

## COUNCIL WORKSHOP ITEM

**ITEM:** Financing of Property Acquisition/Johnson Parcel  
**DATE:** February 8, 2001  
**PREPARED BY:** Martin Lyons, Director-Financial Services  
**PURPOSE:** CBD Property Acquisition Financing

### DISCUSSION:

Under separate cover, you have received a memorandum from the Village Attorney outlining the acquisition cost for property in the Central Business District totaling \$4,460,000. It is my understanding that this property will be used in redevelopment initiatives in the Downtown and all, or a portion of it, will eventually be returned to the private sector as quickly as is feasible. The Village does not have sufficient reserves in any funds to cover the cost of this acquisition. Although the Corporate Fund has adequate total reserves, such a drawdown would bring Corporate Fund Reserves below Council policy levels of 33%. Because of this and, because of the potential for returning the property to the private sector, we recommend a short-term loan to finance this acquisition.

Attached is an analysis performed by Northern Trust, our Financial Advisor, showing the use of a short-term note equal to \$4.5 million. This note carries a projected interest rate of 5.8% - 5.9% and is not secured by the Village's ad-valorem General Obligation Taxing Authority. Presently, we have the option under this note structure to make it an annual payment of principle and interest, an annual payment of interest only and final year payment of the entire principle, or a straight two-year note with all principle and interest due at the end of the term. Based on an interest rate of 5.9%, our annual Debt Service cost will be \$265,500; and, if no principle payment is made after the first year, total interest cost will be \$531,000. We recommend the payment of this interest from the Village's Real Estate Fund, which has a cash balance of \$895,117 as of December 31, 2000.

In addition to the interest cost associated with the purchase of this property, there is also the net loss to the CBD/TIF Tax Increment. Based on an assessed value of \$424,550, the Village Tax Increment Fund will lose \$30,000 for each year that this property is owned by the Village. This loss, in turn, must be directly accounted for in the Capital Projects Fund because the TIF will be unable to support the already-issued 1999 and 2000 G.O. Bond Debt Service payments.

There are no direct Financial Advisor fees associated with this issuance and legal costs associated with the issuance of this debt from Chapman and Cutler are \$10,000.

### RECOMMENDATION:

Staff request permission to proceed with financing this issue as outlined above.

### ATTACHMENT:

Letter from Northern Trust.

50 South LaSalle Street, Chicago, IL 60675



## Northern Trust

Mr. Marty Lyons  
Senior Director of Finance and  
Administrative Services  
Village of Downers Grove  
801 Burlington  
Downers Grove, Illinois 60515

Dear Mr. Lyons:

Re: \$4,500,000 Direct Bond Purchase  
General Obligation Taxable Bonds, Series 2001

The Northern Trust Company (the "Northern") is pleased to respond to your request for financing options for the Village of Downers Grove (the "Village"). Based on our discussions of the Village's current financing needs, we believe a short-term taxable bond issue provides you with the most efficient flexible method of financing the proposed land purchase. Proposed terms and conditions for Northern's direct purchase of the Bonds are as follows:

|                      |  |
|----------------------|--|
| Amount:              | \$4,500,000  |
| Amortization:        | None   |
| Term:                | 2 Years.   |
| Maturity:            | February 1, 2003   |
| Interest Payment:    | Semi-annually  |
| Principal Payment:   | At maturity February 1, 2003   |
| Interest Rate:       | LIBOR + 65 bps (i.e Current 1 year<br>LIBOR+65bps = 5.95%). Rate to be reset at<br>the end of each LIBOR period.   |
| Optional Redemption: | On any reset date at par   |
| Other:               | <ul style="list-style-type: none"><li>• General Obligation Full Faith and Credit Pledge of the Village</li><li>• All legal costs to be paid by the Village</li></ul> |

This proposal is subject to the satisfaction of the following conditions precedent:

1. No material litigation shall have been instituted against the Village that would affect the proposed transaction.
2. No material adverse change, as determined by Northern, shall occur or be revealed in the condition or operation, financial or otherwise, of the Village subsequent to the date hereof.
3. Completion and execution of documents containing the terms and provisions consistent with the transaction contemplated in this letter satisfactory to the Village and Northern.

4. Any law or regulation imposing a material obligation which is not contemplated by this letter.

This proposal is for discussion purposes only and is subject to change at the discretion of the Lender. The issuance of commitments and the actual agreements to lend will be subject to, among, other things, satisfaction by the borrower of the credit standards and other internal policies of the Lender and negotiation and execution of satisfaction credit, security and related documents. If you have any questions, please call me at (312) 557-0945.

Very truly yours,

Allan R. Ambrose  
Vice President