200 South Hamilton Road
Gahanna, Ohio 43230

City of Gahanna

Meeting Minutes

Finance Committee

Michael Schnetzer, Chair
Karen J. Angelou
Merisa K. Bowers
Nancy R. McGregor
Kaylee Padova
Stephen A. Renner
Trenton I. Weaver

Jeremy VanMeter, Clerk of Council

Monday, July 25, 2022 | **City Hall, Council Chambers**

Immediately following Committee of the Whole meeting on July 25, 2022

A. CALL TO ORDER:

Councilmember Michael Schnetzer, Chair, called the meeting to order at 8:38 p.m. Vice President Bowers and Councilmember Padova were absent. All other members were present for the meeting.

The Chair clarified that while this is a facilities presentation, the attachment on the agenda (Mission Critical Partners Budget Worksheets for 825 Tech Center Drive) did not pertain to this discussion. This discussion is regarding financing options should the subject project move forward.

B. DISCUSSIONS:

1. Facilities Presentation

2022-0246 Facility Financing 7.25.2022

Finance Director Joann Bury introduced Brian Cooper with Baker Tilly, the City's municipal advisor, and Price Finley with Bricker & Eckler, the City's bond counselor. Bury said she will be giving an overview of the recommended financing should the project move forward. Regarding the impact on the Capital Improvement Plan (CIP), Baker Tilly will talk about the actual issuance of the bonds. Bury shared that as with any large project, the best solution is to finance the project with an issuance of debt. A reason for that is better cash flow forecasting, so you are not expending large amounts of cash at one time. This allows other projects to move forward at the same time. The only thing that would be due would be the debt service, so other funds could be used for other projects. It avoids an over accumulation of taxpayer dollars. It puts public money to work faster. It reduces the risk of resources being diverted for other purposes. Debt may be issued on a long-term or short-term basis. With local government, there are three main types that may be issued. General Obligation pledges the full faith and credit and taxing power of the City and that pertains to property taxes only. For Special Obligation, the City would pledge municipal income tax. For Tax Increment Financing (TIF), the City would pledge payments in lieu of taxes for the project. It is recommended that the City issue General Obligation debt in two parts. The first would be short-term and the second would be long-term. The short-term would be a one-year note for acquiring the property only, and the second part would be the long-term issuance that would refinance the note on a long-term basis, as well as pay for the construction and renovation of the property. This follows Arbitrage Rules. The IRS requires that bond proceeds be spent down 85 percent within the first three years. We do not want to rush the other components that would go along with this, the design, architectural work, selecting a contractor, and procuring materials. We would not issue the long-term piece of this until some of that was already set or we started down these processes. It gives us the time to go through the process and reduces the risk that we are going to issue too much debt, not issue enough debt, or that we are going to be in noncompliance with the Arbitrage Rules.

Bury said there are two types of General Obligation debt, voted or unvoted. There are limitations on how much can be outstanding at any one time. This is going to be an unvoted issuance, which means that no new taxes are going to be requested for the project. The inside, or unvoted, is not going to be enough for the annual debt service, so the remainder will primarily come from Issue 12 income tax resources, or the 75 percent of the one percent increase. We identified some other sources that could potentially be used. This building will house Mayor's Court, so the Mayor's Court building funds could be used. We will investigate if there is any grant funding available for this type of project. Looking at the legislation that established our tax increment financing districts, the City is identifying whether that legislation allows for this type of capital improvement and whether it is in an area that we could potentially use some of that revenue in lieu of some of the debt. The City is also looking at how this aligns with our debt policy. It will not exceed the maximum duration allowed, or 30 years. We have specified the source of repayment with the income tax dollars for capital improvement. We have identified some other sources that could potentially be used. It will be issued as General Obligation debt because it is a non-enterprise capital improvement. The municipal advisors of the City considered all options for financing and the General Obligation debt is the most advantageous for the City for this project. The use of the debt for this purpose aligns with the City's goals to ensure assets are in a condition to deliver quality services in a safe environment.

Bury shared what this means for other projects. For most, the debt service must come first. Then, the City would look to the CIP for how other projects would fit-in knowing that service must come first. The debt limitations for General Obligation are only related to G.O. debt. There could potentially be other financing options if needed, depending on what capacity we may have.

We still have a portion of the ARP funds that have not been used yet. We could also look at Street and State Highway funds. The street fund specifically is retiring some other debt that is outstanding. The City has issued long-term debt like this for other projects in the past, such as with Creekside improvements, street rebuilds, Morrison Road rebuild and various other reasons. As that rolls off in the next eight years, those funds can potentially be used to help offset other projects, or depending on which fund it is, it may help offset some of the debt service for this project.

