



To: Finance Committee

From: Timothy Sexton
Director of Finance

Date: February 7, 2013

Subject: Loan with Wheaton Bank

The Village has historically borrowed on an annual basis for various capital improvement plan (CIP) projects being done each year. The amount borrowed varied by year, but generally ranged from \$3 million to \$10 million, depending on the specific projects that were being done that year.

As the Committee is aware, the Village's credit rating was downgraded from AA to BBB in January 2012 for not appropriating for the debt shortfalls of the LPFC Series A bonds. In June 2012, the Village attempted to issue unrated debt, as Robert W. Baird & Co., the underwriter, was confident they could place the bonds. The bonds were priced at 3.31%, and unfortunately Baird was unable to obtain sufficient interest in purchasing the bonds. Therefore, no debt was issued at that time.

Staff then had discussions with the Village Board regarding the options for the Village going forward. Generally, there were three options: 1) Go to a completely cash basis for CIP projects; 2) Borrow from the reserves of other funds of the Village; or 3) Look to a local bank to borrow the money. At the time, the Board indicated their desire to attempt to build a relationship with a local bank and borrow through the bank.

Staff held conversations with three local banks. One bank indicated fairly quickly that they would not be able to lend the Village money. The second bank indicated to the Village that they had a concern about how their regulators would view this loan. The third bank is the bank that the Village has our main banking relationship with, Wheaton Bank (a division of Wintrust). They indicated their willingness to work with the Village from the beginning.

Their first proposal was to issue alternate revenue bonds, which would require a property tax levy that would be abated if all payments were made on time. The rate on these bonds would have been 3.5%. Based on the current interest rate environment, this money would have then been invested at a rate of 0.5% or lower. So the overall spread of the borrowing would have been about 3%. Due to the property tax levy requirement of these bonds, staff continued to explore other options with the bank.

Village and banking staff developed an idea that satisfied both the Village's desire to borrow for the CIP projects, as well as the bank's desire for security of the loan. The proposed borrowing would be structured as follows:

- The bank lends the Village \$10 million for several CIP projects.
- The Village purchases \$10 million in municipal bonds as Village investments, and secures the loan with these bonds.
- The rate on the loan will be less than 1% higher than the rate of the municipal bonds.
- As an example, if the municipal bonds purchased are paying 2.5% interest, the rate on the loan will be less than 3.5%.

This proposed structure has several benefits for both sides. From the bank's viewpoint, this structure assures them that they will be repaid. If the Village were not to make a payment for any reason, the bank could use the municipal bonds for that payment. However, the Village has every intention of making timely payments on this debt, as the Village has always done with its legal debt obligations.

This proposed structure benefits the Village for several reasons. First, the borrowing gives the Village a bridge to transition to an all-cash basis CIP, allowing several important projects to be completed in the next two years. Second, this borrowing allows the Village to build a credit relationship with the bank, thereby opening the door to working with the bank in the future if the Village desired. In addition, outside of just our current bank, this borrowing will assist in showing other parties that the Village is a responsible payer of legal Village debts.

As this borrowing is different from the standard borrowing that has been done in the past, staff is seeking the Finance Committee's recommendation to proceed with this borrowing. This recommendation on the borrowing will be presented to the Village Board of Trustees at their February 21, 2013 meeting.