

**Fundamentals
of
Municipal Financing**

**Michigan Townships Association
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**Can we just borrow
money from the bank?**

Dillon's Rule

A municipality may only exercise those powers expressly granted, necessarily implied, or which are essential — not simply convenient, but indispensable.

Revised Municipal Finance Act, Public Act 34 of 2001

[a] municipality shall not issue a municipal security except in accordance with this act."

"Security" means "an evidence of debt such as a ...contract, obligation, or other similar instrument issued by a municipality, which pledges payment of the debt by the municipality from an identified source of revenue."



**So how does a Township
borrow money?**

1. Municipal Bonds
2. Installment Purchase Agreements

A local bank can buy the Township's municipal bonds or installment purchase agreements.

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Can we borrow money without an election?

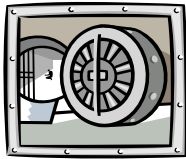
YES - several statutes authorize the issuance of bonds after a notice and referendum process.

1. Township adopts Resolution of Intent to Issue Bonds.
2. Notice to Electors is published in the local newspaper as a ¼ page advertisement.
3. Referendum period expires 45 days after publication.
4. Township may issue bonds unless petitions signed by 10% of registered voters is filed within the 45-day period.

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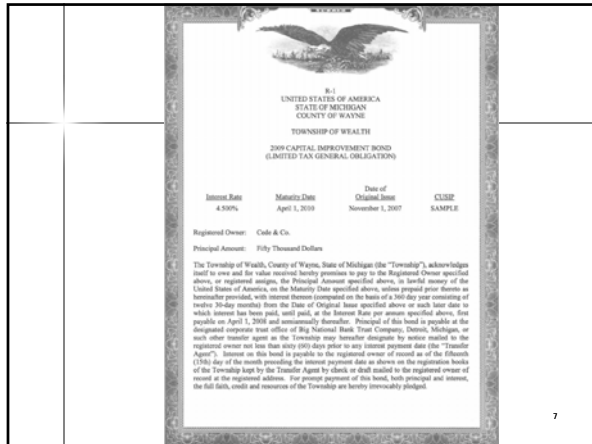
The Mysteries of Debt

What is a bond?



A Promise To Pay ...





	<h2 style="text-align: center;">Municipal Bonds – Different types for various needs</h2>
	<ul style="list-style-type: none"> ■ Voted Unlimited Tax General Obligation Bonds ■ Capital Improvement Bonds ■ Special Assessment Bonds ■ Revenue System Bonds ■ Contract (Authority or County-issued) Bonds ■ Cash Flow (Tax Anticipation) Notes

	<h2 style="text-align: center;">Voted Unlimited Tax General Obligation Bonds</h2>
	<p>Public Act 116 of 1923</p> <ul style="list-style-type: none"> ■ Unlimited Tax <ul style="list-style-type: none"> – Voter approved – Levy debt millage at rate necessary to pay principal and interest on the bonds – Issued to finance township hall, library, fire station or other public buildings

	Capital Improvement Bonds
	<p>Public Act 34 of 2001 – Revised Municipal Finance Act</p> <ul style="list-style-type: none"> ■ Finance cost of any capital improvement item ■ Limited tax <ul style="list-style-type: none"> – Cannot increase taxes above maximum rate – Paid from existing tax and/or revenue sources – Notice and referendum period ■ Debt Limit: 5% of township's SEV <p style="text-align: right;">10</p>

	Special Assessment Bonds
	<p>Public Act 188 of 1954 – Township Public Improvement Act</p> <ul style="list-style-type: none"> ■ Finances various public improvements supported by special assessments (roads, water, sewer, etc.) ■ Principal and interest on the bonds is paid from annual special assessment collections ■ Special assessment roll is pledged as security for the bonds ■ Township may also pledge its full faith and credit as additional security <p style="text-align: right;">11</p>

	Revenue Bonds
	<p>Public Act 94 of 1933 – Revenue Bond Act</p> <ul style="list-style-type: none"> ■ Issued to finance self-supporting public improvements <ul style="list-style-type: none"> – Water and sewer systems – Garbage and refuse disposal facilities – Electric and gas utilities – Cable television systems ■ Principal and interest on the bonds is paid from revenues of the system ■ Generally not considered a debt of the township's general fund ■ Rates and charges must be set at an amount sufficient to pay at least 100% of operation, maintenance and debt service <p style="text-align: right;">12</p>