Bury said the City has been reactionary for so long and did not have funding. The City now has capital money that it could be strategic with. It is not going anywhere. It is going to be around for a long time. In looking at this project, she believes it is fiscally responsible and prudent. It addresses City facilities in a great way by taking care of our most viable group, the public safety group. The size is a bonus because it takes care of two other facilities at the same time.

2022-0247 Baker Tilly City Council Presentation (7-25-2022)

Bury turned the presentation over to Brian Cooper with Baker Tilly to talk more about the debt issuances. Mr. Cooper said he was here to talk about the issuance of various purpose notes, or capital facility notes, and some of the goals and objectives of the specific financing. The short-term plan involves acquiring the property site for the new Municipal Complex that will include the issuance of notes to purchase the property. The long-term plan will be to issue bonds to repay the notes and make further improvements to the property. The short-term plan of financing for the property acquisition is not to exceed the amount of $8.5 Million. The estimated interest on the notes, subject to market conditions, is about $255,000. The Debt Service on that one-year note would be about $8.7 Million. The purpose clause of the note is to acquire, construct and renovate the facilities in accordance with the project plan. They are looking at General Obligation with an income tax pledge that will help exempt this debt from the direct debt limit. The indirect debt limit of the 10 mil limits will still be in play. This will count against that debt limit. They are looking at using tax-exempt bond notes to do this with a one-year maturity. The estimated rate is about three percent. Note rates have been in the range of about 2.60 to 2.80 for one-year notes. Rates have been as high as three percent in the recent markets. Looking back historically at the short-term tax-exempt interest rates, he noted the chart for the MIG-1 short-term note index saw a spike in 2020 with COVID-19. After January 1, we have seen short-term rates rising dramatically. We are currently at a peak for short-term rates since even before the pandemic. When issuing notes, you want to look forward to the long-term plan. They realize this is not an $8.5 Million project, but rather a project in the realm of $60-61 Million. They wanted to provide Council with a snapshot of what that would look like over 25 and 30 years. It has been split up between police and non-police so that Council can see those corresponding project sizes. Over 25 years, the current estimated rates for this type of financing would be about 3.86 percent. Over 30 years, it is 4.06 percent. You can see the difference between the short-term rates and the long-term rates under this market stress are starting to converge. The $61 Million project over 25 years will have an approximate average annual debt service of about $4.3 Million per year. Over 30 years, while the interest rate is slightly higher for the structure, the longer amortization provides for an annual debt service of just under $4 Million per year. On an annual basis, we are running these assumptions with a level debt service, so the City pays the same amount every year and does not have an escalating bond payment. With respect to long-term interest rate, he showed the tax-exempt AAA MMD chart. It follows almost exactly where short-term rates are as well. You see the spike in 2020 during the pandemic. The 10-year MMD index is also rising at a very quick pace. There has been some relief in this market over the past few weeks with a little stabilization and rates coming down a bit. It is nowhere near where we were in mid-2021. Cooper provided a debt summary of the City's current outstanding debt. There are three purposes outstanding currently, 2013, 2015, and the City's judgment bonds that were issued in 2020. The outstanding par is about $18.9 Million and that is considered a moderate to light debt profile as compared to other cities with a Double Aa1 credit rating. Credit rating considerations, the city is rated Double Aa1. It is the second highest rating from Moody's investor service. This is a very strong credit rating. The credit rating agencies look at your economy, your finances, your management and your debt and pension obligations. Some detailed work has been done on the City's scorecards and how this additional debt may impact the current credit rating. Moody's is currently updating their credit criteria. Cooper has looked at it three ways, the City's current rating, the rating with additional debt, as well as trying to apply the new metrics which are not yet in effect. At a Double Aa1, they would expect the rating to hold with the additional issuance of new debt. The next steps with respect to issuing the notes, the note legislation will be introduced to City Council for review and approval. They intend with this market to use the Ohio Market Access Program through the State Treasurer's Office that will allow the City to get an investment grade credit on the notes in very quick order. It is a credit enhancement program provided by the state treasurer. It is very low cost and easy to obtain. He believes they will do their best in keeping the rates as low as possible for the City. Once the City approves the notes legislation, they will send the package out and set interest rates on or about October 19, 2022. After that pricing date, they will finalize the documents and prepare for closing with closing expected on November 2, 2022. This will coincide with the need for funds to purchase the property. They will be in communication with Bury on the plan of finance as the City moves through the planning process with respect to construction and renovation of the facilities. Mr. Cooper said he is available for questions on the note process.

Councilmember Schnetzer asked for questions from Council. There were none.

