

**Memo To the Village Board, with courtesy copy to Village Manager and Village Attorney**

**Privileged and Confidential Information discussing Village Investments**

**Re: Restructured Bonds – Series A and Series B bonds issued by the Route 83 / Downtown Tax Increment Financing District**

Since I will not be at our Village Board meeting on August 9<sup>th</sup>, I wanted to provide this memo for the board's review. In it, I'm documenting some of my verbal words from our 26 July 2022 executive session.

**In short, I would recommend the following:**

1. Approving the proposed ordinances
2. Making the effective bond issuance date September 1, 2022 for the new 2022 bonds these ordinances create *(if possible – this makes calculating interest easier for payments on Dec 1)*
3. As discussed in executive session last time, authorizing an additional up-front payment to the Series A bonds of \$500,000 from the cash on hand in the TIF fund. *(If possible at this meeting)*
4. *As an option, if the additional up-front payment is made to the Series A bonds, we can either (a) retain the Series A payment schedule shown in the ordinance, which is \$262,000 in principal each year, or (b) revise that amount to be \$188,000 per year. The lower amount spreads the remaining principal over the remaining life of the TIF district and makes it more likely that we also could make full payments – or close to full – to the Series B bonds each year.*
5. *I would not recommend making a larger payment to the Series A, nor any additional payment to the Series B bonds at this time. A few reasons:*
  - a. *By keeping this TIF district debt outstanding, we retain the ability to keep the TIF district going.*
  - b. *Assuming we've made all required Series A payments, we can always make additional Series B payments in the future. We can use General Fund money to buy open space, but we can't use Open Space Fund money for anything besides land. And we've discussed that we should have a solid plan for Open Space Fund monies.*
  - c. *If there is any new TIF district development in the next few years, it is possible we may want a bit of "dry powder" to use for a public investment in the district. An example might be partnering with a developer for pathways or public improvements in a South 15 development.*

**Discussion / Explanation:**

- A. These revised ordinances basically **consolidate and refinance** various Series 2009, 2011, 2016, and 2018 A&B bonds. Going forward, instead of a collection of multiple debt schedules (from four different years and times of year), we have a **simplified single set of bond ordinances (one for Series A and one for Series B)** that may be easier documentation and housekeeping for future staff and board members. to get their heads around. In other words, some housekeeping that may be clearer and helpful for the future.
- B. Because they are, in a large way, a refinancing, these ordinances “**reset the clock**” on both Series A and Series B bonds. They retire the 2009, 2011, 2016, and 2018, refinancing with new 2022 bonds. The 2022 bonds these ordinances create start anew with the **same outstanding principal**, and start the interest and arrearage “clocks” based on the date of issuance (2022) and first payment date of December 1, 2022.
- So, instead of retaining the old principal payment schedule and retroactively applying a lower interest rate, this introduces a new principal payment schedule going forward and resets the clock on arrearage.
  - I would suggest that, if possible, we make the refinancing (issuance of new bonds) effective on September 1<sup>st</sup>. This would make forecasting and tracking easier going forward. Payments are due on December 1<sup>st</sup> of each year, so we would avoid partial months between calculation and payment dates.
- C. **Series A bonds are senior to Series B bonds, just like the previous collection.** This means that no money can be paid to the Series B bonds (held by the General Fund) until all past and current payments are made to Series A bonds (held by the Open Space Fund).
- Our current Series A bonds are all overdue. This means that, in practical terms, the TIF district would make payments only to the Series A bonds for the next several years. By refinancing and resetting the clock, first payments would always still be made to Series A bonds, but we also could make Series B bond payments each year if there’s money to do so.
  - **Our current forecast for the TIF district indicates** we would be able to **fully pay the first proposed new Series A payment** (\$262,000 + about \$5900 in interest for the 90 days between Sept 1 and Dec 1 on \$2,625,215 principal outstanding), and then **also make a payment to Series B bonds** on December 1 of this year. (That proposed new first Series B payment is \$440,000 + about \$10,500 in interest for the 90 days on \$4,474,018 principal outstanding)
  - **Our current forecast for the TIF district is conservative** – it assumes current property values increase 2% per year, but does not assume any new development in the district. I need to thoroughly review the spreadsheet with these changes, and that’s not going to happen before tomorrow night, but it’s close enough to make estimates.
  - **The TIF district currently has \$2,158,666 on hand** (per 6/30/2022 Treasurers Report, and not an estimate). That includes the revenue for this year, plus prior year revenues we have held in reserve after paying administrative expenses. **In executive session, we discussed making an additional up-front payment of approximately \$500,000** to the Series A bonds. If we made the additional payment, plus the scheduled payment of \$262,000, the Series A bonds would be fully paid off with interest approximately 2 years earlier. Without any new development, we would forecast making payments each of

the next 7 years to both Series A and Series B bonds. And we would almost, but not completely, pay off the Series B bonds by the time the TIF district concludes. *(pending review of the forecast)*

- D. Since these ordinances “reset the clock” and also wipe out prior interest and arrearage fees accrued over the past several years, **Section 7C is included in each ordinance**. This provides the opportunity for both Series A and B **to retain the ability to capture the previous interest and arrearage that these ordinances “erase”**.
- In practice, at the end of the TIF district term, any unused incremental revenue would be divided ratably (Series A principal/total and Series B principal/total) towards that prior interest and arrearage. That’s about 37% and 63%, and it only applies in the last year if there is leftover incremental revenue.
  - Note these ordinances only change how the TIF district revenue gets applied to outstanding Series A and Series B bond debt. Nothing changes the actual revenue coming in – except property values and new development!
- E. As an aside, these ordinances include language about the Route 83 Water SSA bonds because when the initial Series A & B bonds were issued in 2009, the Water SSA was still being created. At the time it wasn’t clear whether some part of the TIF tax increment would be pledged to that SSA. It never was, but these ordinances keep that language to be as consistent with the old language as possible.