The City of DEXTER Michigan

OFFICE OF THE CITY MANAGER
8140 Main Street • Dexter, Michigan 48130-1092 • (734) 426-8303 • Fax (734) 426-5614

Memorandum

To: Mayor Keough and City Council

From: Courtney Nicholls, City Manager

Re: Facility Bonding Options

Date: July 1, 2019

General Financing Information

The following is an updated summary of facility financing options. Council saw the original version of this memo in February 2018.

Millage

In fiscal year 2019-2020 one mill is equivalent to $223,931.

Estimated Deb Service

Using current interest rates our financial advisors have provided the following estimates for debt service:

$5 million for 20 years - $340,000 per year
$10 million for 20 years - $680,000 per year

Debt Limits

Different types of bonds have different impacts on the City's debt limit. Two calculations of the debt limit are necessary. The first is the overall debt limitation which is 10% of state equalized value. The second calculation is 5% of the state equalized value, which is the debt limit for capital improvement bonds.

Types of bonding available to the City for Facilities and their impact on the debt limits are as follows:

Capital Improvement Bonds
Capital Improvement Bonds count towards both the 10% and 5% limit. We currently have $9,430,000 of capital improvement bonds outstanding. The debt issues that count towards the $9.43 million are the facilities bond (outstanding 2006 portion and 2016 refunding), the road bond, the 2012 water and sewer bonds (refunded from Rural Development), and the 2018 sewer bond.

Building Authority Bonds
Building Authority bonds are available to municipalities to fund the construction of municipal buildings. A Building Authority Board of three members would need to be formed to issue the bonds under this act. Issuing bonds under this act would count towards the 10% debt limit, but not the 5% capital improvement bond limit.

Voted Bond with Authorized Millage
If the electorate votes to authorize the sale of a bond with a dedicated millage to support it, the bonds sold would count toward the 10% debt limit, but not the 5% capital improvement bond debt limit.

Indebtedness Summary

State Equalized Value (2019 post March BOR)	$306,041,980	State Equalized Value (2019 post March BOR)	$306,041,980
10% Cap	$30,604,198	**5% Cap**	$15,302,099
Currently Used	$16,660,861	Currently Used	$9,430,000
Remaining Balance Available	$13,943,337	Remaining Balance Available	$5,872,099

Bonds Included
SRF/DWRF
Capital Improvement
Building Authority
Downtown Development Authority
Voted Millage to Support a Bond Issue

Bonds Included
Capital Improvement

General Caution About Indebtedness

Standard and Poor's re-affirmed the City's bond rating of AA/Stable in May 2018. As part of their report, they rated the City as having a "very weak debt and contingent liability profile" with total governmental fund debt service at 11.9% of total governmental fund expenditures. This deficiency was offset by strong to very strong ratings for our economy, management, budgetary performance and flexibility, liquidity, and institutional framework. While this deficiency is not directly related to the current discussion, it is good information to keep in mind as it is important to continue to demonstrate to the rating agencies that the City has specific plans in place to handle our infrastructure needs and accompanying debt levels.

Cash Balances as of March 31, 2019

15% Fund Balance	$510,120
Unrestricted Reserve	$452,222
Restricted for Facilities	$294,074
Restricted for Fire Capital	$300,000
Restricted for Mill Creek Park Phase II	$193,058
Restricted for Substation	$67,224 (this restriction is no longer necessary because the DDA has taken over the payments)

bakertilly
MUNICIPAL
ADVISORS

Baker Tilly Municipal Advisors, LLC
2852 Eyde Pkwy, Ste 150
East Lansing, MI 48823
(517) 321-0110
bakertilly.com

Bond Financing Options

A municipality that desires to finance a project must do so according to State law. A financing or "obligation" is narrowly defined as bonds or notes. Hence, financings primarily take the form of bond issues with the exception of installment purchase contracts. The following is a listing of commonly used bond issue formats. This is intended as an introduction to and workable outline for bond financing in Michigan. Based on experience and expertise, Baker Tilly provides guidance in selecting the bond format.

