
From: May, Michael

Sent: Tuesday, October 13, 2015 3:28 PM

To: Soglin, Paul

Subject: "Due Diligence"

Mayor:

In response to your inquiry about the nature of due diligence in different settings, the type of diligence to be engaged in depends on the legal nature of the transaction.

For example, the due diligence to purchase stock in a corporation requires an analysis of the likely revenues and profits of the company. A shareholder owns nothing other than an interest in the company, so the company's future is critical to deciding whether to invest. A successful company provides the shareholder with a return on investment; an unsuccessful company may mean the loss of that investment.

Due diligence in other transactions, such as real estate transactions, is different. For example, when the City puts TIF into a project, the project yields a physical object, such as a building, that increases the tax base to contribute to the repayment of the City's investment. The key is to be certain the building is constructed and makes that contribution to taxes. The City is not a shareholder either in the developer of the project or any of tenants of the project. TIF is essentially money loaned or granted to the developer – not to any tenant -- to assist in the creation of a physical asset. The City make take security such as a mortgage on the property or obtain guarantees of repayment, but the legal structure of the transaction is nothing like purchasing shares in a corporation.

Let me know if you have any other questions.

Michael P. May

City Attorney