Northern Trust recommends the following parameters:

Stormwater Improvement Bond Issuance

1. Method of Sale shall be Negotiated Sale
2. Maximum Annual Debt Service Payments of \$4.0 million
3. Maximum Principal Amount of \$28 million
4. Bond Sale to be Completed within 60 Days of the Adoption of the Parameters Ordinance
5. Mayor and Village Manager are Authorized to Execute the Bond Purchase Agreement

Bond Refunding

1. Minimum Net Present Value Savings to the Village of 3.0%
2. Maximum Size of Refunding of \$15 million

3. Refunding to be Completed within 180 Days of the Adoption of the Parameters Ordinance
4. Mayor and Village Manager are Authorized to Execute the Refunding Agreement

Obtain a Rating from Standard & Poors (May) – Northern Trust will work with Standard and Poors, the Village’s bond rating agency, to establish a bond rating for the proposed bond issuance and potential refunding.

Prepare and Distribute the Preliminary Official Statement (May/June) – Northern Trust will prepare and distribute the Preliminary Official Statement (POS) to potential bond purchasers. The POS will provide information about the Village and the bond issuance to entities interested in purchasing the bonds.

Price the Bond Issue (June) – Northern Trust and the selected bond underwriter will establish the principal, interest and debt service payment schedule for the bond issuance.

Execute the Bond Purchase Agreement (June/July) – The authorized Village officials will execute the Bond Purchase Agreement. The agreement must conform to all criteria included in the Parameters Ordinance.

Close on the Bond Purchase Agreement (June/July) – The authorized Village officials will execute all documents necessary to close on the Bond Purchase Agreement. The documents must conform to all criteria included in the Parameters Ordinance.

On March 31, 2008, the Village Council held a Special Workshop to discuss the issuance of GO bonds. The Village’s Financial Advisor was present and led the discussion and answered questions the Village Council and the public had relative to the bond issuances. Northern Trust presented the Village Council with a market update, financing analysis of a three-part series bond issuance and any available refunding opportunities. Northern Trust advised that although interest rates have increased recently, current rates are at 10-year historic averages and below the 15-year average. After the March 31 Special Workshop, staff met with Northern Trust and the Village’s Bond Counsel, Chapman & Cutler, to discuss how the Village should proceed with the bond issuance. During the follow-up meeting, Northern Trust recommended the process outlined above. Staff concurs with this recommendation.

Pursuant to the Village Council’s Debt Management Policy, the Village should seek to minimize debt interest costs and consider market timing when issuing debt. During the preparation, review and approval of the FY08 Municipal Budget, the Council and staff discussed issuing bonds in mid- to late-2008. However, the interest rates for long term municipal bonds are currently fluctuating on a daily basis as changes in the secondary market continue to unfold. Despite these fluctuations, the average rates have remained relatively low when viewed from a historical perspective.