**Robert W. Baird & Co.**
***Public Finance***

# MEMORANDUM

TO: Mr. Larry Noller
Village of La Grange Park

FROM: Mr. Stephan C. Roberts
Robert W. Baird & Co.

DATE: May 4, 2016

SUBJECT: Method of Sale

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The question of whether to sell bonds at a negotiated or competitive sale or private placement is often the topic of discussion at the time issuers are contemplating the sale of bonds. Baird does not believe that one method of sale is always superior to the other. Certain factors must be explored to determine the method of sale that could result in the lowest interest rates.

**GFOA Recommendation**

The GFOA recommends that issuers select a method of sale based on thorough analysis of the relevant rating, security, structure and other factors pertaining to the proposed bond issue as described in the table below.

| Factors that Favor Competitive Sale: | Factors that Favor Negotiated Sale: |
|---|---|
| • Rating of the bonds is at least in the "A" category.<br>• Bonds are GO bonds or full faith and credit obligations of the issuer or are secured by a strong, known and long-standing revenue stream.<br>• Structure of the bonds does not include innovative or new financing features that require extensive explanation of the bond market.<br>• Issuer is well known and frequently in the market. | • Rating of the bonds is lower than "A" category.<br>• Bond insurance or other credit enhancement is unavailable or not cost-effective.<br>• Structure of the bonds has features such as a pooled bond program, variable rate debt, deferred interest bonds or other bonds that may be better suited to negotiation.<br>• Issuer desires to target underwriting participation to include minority or local firms. |

The Village's proposed financing is most likely a standard non bank-qualified general obligation bond issue that will be well accepted in the market. This financing will not have any innovative or new financing features, will have a short amortization structure (10 year term) and it is expected to carry a strong "AA+" rating. While the Village does not issue bonds frequently, we believe it does have name recognition being in the Chicago metro area. The GFOA's guidelines lean towards a competitive sale.

**Baird's Recommendation**

In addition to the factors mentioned above, the Village must also consider current market conditions.

At $10.4 billion, 30-day visible supply is above the 2006–2015 average of $9.6 billion. This follows an above-average issuance in March that totaled $39.0 billion, $3.4 billion over the 10-year average. Over the past ten years, supply in April and May averaged about the same and increased in June. With 2016 being an election year, referenda ballot questions are on the rise (with many already passing), keeping supply and volume high. While refundings drove volume in 2015, new money issuance is increasing, currently up 29% year-over-year as of the end of March.

There have been a handful of comparable Illinois municipal competitive issuances in April which we have summarized below.

| Sale Date | Issuer | Par Amount | Rating | # Bidders | Cover Bid Spread |
|---|---|---|---|---|---|
| 4/5/16 | Kendall County | $5,045,000 | AA | 6 | 0.0336% |
| 4/12/16 | Village of Northbrook | $20,350,000 | Aaa/AAA | 11 | 0.0409% |
| 4/18/16 | Village of Buffalo Grove | $6,125,000 | Aaa/AAA | 4 | 0.0107% |
| 4/18/16 | Village of Orland Park | $6,535,000 | Aa1/AA+ | 4 | 0.0296% |

You can see that each of these bond issues had four or more underwriters place bids with 11 bidders on the Northbrook transaction. There was only a one to four basis point (0.01%-0.04%) difference between the winning and cover bid for each deal. These statistics demonstrate that, despite heavier supply in the municipal market, underwriters are aggressively bidding on competitive offerings. Given the Village's strong rating and favorable financing terms, we expect a positive response from underwriters on the Village's bond issue.

**Private Placement**

There are certain risks/barriers with private placements that must be taken into consideration. All investors approached could turn down the Village's credit, face capital restrictions, demand certain covenants/terms or set an interest rate above what the Village could achieve in the public market. Private placements are most commonly used for bond issues with any or all of the following characteristics:

- Small in par amount;
- Poor credit rating;
- Story bond; and/or
- Nontraditional structure or terms.

Transactions with the above referenced characteristics are often not suitable or well received in the public market making a private placement a very attractive alternative. Given the Village's proposed issuance is a standard general obligation bond with a strong "AA+" rating we believe a public offering (specifically a competitive sale) would result in a lower true interest cost for the Village.

**Conclusion**

Based on all the above factors, it is Baird's belief that a competitive sale would result in the lowest true interest cost on the Village's proposed bond financing.