

VILLAGE OF DOWNERS GROVE
REPORT FOR THE VILLAGE COUNCIL MEETING
MAY 6, 2008 AGENDA

SUBJECT:	TYPE:	SUBMITTED BY:
General Obligation Bond Issuance for Watershed Improvements	Resolution Ordinance ✓ Motion Discussion Only	David Fieldman Deputy 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.

UPDATE & RECOMMENDATION

This item was discussed during the April 22, 2008 Workshop. The Council inquired whether the Village should issue a Request for Proposal (RFP) for bond counsel services and asked for additional information about the funding sources for the debt service payments on the proposed GO bonds. Staff consulted with Northern Trust, the Village's Financial Advisor, on these items.

Northern Trust indicated that the scope of services and price presented by Chapman & Cutler is within industry standards. Northern Trust also indicated that publishing an RFP after a firm has already submitted a proposed price and contract may compromise the RFP process. Staff is concerned that commencing an RFP process at this time may negatively affect the construction schedule for the stormwater projects.

During the FY08 Budget process, the Village Council approved three funding sources for repayment of the bonds issued for the Watershed Infrastructure Improvement Plan. The sources include 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 stormwater detention variance fee. The thirty year funding projection for the WIIP has been attached to this report. General Obligation bonds are secured by the full faith and credit of the Village. In the event that the identified revenue sources fall short of projections, the Village is still obligated to make debt service payments. The Village would have to reduce spending in other areas, identify additional revenue sources, or increase the identified revenue sources to make the annual debt service payments.

Staff has been tracking the performance of the three approved funding sources for the repayment of the bonds issued for the WIIP. Regarding Home Rule Sales Tax, a revenue tracking spreadsheet has been attached to this report for Council's information. It should be noted when reviewing the Home Rule Sales Tax revenue data that there is a three month lag in the reported revenues (ie. The reported revenues for

April, 2008 represent the amount collected in January, 2008). As a result of this three month lag, there is currently only one month of actual 2008 Home Rule Sales Tax revenues reported. With regards to detention variance revenues, the \$120,000 budgeted amount for this account for FY08 has already been transferred out of the Capital Projects Fund. Thus, the detention variance account is maintaining a healthy balance for 2008. Finally, property tax revenues to fund the WIIP are projected to remain relatively stable as the Village's overall equalized assessed value is significant enough to not likely to be negatively impacted by the current economic downturn.

Staff recommends approval during the May 6, 2008 active agenda.

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.

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.

Year	Property Tax	Home Rule Sales Tax Allocation for Stormwater	Impact Fees	Annual Total
2008	\$ 2,450,720	\$ 1,000,000	\$ 1,254,713	\$ 4,705,433
2009	\$ 2,573,256	\$ 1,024,374	\$ 120,000	\$ 3,717,629
2010	\$ 2,701,919	\$ 1,049,478	\$ 120,000	\$ 3,871,397
2011	\$ 2,837,015	\$ 1,075,336	\$ 120,000	\$ 4,032,351
2012	\$ 2,978,865	\$ 1,101,970	\$ 120,000	\$ 4,200,835
2013	\$ 3,127,809	\$ 1,129,402	\$ 120,000	\$ 4,377,211
2014	\$ 3,284,199	\$ 1,157,658	\$ 120,000	\$ 4,561,857
2015	\$ 3,448,409	\$ 1,186,761	\$ 120,000	\$ 4,755,170
2016	\$ 3,620,829	\$ 1,216,738	\$ 120,000	\$ 4,957,567
2017	\$ 3,801,871	\$ 1,247,613	\$ 120,000	\$ 5,169,484
2018	\$ 3,991,964	\$ 1,279,415	\$ 120,000	\$ 5,391,380
2019	\$ 4,191,563	\$ 1,312,171	\$ 120,000	\$ 5,623,734
2020	\$ 4,401,141	\$ 1,345,910	\$ 120,000	\$ 5,867,051
2021	\$ 4,621,198	\$ 1,380,661	\$ 120,000	\$ 6,121,859
2022	\$ 4,852,258	\$ 1,416,454	\$ 120,000	\$ 6,388,712
2023	\$ 5,094,871	\$ 1,453,321	\$ 120,000	\$ 6,668,192
2024	\$ 5,349,614	\$ 1,491,294	\$ 120,000	\$ 6,960,909
2025	\$ 5,617,095	\$ 1,530,407	\$ 120,000	\$ 7,267,502
2026	\$ 5,897,950	\$ 1,570,693	\$ 120,000	\$ 7,588,642
2027	\$ 6,192,847	\$ 1,612,187	\$ 120,000	\$ 7,925,034
2028	\$ 6,502,489	\$ 1,654,926	\$ 120,000	\$ 8,277,415
2029	\$ 6,827,614	\$ 1,698,947	\$ 120,000	\$ 8,646,561
2030	\$ 7,168,995	\$ 1,744,289	\$ 120,000	\$ 9,033,284
2031	\$ 7,527,444	\$ 1,790,991	\$ 120,000	\$ 9,438,436
2032	\$ 7,903,817	\$ 1,839,095	\$ 120,000	\$ 9,862,911
2033	\$ 8,299,007	\$ 1,888,641	\$ 120,000	\$ 10,307,648
2034	\$ 8,713,958	\$ 1,939,674	\$ 120,000	\$ 10,773,632
2035	\$ 9,149,656	\$ 1,992,238	\$ 120,000	\$ 11,261,893
2036	\$ 9,607,138	\$ 2,046,378	\$ 120,000	\$ 11,773,517
2037	\$ 10,087,495	\$ 2,102,143	\$ 120,000	\$ 12,309,638
TOTAL	\$ 162,823,004	\$ 44,279,166	\$ 4,734,713	\$ 211,836,882

