Agenda
Village of Glen Ellyn
Special Finance Commission Meeting
Thursday, September 2, 2021
7:00 AM
Glen Ellyn Civic Center, Room 306
In-Person Only

Any individual with a disability requiring a reasonable accommodation in order to participate in a meeting should contact The Village of Glen Ellyn ADA Coordinator, 630-469-5000, in advance of the next scheduled meeting. All matters on the Agenda may be discussed, amended, and acted upon.

A. Call to Order

B. Public Comment (Non Agenda Items)

C. 2012 and 2015 Bond Refunding

1) Motion to recommend to the Village Board to proceed with refunding the 2012 and 2015 bonds.

D. Other Business

1) Next Meeting: Friday, September 10, 7:00 AM

E. Adjournment

Glen Ellyn Finance Commission
535 Duane Street
Glen Ellyn, IL 60137

Meeting 9/2/2021 7:00 AM
Department: Finance
Department Head:
Category: Bond
Prepared By:

AGENDA ITEM (ID # 2021-1372)

DOC ID: 2021-1372

Motion to recommend to the Village Board to proceed with refunding the 2012 and 2015 bonds.

Statement of the Issue:
Please see memo and attachments.

Analysis:
Please see memo and attachments.

Budget Impact:
Please see memo and attachments.

Action Requested:
Motion to recommend to the Village Board to proceed with refunding the 2012 and 2015 bonds.

Attachments:

1. Memo to Finance Commission on Refunding
2. Glen Ellyn Baird Refunding Presentation 08.11.21

MEMORANDUM

DATE: August 31, 2021

TO: Finance Commission

FROM: Christina Coyle, Finance Director

SUBJECT: Refunding 2012 and 2015 bonds

Background

The Village has an opportunity to refund/refinance its 2012 and 2015 bonds. The 2012 bonds were issued for the Village Links Clubhouse renovation and are repaid by the Village Links/Reserve 22 Fund. These bonds sunset in 2033. The 2015 bonds were issued for construction of the police station and sunset in 2035.

Analysis

The Village and its municipal advisor (Baird) have identified two outstanding bond issues that can potentially be refunded for debt service savings.

The General Obligation Bonds, Series 2012 can be currently refunded at tax-exempt interest rates up to 90 days prior to its January 1, 2022 call date with a delivery in October 2021. Based on current market conditions, we estimate potential gross debt service savings of $105,000 and potential present value savings of $100,000 or 3.62% of the refunded par value. This is net of all estimated costs to complete the transaction.

The 2017 tax reform bill eliminated tax-exempt advance refundings (i.e. over 90 days to the optimal call date). Thus, the General Obligation Bonds, Series 2015 can be advance refunded at taxable interest rates at any time prior to its January 1, 2025 call date. As an alternative, the Village can wait to do a current refunding at tax-exempt interest rates up to 90 days prior to the January 1, 2025 call date with a delivery in October 2024.

- Pros: By doing a taxable advance refunding now, the Village can lock in present value savings this year and take advantage of historically low interest rates. Based on current market conditions, we estimate potential gross debt service savings of $210,000 and potential present value debt service savings of $180,000 or 5.30% of the refunded par amount. This is net of all estimated costs to complete the transaction.
- Cons: There is an opportunity cost to doing a taxable advance refunding now, and that is the potential that the Village could have saved more money by doing a tax-exempt current refunding in October 2024. This all depends on where interest rates will be in 3 years. Currently, we estimate that if interest rates increase by more than 168 basis points (1.68%) between now and October 2024, the Village would have been better off doing a taxable advance refunding now. If rates do not increase by 168 basis points by October 2024, the Village would have been better

off waiting to do a tax-exempt current refunding. Unfortunately, there is no crystal ball to tell us where interest rates will be in 3 years.

- We estimate that the taxable refunding will generate negative arbitrage which is driven by the difference in interest rates on the taxable bonds and the low investment yields in the refunding escrow. We currently estimate negative arbitrage of [$200,000]. All else being equal, the negative arbitrage will go down as we approach the optimal call date.

Of course, the fixed income markets are ever changing, so the above estimated savings will change. If the Village authorizes both the refunding of Series 2012 and Series 2015, it in no way obligates the Village to complete the refunding. Should interest rates increase and savings decrease to a level unsatisfactory to the Village, the Village can back out at any point up until the day the bonds are sold at minimal cost.

Attached is also a presentation from Baird on the proposed refunding.

Recommendation

We look forward to the Finance Commission's review of this proposal and would be asking for the Commission to recommend to the Village Board to move forward with the refunding.

BAIRD

Potential Refunding Opportunities and Market Conditions

VILLAGE OF GLEN ELLYN

1834

August 11, 2021

Baird Public Finance

Stephan Roberts
300 E. Fifth Avenue, Suite 200
Naperville, IL 60563

630-778-9174 (direct)
630-730-3415 (mobile)

scroberts@rwbaird.com

Discover the Baird Difference

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Contents

Update on Potential Refunding Opportunities

Tab 1

Hypothetical Tax-Exempt Refunding Opportunity

BAIRD

- The Village's General Obligation Bonds, Series 2012 can be currently refunded at tax-exempt interest rates up to 90 days prior to their January 1, 2022 call date with a delivery in October 2021.
- Based on current market conditions, we estimate potential gross savings of $105,000 and potential present value savings of $100,000 or 3.62% of the refunded par value.