Unlimited Tax General Obligation (UTGO)

UTGO Bonds are voted issues and are considered by the market to be the most secure and most preferred form of financing. A voted issue can be for a wide variety of public purposes. Because it is the most secure option, a UTGO Bond will typically produce the lowest net interest rate of any open market bond option. The ballot language may limit the application to one bond issue or a "series" of bond issues for the completion of a project, and is capped by a dollar amount. The ballot language must include an estimation of the simple average millage rate over the life of the issue and the estimated millage rate for the first year levy. The ballot may specifically cap the number of mills, but has the effect of making the issue "limited" tax in designation.

Limited Tax General Obligation (LTGO)

There are several choices that allow for a LTGO pledge. The pledge would be a first budget obligation of the general fund, but is only allowed to the charter or statutory millage limit. Often a referendum period is required for the pledge. The following are possible LTGO bonds:

Act 34 of 2001 **"Capital Improvement Bonds"**: This allows a county, city, village or township to issue bonds for a wide variety of public purposes including municipal facilities. A 45 day referendum period is required. The aggregate amount of Capital Improvement Bonds may not exceed 5% of SEV.

Act 31 of 1948 "**Building Authority Bonds"**: Previous to Act 34 of 2001, a county, city, village or township was not able to directly issue limited tax bonds for most projects. Under Act 31 of 1948 a building authority may be formed that can issue the bonds with a limited tax pledge of the community without a vote. The building authority has always seemed like an unnecessary step in the process, which has been remedied with Capital Improvement Bonds authorized by Act 34 of 2001. The Building Authority Act, which is still an option, authorizes the construction of specific types of facilities including most public purpose municipal buildings. It even allows for revenue bonds, which might be useful for such projects as parking structures. Building Authority Bonds count toward the general 10% of SEV debt limit, which is an advantage over the 5% limit for Act

34 Capital Improvement Bonds. Other “Authority” options are available such as for fire department facilities.

Act 233 of 1955 **“Utility Authority”**: This method involves forming a water or sewer utility authority by two or more local units. The purpose of an Authority is to accomplish financings and/or have operational control. The powers of the Authority can be limited or broad. Many are designed to only have the power to issue bonds on behalf of the members. A primary advantage of the Act 233 Authority is that bonds can be issued as revenue bonds or limited tax general obligation bonds.

Act 185 of 1957 or 342 of 1939 **“County Issue”**: This method offers a conduit for issuing bonds for one or more local units in financing water and sewer projects. The local unit pledges their limited tax full faith and credit to the repayment of the bonds in the contract. The County, in turn, typically pledges its limited tax full faith and credit to the issuance of County bonds. One advantage is that the County may have a bond rating and be more readily acceptable to potential purchasers than that of the local unit.

Various Acts **“Special Assessment”** (SA) and **“. . . Portion Bonds”** A Special Assessment roll of benefited properties may be established as a method of supporting a bond issue. This can be used in conjunction with other forms of financing. This is most appropriate for infrastructure benefiting specific properties. A city, village or township portion bond may be issued in conjunction with a SA bond that is supported in some other fashion, e.g. rates and charges for water and sewer, or general fund for roads.

Various enabling Acts including Act 197 of 1975, Act 450 of 1980 Act 281 of 1986 **“Tax Increment”**: There are various bond options that rely on tax increment revenue capture. It must be demonstrated, however, that the improvement serves the defined area.

Act 99 of 1933, **“Installment Purchase Agreement”**: Utilized by cities, villages, and townships, (counties have a separate authorization) this format has a fifteen-year duration and the total of all outstanding IPAs is capped at 1.25% of Taxable Value. Typically the IPA is used for equipment purchase but may have certain limited application for infrastructure and building projects. The market for an IPA is typically only banks that will treat the IPA as a bank investment.

Revenue Bond Obligation

This type of bond issue is supported and secured solely by the revenues of the system. The issuer does pass an ordinance that covenants that rates will be maintained sufficient to cover debt service. This type of bond issue is most common for water and sewer projects, but is used on a limited basis when it comes to building projects, e.g. parking structures and marinas. Of the bond options outlined, this type of bond typically produces the highest interest rate in the open market.

Act 94 of 1933 **“Revenue Bond”**: A Bond Ordinance, much like a Bond Resolution, is used to authorize the issuance of Revenue Bonds. A 45 day right of referendum period is required. If 25% of the project is grant funded, or if placed with the Municipal Bond Authority (including SRF, DWRF, and SWQIF) a LTGO pledge can additionally secure the bonds.