Councilmember Schnetzer had questions on Director Bury's portion of the presentation. There was reference to the City, its own internal debt policy having a maximum term of 30 years for General Obligation debt. Under a hypothetical scenario where the City was willing to modify that term and extend it, is there anything in the Ohio Revised Code that would prohibit the City from issuing longer-term to get the annual debt service figure down a bit lower. Cooper said it depends. For the maximum maturity constraints outside the City's debt policies are driven under 133, which is what you are using when you issue a General Obligation. That dictates a maximum life for each asset that you finance. If you are planning on using general obligation, then the maximum you are going to be able to issue for these improvements will be 30 years. There are some alternatives that the City could consider. There are different types, non-general obligations that may be able to go longer and other structures that you could pursue, albeit at a higher cost. Schnetzer said it is technically possible, but from a practical perspective, probably not in the City's best economic interest to have that sort of lower security. Cooper said he would agree with that. Schnetzer said a key characteristic of this potential project as it is being proposed is the ability to completely vacate this current site. He thinks what is clearly driving it, the biggest need of the community, is the fact that Police Headquarters is not adequate. If PD were simply to vacate their site, it leaves a hole in this site. Whereas, if we can package everything, City Hall, PD, and the Senior Center, and move everything to a different site, it allows this site to be sold. How could the sale proceeds from this site be allocated? Could they be allocated to the debt liability associated to 825 Tech Center or because money is fungible does it not matter? Can we just put it in a fund and use it for capital improvements on a go-forward basis? Cooper said if the City sold this property, an asset, you could use those funds for other capital projects, or if the City wanted to utilize the sale proceeds and reduce the amount of debt outstanding, you would have to do some forethought in your issuance. What he would suggest is when the City goes to permanent bonds, if there is an amount, say the project is $60 Million and this site is worth $10 Million (just as a hypothetical scenario), you might want to do $50 Million of permanent financing and keep $10 Million in notes. If this property is sold, you could use the proceeds of that property to redeem a portion of the notes. Once you are in a long-term fixed rate bond, you are not going to be able to call the bonds for for at a minimum five years. The typical call period would be 10 years. Once you are in a permanent financing, it becomes hard to use money, whether it is from the sale of this asset or any other available monies to pay down debt on a permanent financing.

Councilman Weaver said if he recalled from the Town Hall meetings at the Senior Center there was discussion on millage and inside, unvoted, and voted millage. What he is hearing this evening is that the City is ok and not going to hit that threshold. He asked if the City is still ok when it comes to other taxing authorities that may issue a levy, such as ADAMH, Senior Options or other taxing authorities. Cooper said the debt limit that the City is subject to on the General Obligation indirect debt limit is the 10-mil debt limit. Once we move up to the $60 Million level, almost all the 10-mil debt for that calculation are taken. There is a little room for each taxing authority. The amount they can issue with remaining milage is dependent on their assessed value. It would be a case-by-case basis of how much room. Any taxing districts that wanted to go on for additional voted millage, they could do that anytime. It would not limit other taxing authorities to seek additional voted millage.

Councilman Renner said from the presentation slides, the short-term notes are going to be used to purchase the building and the long-term notes for the activities that we need to do. Regarding what was just said based on the total budget of $60.9 million, it is that number minus the purchase. Renner asked for clarification of this. He understands that Cooper's point is whether it is $50 Million or $60 Million, these are the annual payments. Cooper said that is correct. Renner said regarding what Cooper was just talking about, if it is more $50 Million-ish, it is just logic that we are further away from the 10-mil debt limit. Cooper said that is correct.

Councilwoman McGregor clarified that the City cannot do anything to refinance for about 10 years, but after that, she asked if the rates were lower, can the City refinance the bonds. Cooper said absolutely. The standard call is about a 10-year call. The range of call options are between five and 10 years on the permanent financing a year from now. When Council approves an ordinance for bonds, there will be language in the ordinance giving or dictating the right of the City to be able to call to either pre-pay or refinance those bonds in the future. When we go to market, Bury will be presented with an analysis that shows what the cost is for a 10-year call and shorter. Usually, as you do a shorter call that financing gets more expensive. They will have options on the call ability. You typically try to balance the call ability with optionality so the ability to refinance in the future with the cost of capital today as it is compared to other deals in the market.

Councilwoman Angelou asked if the inflation issues we are having now are a part of this already and whether we are expecting it to go down rather than go up. Cooper said they are showing Council the interest rates now. They have not added or subtracted anything to these rates. From his perspective, it is the easiest way to keep track of which way rates are going. If we added 50 or 100 basis points when we came back in six months or a year, we would have to continue to use that and then we would wonder if it went up or were we just buffering the numbers. It is reflective in the presentation where the market rates are now for Double Aa1.

C. ADJOURNMENT:

With no further business before the Finance Committee, the Chair adjourned the meeting at 9:06 p.m.

Jeremy A. Van Meter

Jeremy A. VanMeter
Clerk of Council

APPROVED by the Finance Committee, this 15th day of August 2022.

Michael Schnetzer