	2012 Bonds	Sensitivity Analysis	
Call Date	January 1, 2022		
Par Amount	$2,585,000		
Refunded Par Amount	$2,785,000		
Refunded Maturities	2023-2033		
Total Hypothetical Savings*	$104,469	Yield - 0.10%	Yield + 0.10%
Hypothetical Present Value Savings**	$100,910	$119,780	$82,090
Hypothetical PV Savings as %**	3.62%	4.30%	2.95%

*Calculated assuming current market conditions as of August 6, 2021 for comparable issuers and general obligation transactions rated AAA and assuming the same debt payment schedule and final maturity date as the 2012 Bonds. Actual results will vary. If actual rates are higher than those assumed, the total interest cost savings will be lower.

**Calculated using the refunding bond yield of 1.033% as the discount rate for the 2012 Bonds.

This summary of hypothetical potential interest cost savings is for information purposes only. It does not contain an express or implied recommendation and is not intended to be advice.

Hypothetical Taxable Advance Refunding Opportunity

- The Village's General Obligation Bonds, Series 2015 can be advance refunded at taxable interest rates at any time prior to its January 1, 2025 call date.

- Based on current market conditions, we estimate potential gross debt service savings of $210,000 and potential present value debt service savings of $180,000 or 5.30% of the refunded par amount.

	2015 Bonds	Sensitivity Analysis	
		Yield - 0.10%	Yield + 0.10%
Call Date	January 1, 2025		
Par Amount	$3,980,000		
Refunded Par Amount	$3,465,000		
Refunded Maturities	2033-2036		
Total Hypothetical Savings*	$210,315		
Hypothetical Present Value Savings**	$183,488	$226,218	$141,159
Hypothetical PV Savings as %**	5.30%	6.53%	4.07%

*Calculated assuming current market conditions as of August 6, 2021 for comparable issuers and taxable general obligation transactions rated AAA and assuming the same debt payment schedule and final maturity date as the 2015 Bonds. Actual results will vary. If actual rates are higher than those assumed, the total interest cost savings will be lower.

**Calculated using the refunding bond yield of 2.285% as the discount rate for the 2015 Bonds.

This summary of hypothetical potential interest cost savings is for information purposes only. It does not contain an express or implied recommendation and is not intended to be advice.

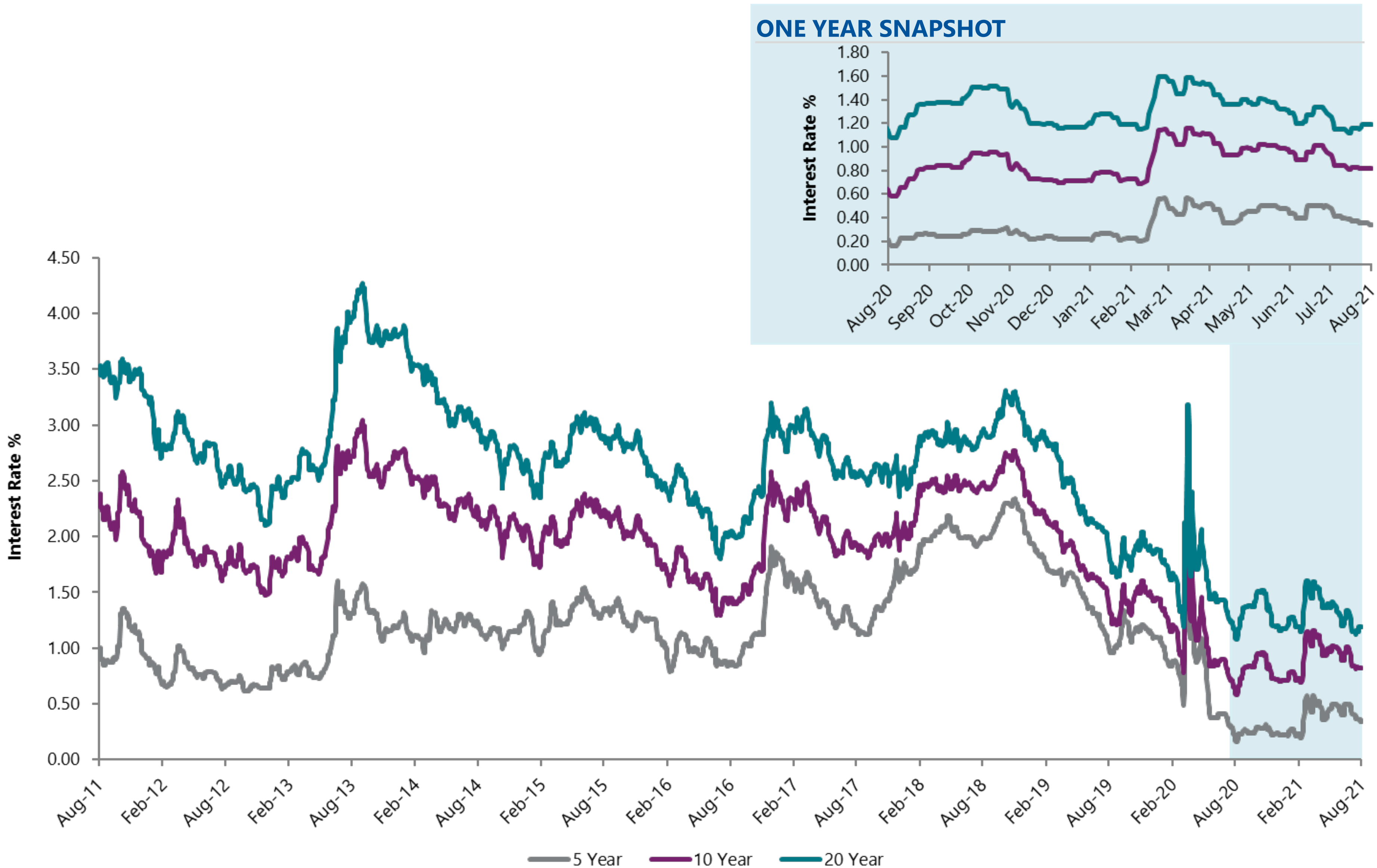
- Negative arbitrage in the escrow totals approximately $208,000.
    - Assuming no change in interest rates, negative arbitrage will go down as we approach the call date and as a result, savings could increase.