	<h2>County Issued Bonds</h2>
	<p>Mechanisms for the township to finance certain improvements through its county.</p> <ul style="list-style-type: none"> ■ County/Township enter into contract ■ County issues bonds to acquire and construct public improvement ■ Township pays county semi-annually pursuant to contract; county in turn pays principal and interest on the bonds <p>Public Act 185 of 1957 – County Department and Board of Public Works Act</p> <ul style="list-style-type: none"> ■ Financing through county board of public works ■ Water, sewer, refuse, lake or erosion improvements ■ No notice, referendum or election required <p>Public Act 342 of 1939 – County Public Improvement Act</p> <ul style="list-style-type: none"> ■ Financing through a designated county agency: road commission, drain commissioner, board of public works ■ Water, sewer, garbage or rubbish collection and disposal facilities ■ Notice and 45-day referendum period required <p>Public Act 40 of 1956 – The Drain Code of 1956</p> <ul style="list-style-type: none"> ■ Financing through County Drain Commissioner ■ Drainage improvements, including certain sewage systems <p style="text-align: right;">13</p>

	<h2>Authority Issued Bonds</h2>
	<p>Act 233 of 1955 – Municipal Sewage and Water Supply Systems</p> <ul style="list-style-type: none"> ■ Two or more local units create a municipal authority to own or finance sewage disposal systems, water supply systems and solid waste management systems ■ Authority/Township enter into contract ■ Authority issues bonds to acquire and construct project ■ Township pledges limited tax full faith and credit; township pays authority semi-annually pursuant to contract; authority pays principal and interest on bonds <p style="text-align: right;">14</p>

	<h2>Tax Anticipation Notes</h2>
	<p>Public Act 34 of 2001 – Revised Municipal Finance Act</p> <ul style="list-style-type: none"> ■ Cash flow borrowing to provide funds for expenses incurred prior to collection of sufficient tax receipts ■ Short term (1 year or less) borrowing ■ No notice or referendum required ■ Borrowing amount limited based on budgeted property tax revenue <p style="text-align: right;">15</p>

	<h2>Installment Purchases</h2>
	<p>Public Act 99 of 1933 – Purchase of Lands and Property for Public Purposes Act</p> <ul style="list-style-type: none"> ■ Financing Real or Personal Property <ul style="list-style-type: none"> – Real Property <ul style="list-style-type: none"> ■ Land or Buildings – Personal Property <ul style="list-style-type: none"> ■ Fire trucks, police cars, water meters, copy machines, or other equipment ■ No notices or referendum required ■ Maximum term of 15 years ■ Debt limit: 1 ¼% of township's taxable value <p style="text-align: right;">16</p>

	<h2>Downtown Development Authorities</h2>
	<p>Public Act 197 of 1975</p> <ul style="list-style-type: none"> ■ Finance improvements in the DDA's Downtown District <ul style="list-style-type: none"> – Public improvements must be authorized by the DDA Act and authorized in the DDA's TIF Plan ■ DDA pledges its tax increment revenues for payment of the bonds ■ Township may also pledge its full faith and credit ■ Township issues bonds and pays debt service from tax increment revenues of DDA <p style="text-align: right;">17</p>

	<h2>Parties to Municipal Finance Transactions</h2>
	<ul style="list-style-type: none"> ■ Issuer (i.e., Township) ■ Bond Purchaser (Bank or Underwriter) ■ Bond Counsel ■ Financial Advisor <p style="text-align: right;">18</p>

	<h2 style="text-align: center;">What does bond counsel do?</h2>
	<ul style="list-style-type: none"> ■ Provides an expert legal opinion with respect to the legality of the transaction, enforceability of the issuer's obligation, and the tax exempt nature of the interest paid on the bonds (no prospective purchaser will buy the bonds without an approving opinion of bond counsel). ■ Prepares the authorizing documents <ul style="list-style-type: none"> ■ Resolutions, notice of intent, competitive sale notice, and the bonds ■ Assists in the planning and structuring of the financing, superintends details of the sale of the bonds, assists participants to the transaction (issuer, financial advisor, underwriter)
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	<h2 style="text-align: center;">When should we consider hiring a financial advisor?</h2>
	<ul style="list-style-type: none"> ■ Complex transactions; need for detailed rate or repayment analysis; transactions over one million dollars ■ A financial advisor will: <ul style="list-style-type: none"> ■ Advise you on the structure of the transaction ■ Undertake rate studies and advise on the impacts of the debt obligation ■ Draft portions of the official statement ■ Facilitate the ratings process
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	<h2 style="text-align: center;">Competitive v. Negotiated Methods of Sale</h2>
	<ul style="list-style-type: none"> ■ Competitive Sale <ul style="list-style-type: none"> – Notice of Sale required to be published 7 days in advance – Sale open to all possible bidders ■ Negotiated Sale <ul style="list-style-type: none"> – Flexibility in timing of sale – Flexibility as to bond terms – May be a local bank or underwriting firm
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Questions?

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