Ninety 7 Fifty on the Park Project Financing
GO Bond Issuance Discussion

The proposed financing plan for the Ninety 7 Fifty on the Park Project calls for the issuance of approximately $40,000,000 in taxable general obligation bonds. The first issuance of approximately $20,000,000 is scheduled to take place mid-summer 2012. The Village has the option of selling these bonds via a competitive or negotiated sale and can also choose to sell a portion of the bonds “locally”.

Competitive vs. Negotiated Sale

In a competitive sale, the issuer obtains bids from underwriting firms and selects the firm offering the lowest true interest cost. With this type of sale, the issuer, with the assistance of bond counsel and a financial advisor, is responsible for preparing bond documents, structuring the issue, obtaining a rating, evaluating the use of bond insurance and completing any other tasks related to preparing for the issuance. One of the advantages of a competitive sale is it provides assurance that the bonds are sold at the lowest interest cost given market conditions on the date of sale. One of the disadvantages is that the notice of sale must be posted in advance of the actual sale date and the issuer may not be able to accelerate the sale should market conditions change. Another possible disadvantage is the addition of a risk premium due to the uncertainty of the number and type of bidders and the fact that the issuer has less control in determining which entity is selected and how the bonds are distributed among investors.

In a negotiated sale, an underwriting firm is selected before the issuer has full knowledge of the terms of the sale. The selected underwriter assists the issuer and its professionals with all tasks related to the bond sale in order to build investor interest in the bonds. The financial advisor and issuer negotiate a purchase price for the bonds with the underwriter at the time the bonds are sold. One of the advantages of a negotiated sale is that the underwriter knows in advance that it will obtain the bonds and has a greater incentive to promote the bonds. This method also provides more flexibility in responding to changing market conditions. One disadvantage of this type of sale is the level of knowledge needed by the issuer to determine that the proposed pricing of the bonds is fair and at a competitive level given market conditions. Another disadvantage is that the issuer may be accused of favoritism in the selection of the underwriter, as it is often thought that this sale method lacks transparency.

In the past, the Village has sold its bonds competitively. A history of the past five competitive sales is as follows:

Date of Sale	Purpose	Size	No. of Bidders
02/05/2007	Main Street Triangle	$18,500,000	10
07/21/2008	Reservoir/Pump Station	$ 9,055,000	4
05/04/2009	Refunding	$ 7,785,000	4
02/01/2010	Refunding	$18,925,000	7
08/15/2011	Refunding	$ 9,995,000	8

Unlike past sales, the bonds the Village will be issuing to finance the Ninety 7 Fifty Project will be taxable. Because of this, some thought should be given to which sale methodology the Village chooses, i.e. competitive vs. negotiated. Generally, the following matrix can be used to evaluate whether a negotiated or competitive sale is more appropriate.

Factors to Evaluate	Method of Sale	
	Competitive	Negotiated
Issue Size	> $500K but < $100M	< $500K or > $100M
Financing Structure	Traditional general obligation bonds, enterprise revenue bonds, installment contracts.	Non-traditional bonds, such as TIF, SSA, Special Assessment bonds
Issuer	Strong reputation in the bond market	No reputation or a poor reputation in the bond market
Credit Strength	At or above investment grade	Below investment grade
Bond Market	Relatively stable conditions	Volatile conditions

Prior to 2009, less than 5% of the bond market was taxable; therefore, most taxable issues utilized the negotiated sale method as potential bidders were not as readily available as in the tax exempt market. However, with the federal stimulus American Recovery and Reinvestment Act (ARRA) that created Build America Bonds and similar structures, the taxable bond market exploded to over 35%. Sales of taxable bonds became very common. During 2010, the second and final year of Build America Bonds, Speer Financial had some 58 sales of taxable bonds. A few of these sales were negotiated sales but over 50 were competitive sales. The larger issuers tended to receive the most bids during a competitive sale as this market had developed for purchasers of both municipal and corporate credits. Speer's larger 2010 taxable competitive sales are listed below:

Issuer	Size	Rating	No. of Bidders
Bartlett Park District	$18,000,000	AA	3
Community College District No. 509	$35,000,000	Aaa	4
Community College District No. 509	$40,000,000	Aaa	3
Consolidated School District No. 65	$11,800,000	Aa1	5
City of Decatur	$28,270,000	Aa2	3
Dundee Township Park District	$13,500,000	AA-	2
Village of Elk Grove	$13,000,000	Aaa	2
Village of Glendale Heights	$29,940,000	Aa3	5
Village of Hanover Park	$10,000,000	AA	3
County of Lake, Illinois	$20,000,000	AAA	4
County of Lake, Illinois	$31,410,000	AAA	4
Lake County Forest Preserve District	$35,000,000	AAA	8
Lake County Forest Preserve District	$40,000,000	AAA	6
Village of Palatine	$18,800,000	AA+	4
City of Peoria	$15,490,000	AA	6
County of Peoria, Illinois	$24,200,000	Aa2	3
County of Sangamon, Illinois	$12,970,000	Unrated	1
School District #58	$10,000,000	Aa2	5
St. Charles Park District	$15,500,000	AA	3
Wheaton Park District	$ 9,000,000	A2	3

In 2011, there were fewer taxable sales and the market shrunk to a still significant 11%. Supply was reduced because new Build America Bonds could no longer be issued. However, the demand for taxable municipals still exists, having been well developed over the last few years. There is a very active secondary market in Build America Bonds. Speer Financial has had twelve recent sales, usually related to economic development projects that have private use aspects and are therefore taxable. Over the past four months, the taxable market continues to be strong. Nationwide, recent sales of similar amounts are as follows:

Issuer	Size	No. of Bidders
University of Maryland	$23,875,000	5
New York State	$30,910,000	8
University of Houston	$21,310,000	4
Rockville, Maryland	$31,665,000	4
Fleming Co Schools, Kentucky	$11,918,000	5
State of Michigan	$30,110,000	12
State of Michigan	$65,395,000	11
Virginia Public Building Authority	$18,500,000	7

Although this is a taxable bond issue, given the Village's very high bond ratings, the fact that it is relatively well known and active in the bond market, a competitive sale would be recommended as we anticipate that the issue will attract a number of bidders. Any drastic market changes or shocks could change this recommendation.
The market is fairly stable, but has seen increased volatility, which is a factor favoring negotiated sales. However, the taxable factor is still present.

<u>Local Sale</u>

The second topic is the sale of taxable general obligation bonds to Village residents. We have been involved in several of these sales, this is a good idea in this case and it is suggested that it be fashioned through the following decisions:

1. Should the sale be focused on the Village's general area or just to Village residents? Does the Board have a preference?
2. As bonds are no longer paper but electronic, individual purchasers will need to establish a brokerage account with the bond seller or will need to have a brokerage account established elsewhere. The result is that there is a marketing advantage to the firm that sells locally and that there is a no simple way to sell bonds over the counter at Village Hall.
3. What brokers have offices in the Village? Can a broker near the Village, with Village customers, be involved?
4. How much should be offered to Village residents?

An example of such a sale is Elgin Community College that sold bonds to area residents. Edward Jones was selected as the broker as they had the most local offices. A reasonable amount of bonds, amounting to several million dollars, were sold via a negotiated sale, while the remaining 85% of the bonds were sold competitively. Edward Jones was asked to sell locally but was not restricted to selling to non-local purchasers. This process worked very well and satisfied the goal of allowing residents to buy a part of a new building bond issue.