- The estimated breakeven increase in rates for a tax-exempt current refunding is 168 basis points (1.68%).

Market Update

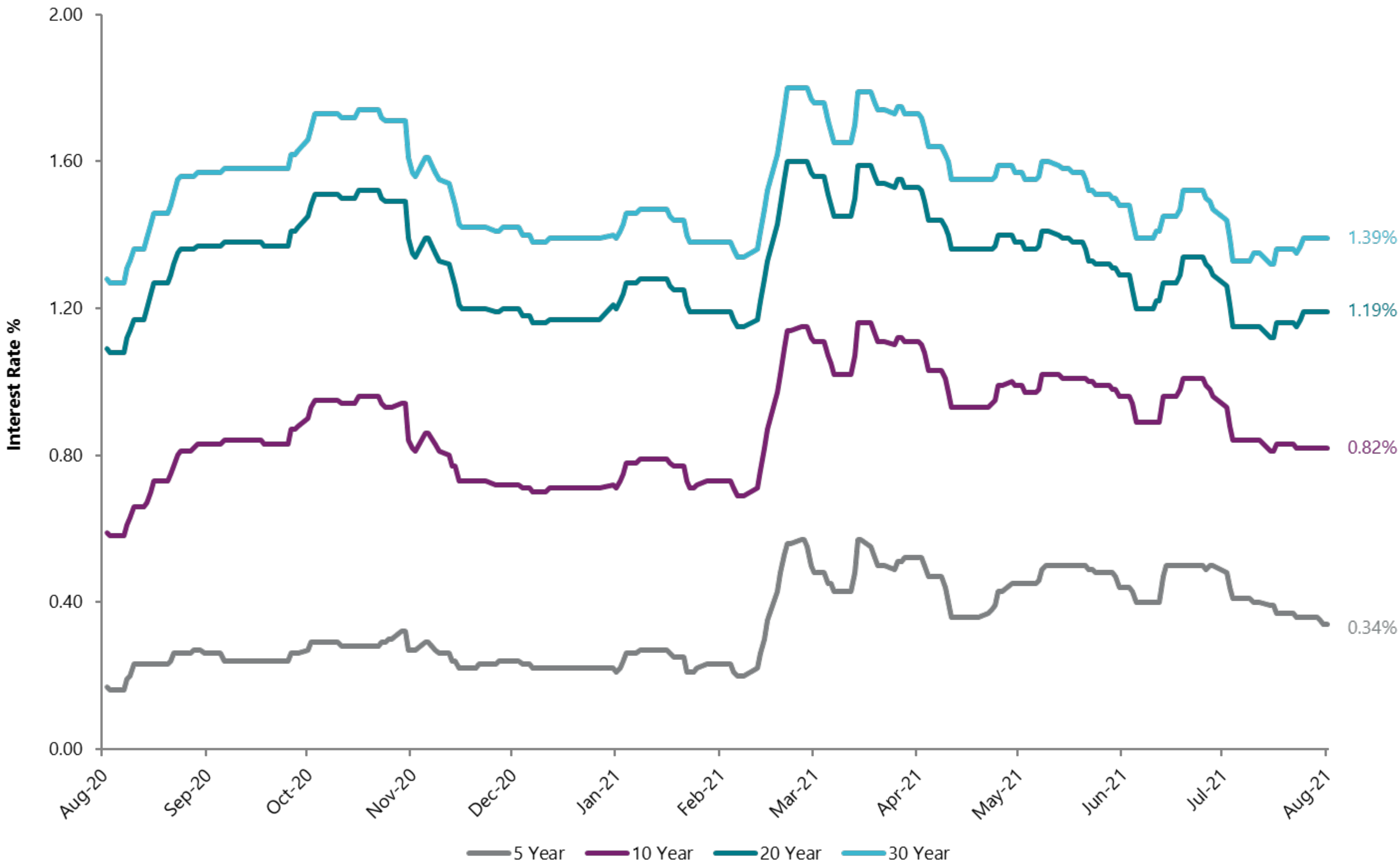
Tab 2

Tax-Exempt Interest Rates
PAST 10 YEARS (AAA MMD)



Source: Refinitiv as of August 5, 2021

Tax-Exempt Interest Rates
PAST YEAR (AAA MMD)



