

MEMORANDUM

TO: Mayor Prussing and Members, Urbana City Council

FROM: City Comptroller *RME.*

RE: Borrowing for Boneyard Project

DATE: September 21, 2012

As had been indicated previously when the boneyard improvement project was being approved, the TIF2 Fund will not have the required monies saved to pay for this project. Therefore, included in the improvement project plan is a proposed borrowing of \$7.8 million.

I sent a request for proposals to 8 local banking institutions in Champaign and Urbana in September (before the engineer's estimates come in above the initial proposed amount). Three Urbana banks responded, Heartland, Busey and JP Morgan Chase. The other 5 indicated that they either not looking for any tax-exempt income or the amount was too large for their capacity. At that time, Busey and Chase submitted virtual identical proposals at 2%.

This debt will be "bank qualified" for IRS reporting, meaning that the bank will not have to pay any taxes on the interest income on the bonds. This status means a little more net income to the bank after taxes. This is one of the reasons this type of lending is attractive to banks.

While the bonds are entitled general obligation, monies should be available in the TIF2 fund to pay all the future debt service and I believe no levy will ever be required. They are structured this way to provide the best possible security for the issuer and therefore the lowest possible interest rate.

I have recently sent out a new request for proposals to the 3 banks that previously indicated they were interested. The borrowing will have 4 draws (timed to coincide with cash needs for the project): \$1.2 million on 2/1/13, \$2 million on 5/1/13, \$2 million on 8/1/13 and \$2 million on 11/1/13. The borrowing is structured in this manner such that the City will not lose money on the arbitrage (difference between interest being paid and the interest received on the money that is invested until needed). The bonds will be repaid in 9 equal installments of approximately \$928,270, with the first payment being due on 1/1/14 and the last payment due 1/1/22. (TIF2 expires in 2022). The final amount of annual debt service may be slightly different. I have attached a cash flow worksheet for TIF2. While the debt service is a significant amount and will significantly limit other possible future projects, the worksheet shows that TIF2 should not have any difficulty paying for this future debt service. The worksheet does not assume any additional revenues from the boneyard project although it is certainly hoped that this occurs.

The City has engaged Ken Beth to be the bond counsel and ensure that all necessary documents and procedures are followed to be in compliance with all IRS rules and laws. Ken is very experienced in these types of debt issuances and has served as bond counsel for most if not all of previous Urbana debt issues.

On this second request for proposals, I received proposals from Busey and JP Morgan Chase. JP Morgan Chase submitted the lowest cost proposal with a net interest rate (including certain fees) of 1.44%. Busey Bank's proposal was 1.84%. Therefore, we are recommending borrowing these funds from JP Morgan Chase Bank.

We are desiring to have this borrowing approved prior to December 31, 2012. The reason for this is the City is limited to \$10 million/year in this type of bank qualified debt. The City has been approached by Clark-Lindsey to see if the City would entertain giving our bank qualified borrowing ability to assist them in doing an improvement to their facility during next calendar year. I do not know any of the details of the Clark-Lindsey project nor do I assume that the City would or would not be interested. However, if we are not able to approve the \$7.8 million borrowing before 12/31, then it would have to be done in January 2013, thereby meaning the Clark-Lindsey borrowing would not be available to them. By approving before year-end, the City has at least preserved the option of approving the Clark-Lindsey debt.

I had planned on having an actual bond ordinance available for you to approve. However, Ken Beth indicated he is still reviewing some of the language in the documents proposed by JP Morgan Chase. Therefore, it is probable that we will not have a actual ordinance for the meeting on 12/3. If this is the case, I will have to request that the City schedule a special council meeting on the night of 12/12 and this issue be forwarded to that special council meeting.

Recommendation. Approval of the ordinance.

TIF TWO FUND PROJECTIONS

Bal., Beg. Year	2012-13	2013-14	2014-15	2015-16	2016-17	2017-18	2018-19	2019-20	2020-21	2021-22
	\$2,021,136	\$1,525,049	\$1,383,968	\$1,153,491	\$1,222,103	\$1,425,531	\$1,684,083	\$2,020,005	\$1,817,414	\$2,284,823
Revenues:										
Property Tax	\$1,225,348	\$1,274,362	\$1,325,336	\$1,378,350	\$1,433,484	\$1,490,823	\$1,550,456	\$1,612,474	\$1,676,973	\$872,026
Interest	35,000	45,751	41,519	34,605	36,663	42,766	50,522	60,600	54,522	68,545
Borrow for Boneyard	7,800,000	0	0	0	0	0	0	0	0	0
Total Revenues	\$9,060,348	\$1,320,113	\$1,366,855	\$1,412,955	\$1,470,147	\$1,533,589	\$1,600,979	\$1,673,075	\$1,731,496	\$940,571
Expenses:										
TIF Specialist/Benefits	\$77,100	\$82,497	\$88,272	\$94,451	\$101,062	\$108,137	\$115,706	\$123,806	\$132,472	\$70,873
Marketing, Dues	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	20,000	10,000
Conferences/Training	4,800	8,500	8,500	8,500	8,500	8,500	8,500	8,500	8,500	4,250
Misc. Engineering & Appraisals	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	12,500
Incentive OmniCare Labs	980	1,019	1,060	1,102	1,146	0	0	0	0	0
Incentive Patel Property	5,000	5,075	5,151	5,228	5,307	5,386	5,467	5,549	2,816	0
Downtown Loans	80,000	80,000	80,000	80,000	60,000	60,000	40,000	40,000	20,000	20,000
Rent Subsidies	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	12,500
Park District Projects	0	0	128,100	66,612	0	0	0	0	0	0
Five Points W. Incentives	83,740	85,834	87,979	90,179	92,433	94,744	97,113	99,541	102,029	70,500
County Lincoln Museum/Tour	1,177	0	0	0	0	0	0	0	0	0
Art in Park Sculpture	24,239	0	0	0	0	0	0	0	0	0
Boneyard Design/Const.	5,573,335	0	0	0	0	0	0	0	0	0
Race St. Impr.	2,113,555	0	0	0	0	0	0	0	0	0
Payment Library, Lot Purchase	200,000	0	0	0	0	0	0	0	0	0
Broadway Ave. Streetscape	446,875	0	0	0	0	0	0	0	0	0
Green St. Impr. (Birch/Race)	0	0	0	0	0	0	0	600,000	0	0
Main St. Improvements	24,687	0	0	0	0	0	0	0	0	0
Transfer to TIF1	823,947	200,000	200,000	0	0	0	0	0	0	0
Debt Service, Boneyard	0	928,270	928,270	928,270	928,270	928,270	928,270	928,270	928,270	928,270
Debt Service Current	27,000	0	0	0	0	0	0	0	0	0
Total Expenses	\$9,556,435	\$1,461,195	\$1,597,332	\$1,344,342	\$1,266,719	\$1,275,037	\$1,265,056	\$1,875,666	\$1,264,087	\$1,128,893
Cash Bal., End Year:	\$1,525,049	\$1,383,968	\$1,153,491	\$1,222,103	\$1,425,531	\$1,684,083	\$2,020,005	\$1,817,414	\$2,284,823	\$2,096,501