Village of Downers Grove

Comparison of Monthly Major Revenues

HOME RULE SALES TAX

Village Collection Month	2004 Actual Receipts	2005 Actual Receipts	2006 Actual Receipts	2007 Actual Receipts	2008 Budget	2008 Actual Receipts
JAN	283,664	362,911	343,605	347,325	383,333	351,910
FEB	342,899	361,470	351,969	345,169	383,333	385,590
MAR	463,199	519,408	537,801	571,359	383,333	491,134
APR	289,807	300,136	284,280	328,497	383,333	314,496
MAY	291,712	313,704	348,466	318,975	383,333	
JUN	311,087	343,435	286,731	379,698	383,333	
JUL	310,908	340,772	438,181	364,068	383,333	
AUG	327,362	342,037	388,678	389,659	383,333	
SEP	352,880	365,925	388,060	373,243	383,333	
OCT	376,260	358,002	371,027	360,523	383,333	
NOV	338,525	337,886	352,994	346,318	383,333	
DEC	361,484	340,489	366,829	352,658	383,337	
Total	4,049,788	4,286,176	4,458,621	4,477,492	4,600,000	1,543,130

Prior to July, 2006, 100% of these taxes went to the General Fund.

Beginning in July, 2006 100% of these taxes go to the Capital Improvements Fund

SALES TAX

Village Collection Month	2004 Actual Receipts	2005 Actual Receipts	2006 Actual Receipts	2007 Actual Receipts	2008 Budget	2008 Actual Receipts
JAN	937,137	1,023,962	951,286	1,010,145	1,104,167	1,098,633
FEB	1,001,937	1,029,906	1,017,712	1,006,068	1,104,167	1,107,710
MAR	1,188,967	1,359,906	1,441,347	1,483,844	1,104,167	1,342,829
APR	867,019	957,978	965,672	927,484	1,104,167	940,420
MAY	950,909	1,009,940	1,052,604	968,315	1,104,167	
JUN	949,272	1,074,043	917,795	1,129,276	1,104,167	
JUL	958,582	1,066,510	1,285,299	1,099,618	1,104,167	
AUG	1,047,824	1,033,467	1,177,793	1,137,944	1,104,167	
SEP	1,039,479	1,154,671	1,088,389	1,108,633	1,104,167	
OCT	1,119,268	1,116,069	1,168,401	1,058,416	1,104,167	
NOV	1,164,317	1,036,309	1,054,686	1,035,717	1,104,167	
DEC	1,003,250	1,030,817	1,064,638	1,092,440	1,104,163	
Subtotal	\$ 12,227,962	\$ 12,893,577	\$ 13,185,623	\$ 13,057,900	13,250,000	\$ 4,489,592
Rebates	\$ (450,436)	\$ (719,187)	\$ (574,787)	\$ (339,778)	\$ (750,000)	\$ -
Total	\$ 11,777,526	\$ 12,174,390	\$ 12,610,836	\$ 12,718,122	\$ 12,500,000	\$ 4,489,592

100% of this tax goes into the General Fund.

* 2007 Rebates not yet final