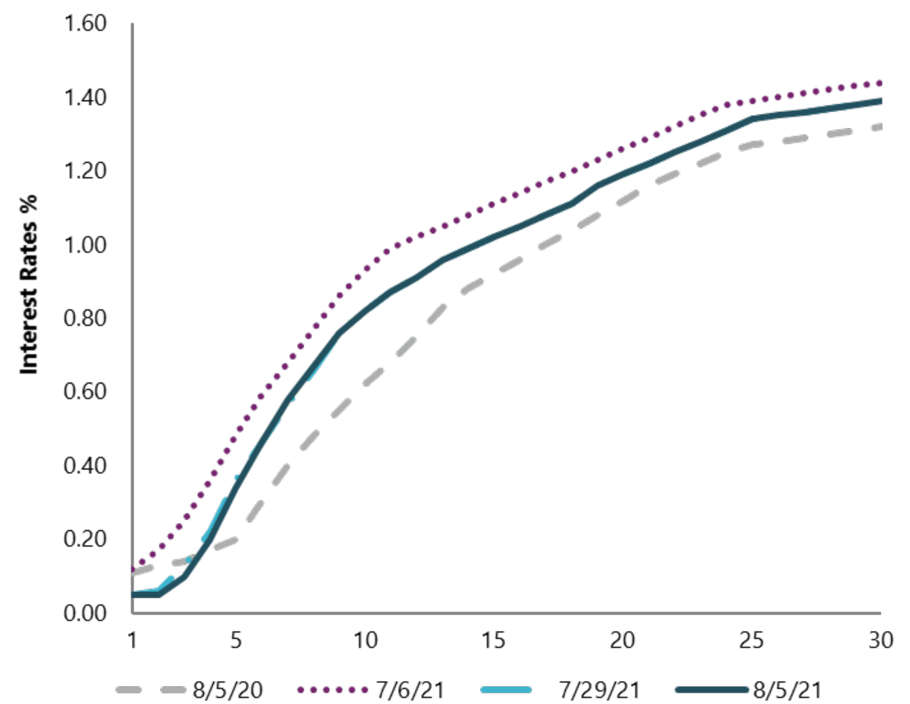
Source: Refinitiv as of August 5, 2021

Where Have Tax-Exempt Rates Gone?

INTEREST RATE COMPARISON FOR 1-30 YEAR MATURITIES ("YIELD CURVE")

	Annual	Monthly	Weekly	Current	Difference		
Maturity	8/5/20	7/6/21	7/29/21	8/5/21	Year over Year	Month over Month	Week over Week
1	0.11	0.12	0.05	0.05	-0.06	-0.07	0.00
2	0.13	0.17	0.06	0.05	-0.08	-0.12	-0.01
3	0.14	0.25	0.13	0.10	-0.04	-0.15	-0.03
4	0.17	0.36	0.22	0.20	0.03	-0.16	-0.02
5	0.20	0.48	0.36	0.34	0.14	-0.14	-0.02
6	0.30	0.59	0.46	0.46	0.16	-0.13	0.00
7	0.40	0.68	0.57	0.58	0.18	-0.10	0.01
8	0.48	0.77	0.66	0.67	0.19	-0.10	0.01
9	0.55	0.86	0.76	0.76	0.21	-0.10	0.00
10	0.62	0.93	0.82	0.82	0.20	-0.11	0.00
11	0.68	0.99	0.87	0.87	0.19	-0.12	0.00
12	0.75	1.02	0.91	0.91	0.16	-0.11	0.00
13	0.83	1.05	0.96	0.96	0.13	-0.09	0.00
14	0.88	1.08	0.99	0.99	0.11	-0.09	0.00
15	0.92	1.11	1.02	1.02	0.10	-0.09	0.00
16	0.96	1.14	1.05	1.05	0.09	-0.09	0.00
17	1.00	1.17	1.08	1.08	0.08	-0.09	0.00
18	1.04	1.20	1.11	1.11	0.07	-0.09	0.00
19	1.08	1.23	1.16	1.16	0.08	-0.07	0.00
20	1.12	1.26	1.19	1.19	0.07	-0.07	0.00
21	1.16	1.29	1.22	1.22	0.06	-0.07	0.00
22	1.19	1.32	1.25	1.25	0.06	-0.07	0.00
23	1.22	1.35	1.28	1.28	0.06	-0.07	0.00
24	1.25	1.38	1.31	1.31	0.06	-0.07	0.00
25	1.27	1.39	1.34	1.34	0.07	-0.05	0.00
26	1.28	1.40	1.35	1.35	0.07	-0.05	0.00
27	1.29	1.41	1.36	1.36	0.07	-0.05	0.00
28	1.30	1.42	1.37	1.37	0.07	-0.05	0.00
29	1.31	1.43	1.38	1.38	0.07	-0.05	0.00
30	1.32	1.44	1.39	1.39	0.07	-0.05	0.00
				Average:	**0.09**	**-0.09**	**0.00**

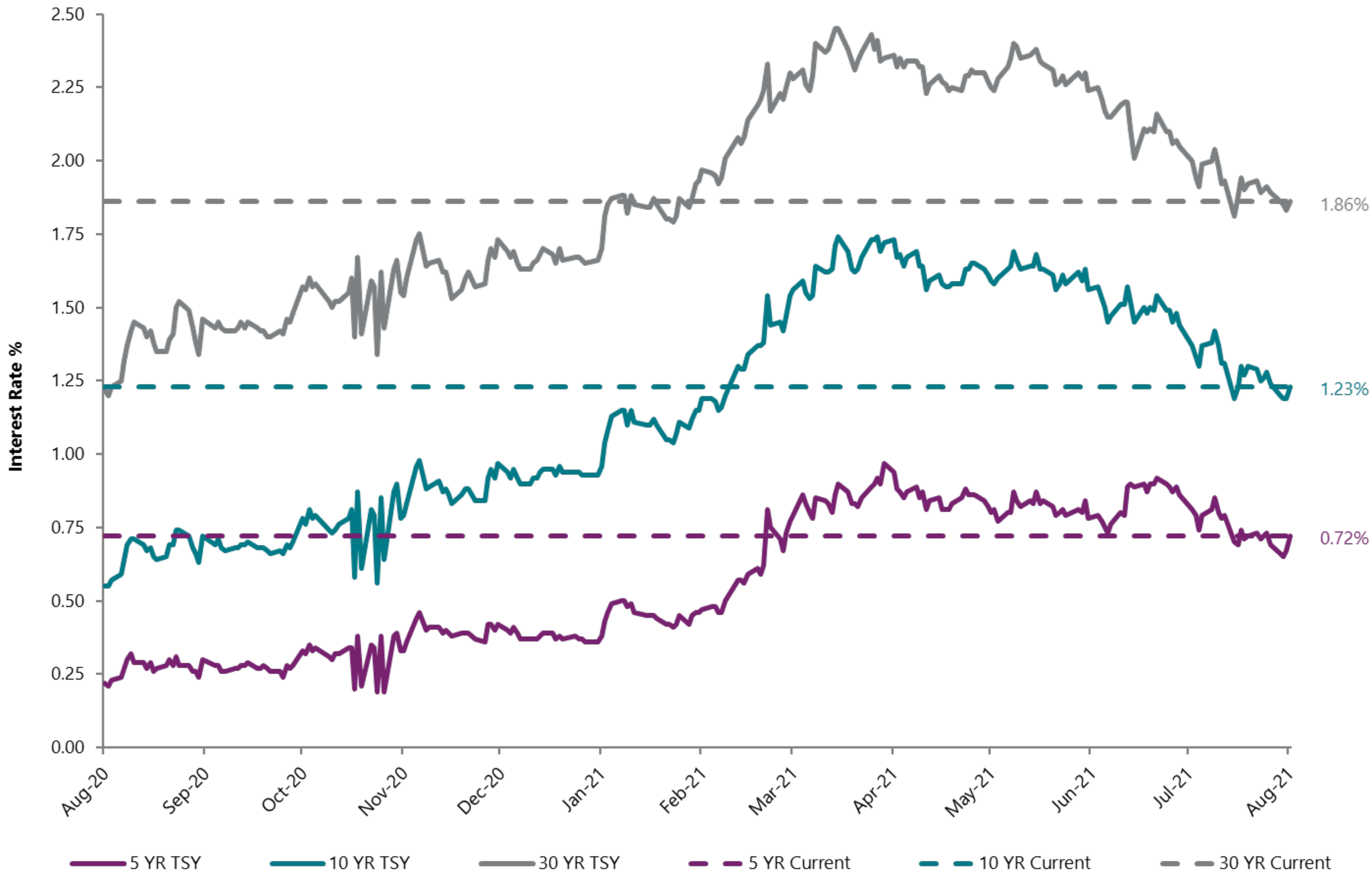
TAX-EXEMPT YIELD CURVES



Average Week over Week: 0.00%
Average Month over Month: -0.09%
Average Year over Year: 0.09%

Source: Refinitiv as of August 5, 2021

U.S. Treasury Rates
One-Year Snapshot of Taxable Interest Rates

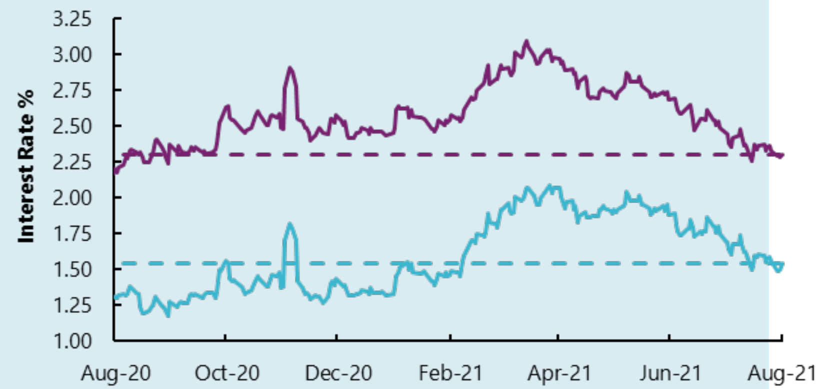


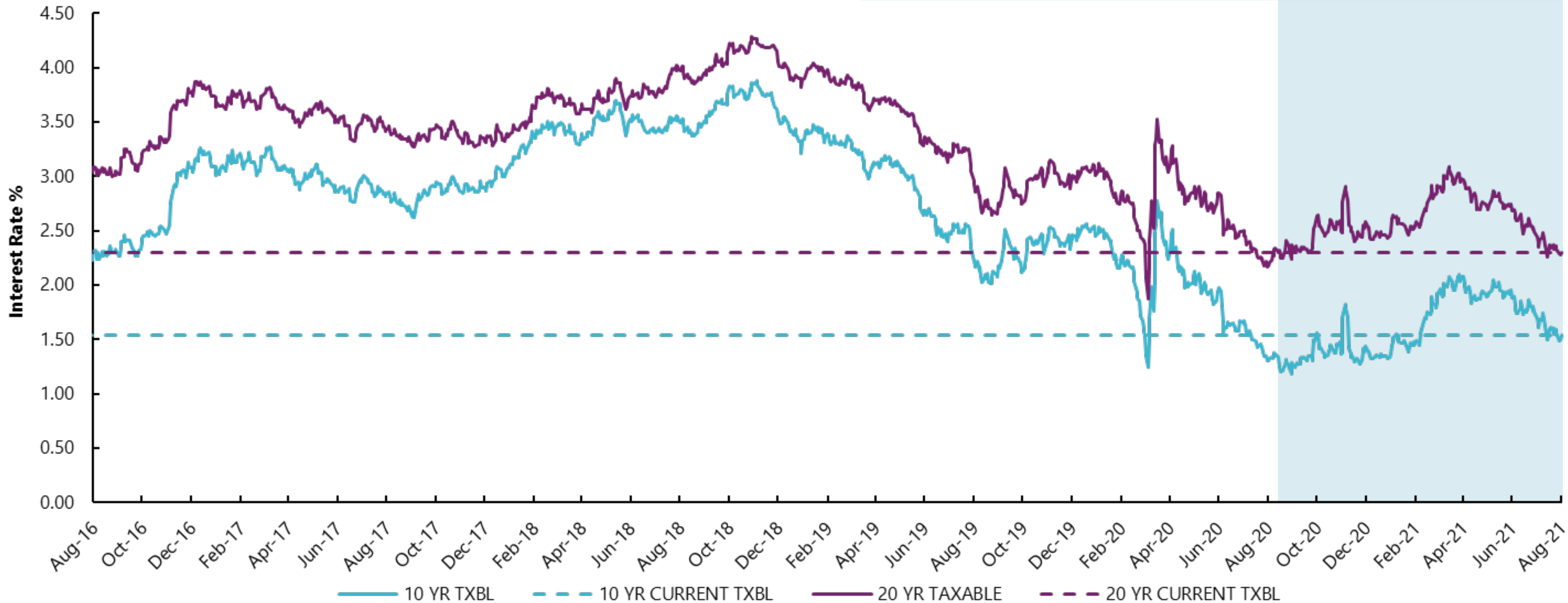
Source: US Department of the Treasury Website as of August 5, 2021

Taxable Interest Rates Still at Historical Lows

AAA TAXABLE MMD

ONE YEAR SNAPSHOT



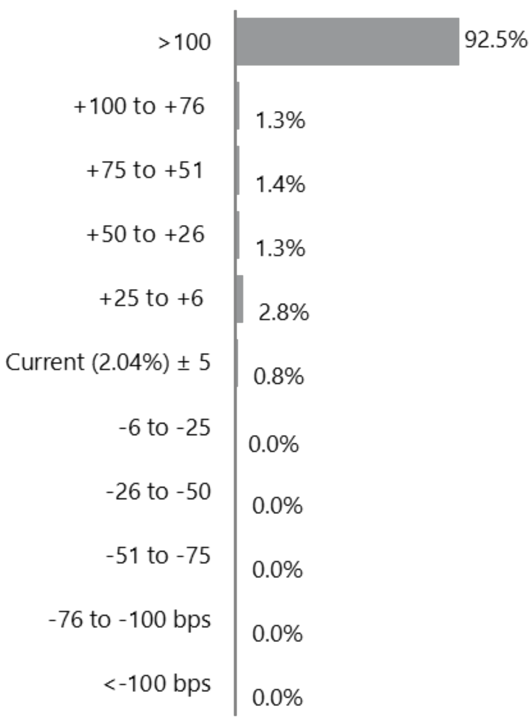


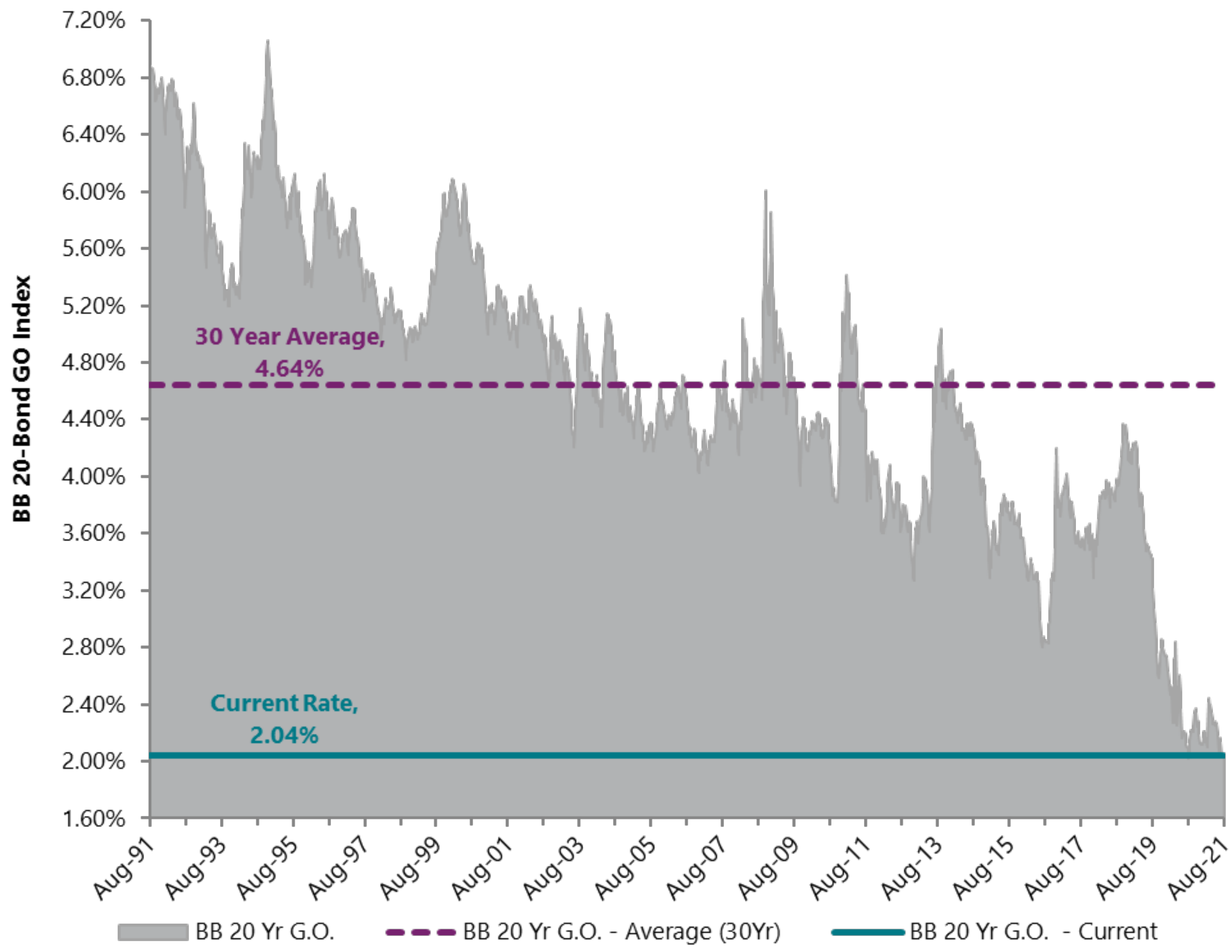
Source: Refinitiv as of August 5, 2021

Bond Buyer General Obligation Bond Index
30-YEAR HISTORY

What is the Bond Buyer 20-Bond Index?
General Obligation Bonds maturing in 20 years are used in compiling these indexes. The 20-bond index has an average rating equivalent to Moody's Aa2 and S&P's AA.

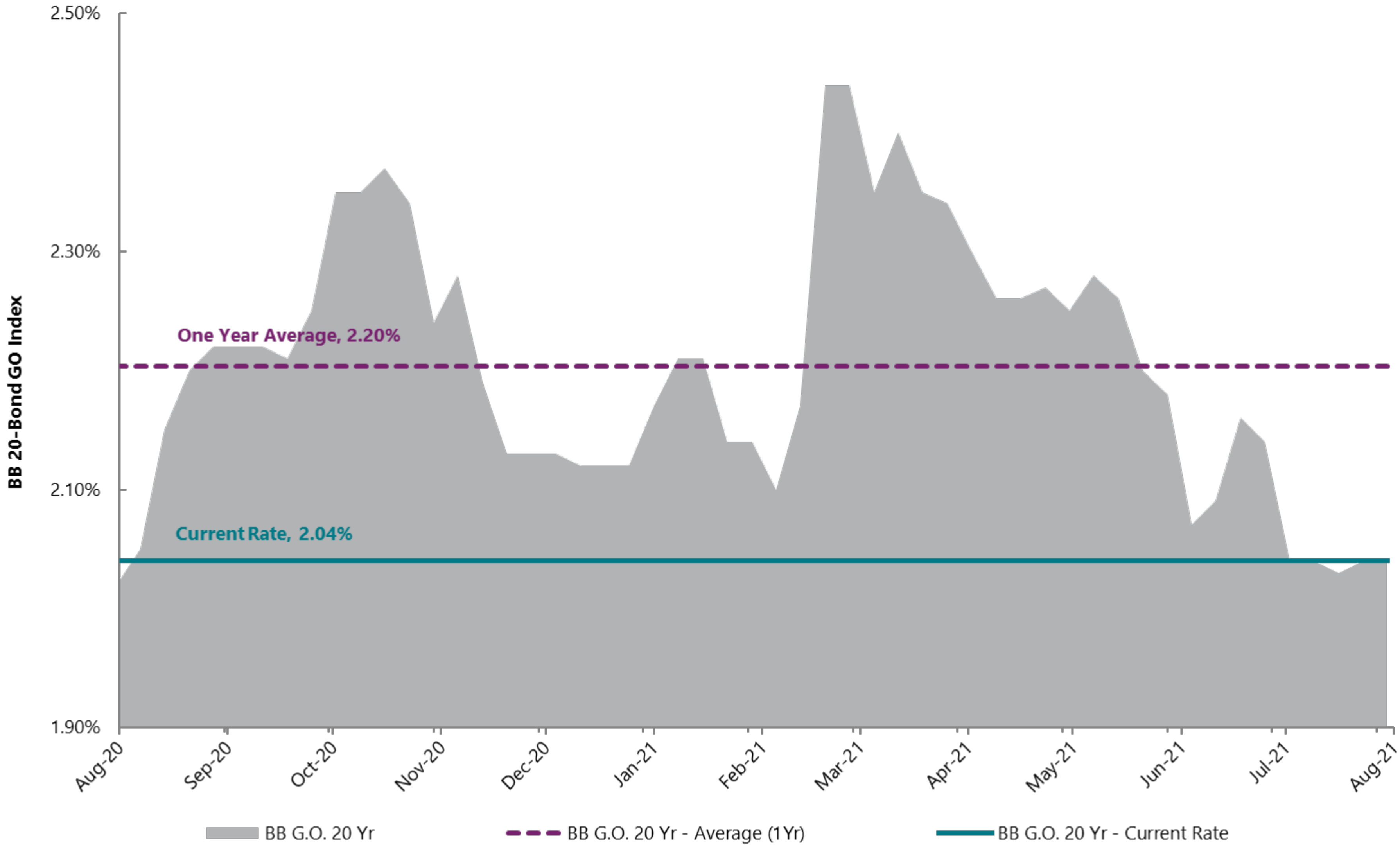
% OF TIME RATES HAVE BEEN ABOVE OR BELOW CURRENT LEVEL (IN BASIS POINTS)





Source: The Bond Buyer as of August 5, 2021

Bond Buyer General Obligation Bond Index
ONE YEAR SNAPSHOT



Source: The Bond Buyer as of August 5, 2021
General Obligation Bonds maturing in 20 years are used in compiling these indexes. The 20-bond index has an average rating equivalent to Moody's Aa2 and S&P's AA.

Economic/Interest Rate Update and Forecast

Interest Rate Update

- Since last week, interest rates fell slightly across the board with the 10- at 1.23% and the 30-at 1.86%, but still up 0.30% and 0.20% respectively, since the start of the year. (8/5)
- As expected, the Fed concluded its July meeting confirming that interest rates will remain anchored at a near zero for the foreseeable future.
- Increased fiscal spending from the latest Stimulus plan to multiple items on Biden's agenda (debt) will likely increase the sale of Treasury bonds pushing long-term rates and inflation higher. With short-term rates anchored, the yield curve will likely continue to steepen.

Economic Update

- US unemployment declined by 0.5% to 5.4% in July 2021, the lowest level since March 2020. (8/5)
- The US economy grew by 6.5% in Q2, well below market expectations of 8.5%. (7/29)
- 400K people claimed for unemployment benefits above market forecasts of 380K, signaling the labor market recovery remains far from complete. (7/29)
- The annual inflation rate rose to 5.4% in June 2021, from 5.0% in May. (7/22)
- The worker shortage is pushing up wages, as US average hourly earnings increased by $0.10 in June, following a 0.4% increase in May. (7/8)

The Federal Reserve

- This week, investors are paying close attention to how Chairman Jerome Powell characterizes the economic outlook given the spread of the delta variant of Covid-19 and its timeline for tapering its monthly bond purchases. (8/5)
- At the Fed's July meeting, Chairman Powell stated, "the U.S. economy has not made enough progress for the central bank to dial back aggressive support for the economy. (7/29)
- Senate negotiators reached an agreement on a bipartisan infrastructure package and will now move to debate. (7/29)

INTEREST RATE FORECAST

	8/5	2021		2022				2023		
		Q3*	Q4*	Q1*	Q2*	Q3*	Q4*	Q1*	Q2*	Q3*
Fed Funds Upper	0.25%	0.25%	0.25%	0.25%	0.30%	0.30%	0.35%	0.45%	0.55%	0.70%
Fed Funds Lower	0.00%	0.00%	0.01%	0.01%	0.03%	0.05%	0.10%	0.19%	0.30%	0.43%
2-Year Treasury	0.21%	0.27%	0.32%	0.40%	0.48%	0.55%	0.65%	0.73%	0.85%	0.96%
5 -Year Treasury	0.72%	0.95%	1.02%	1.12%	1.19%	1.25%	1.36%	1.39%	1.50%	1.59%
10-Year Treasury	1.23%	1.68%	1.80%	1.89%	1.96%	2.00%	2.09%	2.16%	2.27%	2.33%
30-Year Treasury	1.86%	2.30%	2.39%	2.51%	2.58%	2.62%	2.70%	2.78%	2.88%	2.94%
3-Month Libor	0.12%	0.18%	0.22%	0.26%	0.30%	0.36%	0.41%	0.56%	0.63%	0.75%

ECONOMIC FORECAST

Indicator	Q3 21*	Q4 21*	Q1 22*	Q2 22*	Q3 22*	Q4 22*
Economic Activity						
Real GDP (YoY)	6.7%	7%	6.4%	4.8%	3.5%	2.9%
Real GDP (QoQ)	7.1%	5%	3.5%	3%	2.5%	2.3%
CPI (YoY)	4.4%	4.3%	3.8%	2.6%	2.2%	2.2%
PCE Price Index (YoY)	3.5%	3.5%	3.1%	2.2%	2%	2.1%
Core PCE (YOY)	2.9%	3.1%	2.9%	2.2%	2%	2.1%
Housing Market						
Housing Starts (000s monthly avg.)	1590	1577	1565	1569	1573	1560
New Home Sales (000s, monthly avg.)	862	880	898	893	878	868
Existing Home Sales (Mln SAAR, mthly avg.)	6%	6%	6%	5.9%	5.9%	5.9%
Building Permits (000s monthly avg.)	1700	1713	1690	1690	1690	1702
Labor Market						
Unemployment (%)	5.3%	4.9%	4.5%	4.3%	4.2%	4%
Non Farm Payrolls (000s mthly chg.)	642	500	350	300	254	221
Average Hourly Earnings (YoY)	3.3%	2.8%	2.6%	2.6%	2.6%	3%

*Estimated. Actual

Source: Bloomberg, Department of US Treasury Website, Trading Economics Calendar as of 8/5/2021

Glen Ellyn Finance Commission
535 Duane Street
Glen Ellyn, IL 60137

Meeting 9/2/2021 7:00 AM
Department: Finance
Department Head:
Category: Reminder
Prepared By:

AGENDA ITEM (ID # 2021-1371)

DOC ID: 2021-1371

Next Meeting: Friday, September 10, 7:00 AM

Statement of the Issue:

Analysis:

Budget Impact:

Action Requested:

Attachments: