



CITY COUNCIL AGENDA ITEM

Date: June 17, 2013

To: Members of the City Council

From: Brian Kischnick, City Manager
Lori Bluhm, City Attorney
Mark Miller, Director of Economic and Community Development

Subject: Troy Downtown Development Authority Bond Repayment Proposal and Resolution Authorizing the Publication of a Notice of Intent to Issue Bonds - Introduced by: Brian Kischnick

One of City Council's top priority assignments was to explore options to avoid a default of the Troy Downtown Development Authority bonds, since a default would likely negatively impact the City's bond rating and would be a deterrent to development in the City. A team consisting of our bond attorney, municipal financial advisor and city administrative staff has been meeting to identify a solution. At the May 15, 2013 Troy Downtown Development Authority (TDDA) meeting, the TDDA Board recommended pursuit of a conceptual plan, which is designed to avoid the otherwise unavoidable TDDA default, and also avoids use of the general fund as payment.

The concept includes the following components:

1. Amendment of the DDA Ordinance (78) to extend the DDA until December 31, 2033
2. The Development Plan/Tax Increment Financing Plan is amended to exclude specific properties that are valued at less than their value in 1993 (base year) (e.g. Kmart Headquarters and Bank of America building).
3. The City of Troy issues \$14,485,000 in bonds backed by the full faith and credit of the City with amounts from TDDA tax capture dedicated to bond payments

In order to implement the Plan, the following timeline is contemplated:

June 17, 2013 City Council issues notice of intent to issue bonds
June 19, 2013 TDDA Board adopts small plan amendments and recommends to City Council
July 8, 2013 City Council schedules a public hearing for plan amendments
August 12, 2013 City Council approves bond authorizing resolution and plan amendments

Our bond counsel, Terry Donnelly of Dickinson Wright has prepared the notice of intent to issue bonds.

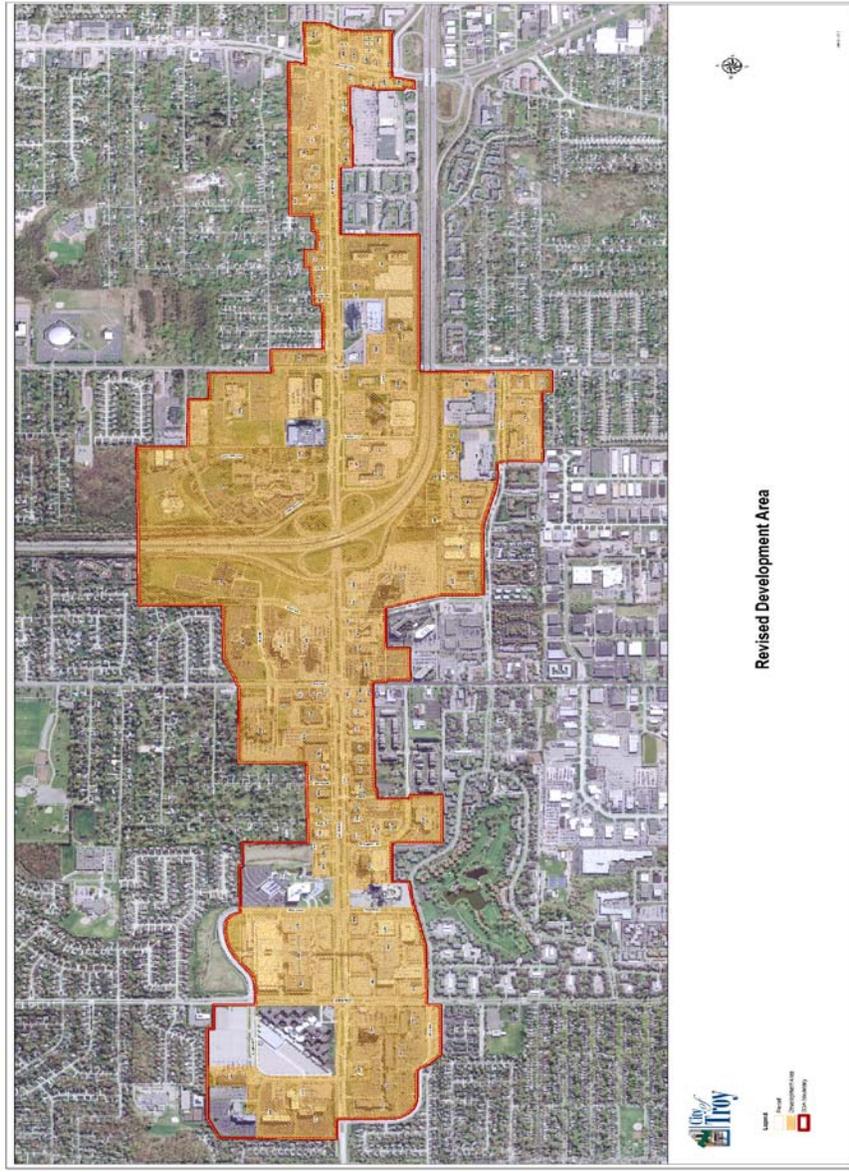
We have also included the Bond Repayment Proposal presentation for your review.



CITY COUNCIL AGENDA ITEM

Year	Total Taxable Value	Captured Taxable Value	Captured Taxes (16.7105 Mills)	Estimated Bond Payment *	Over / (Under) Debt Payment
2014/2015	374,272,284.10	61,024,224	1,023,834	800,650	223,184
2015/2016	371,577,194.93	58,329,135	978,617	766,450	212,167
2016/2017	368,909,426.29	55,661,366	894,896	732,675	162,221
2017/2018	368,919,609.41	55,671,549	895,059	728,875	166,184
2018/2019	368,930,018.73	55,681,959	895,227	729,475	165,752
*2019/2020	372,619,318.91	59,371,259	954,541	782,975	171,566
2020/2021	376,345,512.10	63,097,452	1,014,449	823,725	190,724
2021/2022	380,108,967.22	66,860,907	1,074,956	876,600	198,356
2022/2023	383,910,056.90	70,661,997	1,136,068	931,100	204,968
2023/2024	387,749,157.46	74,501,097	1,197,791	977,225	220,566
**2024/2025	395,504,140.61	82,256,081	1,322,472	1,083,475	238,997
2025/2026	403,414,223.43	90,166,163	1,449,646	1,183,225	266,421
2026/2027	411,482,507.90	98,234,448	1,579,364	1,286,225	293,139
2027/2028	419,712,158.05	106,464,098	1,711,677	1,401,725	309,952
2028/2029	428,106,401.21	114,858,341	1,846,635	1,504,350	342,285
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2030/2031	445,401,899.82	132,153,840	2,124,703	1,734,100	390,603
2031/2032	454,309,937.82	141,061,878	2,267,922	1,854,850	413,072
2032/2033	463,396,136.58	150,148,077	2,414,006	1,972,256	441,750
2033/2034	472,664,059.31	159,415,999	2,563,011	2,088,394	474,617

* Preliminary, Subject to Change- Based on Market Conditions



City Attorney's Review as to Form and Legality

Lori Brigg Bluhm, City Attorney

Date

At a regular meeting of the City Council of the City of Troy, Oakland County, Michigan, held on June 17, 2013.

PRESENT: _____

ABSENT: _____

The following resolution was moved by _____ and seconded by _____:

RESOLUTION AUTHORIZING THE PUBLICATION OF
A NOTICE OF INTENT TO ISSUE BONDS

WHEREAS, the Downtown Development Authority of the City of Troy (the “DDA”) has previously issued the following bonds pursuant to Act 197 of the Public Acts of Michigan of 1975, as amended (“Act 197”), secured solely by tax increment revenues received by the DDA to finance the implementation of a portion of its Development Plan and Tax Increment Financing Plan (collectively, the “Plan”): (i) Downtown Development Authority Development and Refunding Bonds, Series 2001 in the aggregate principal amount of \$24,000,000 to finance the cost of roadway and streetscape improvements to Big Beaver Road and to refinance a portion of the cost of the parking garage adjacent to Somerset North, (ii) Community Center Facility Bonds, Series 2002 in the aggregate principal amount of \$9,700,000 to finance a portion of the cost of constructing the Troy Community Center, and (iii) Community Facility Center Junior Lien Bonds, Series 2003 in the aggregate principal amount of \$4,025,000 to finance a portion of the cost of constructing the Troy Community Center (such bonds are collectively referred to as the “DDA Bonds”); and

WHEREAS, although the schedules prepared as part of each issue of DDA Bonds predicted that there would be sufficient tax increment revenues to cover all of the debt service on the DDA Bonds, there has been an unanticipated decline in property values in the Plan's Development Area since 2008, and a corresponding decrease in the available tax increment revenues to the extent that they are unable to pay the debt service on the DDA Bonds as of November 1, 2013; and

WHEREAS, without any further amendments to the Plan, because of the decline in the property values in the Plan's Development Area, it is also expected that the DDA will not be capturing any tax increment revenues for the next fiscal year (beginning on July 1, 2014) and each fiscal year thereafter, until the final maturity of the DDA Bonds on November 1, 2018, and therefore the DDA will be unable to pay the debt service due on the DDA Bonds; and

WHEREAS, the Troy City Manager has submitted, and the DDA has approved, a proposal to avoid a default on the DDA Bonds that, if implemented, would involve the following actions: (a) extending the existence of the DDA and the Plan to 2033 to allow for the capture of annual tax increment revenues to ultimately pay off the indebtedness represented by the DDA Bonds; (b) amending the Plan by removing certain specified properties that have significantly decreased in value from the Plan's Development Area to enable the DDA to realize a capture of tax increment revenues from the revised Development Area in amounts sufficient to pay the annual debt service on the City Bonds (as hereinafter defined); and (c) the City issuing general obligation bonds (the "City Bonds") to refund the DDA Bonds, which although requiring the City to pledge its limited tax full faith and credit, will be secured primarily by the tax increment revenues to be derived from the revised Development Area for the extended period of time; and

WHEREAS, the City is authorized under Act 197 to issue the City Bonds to pay all or part of the cost of implementing the Plan and in connection therewith, refunding the DDA Bonds, as part of the proposed overall plan to avoid a default on the DDA Bonds; and

WHEREAS, in order for the City to implement the proposed plan and to issue the City Bonds, it is necessary that the City publish a notice of intent to issue bonds pursuant to Section 5(g) of Act 279 of the Public Acts of Michigan of 1909 (MCL 117.5), as amended (“Act 279”).

NOW, THEREFORE, BE IT RESOLVED:

1. That a notice of intent to issue bonds for the City Bonds shall be published in accordance with Section 5(g) of Act 279 (MCL 117.5).

2. That the City Clerk is authorized and directed to publish the notice of intent to issue bonds in the Oakland Press, a newspaper of general circulation in the City, in the form attached hereto as Exhibit A.

3. That all resolutions or parts of resolutions insofar as they conflict with the provisions of this resolution be and the same are rescinded.

RESOLUTION DECLARED ADOPTED.

Yes: _____

No: _____

Absent: _____

STATE OF MICHIGAN)
)ss
COUNTY OF OAKLAND)

I hereby certify that the foregoing is a true and complete copy of a resolution duly adopted at a regular meeting of the City Council of the City of Troy, Oakland County, Michigan, held on June 17, 2013, the original of which resolution is on file in my office. I further certify that notice of said meeting was given in accordance with the provisions of the Open Meetings Act, Act 267 of the Public Acts of Michigan of 1976, as amended (MCL 15.261 et. seq.).

M. Aileen Bittner, CMC
Troy City Clerk

EXHIBIT A

CITY OF TROY
OAKLAND COUNTY, MICHIGAN

NOTICE OF INTENT TO ISSUE BONDS TO ELECTORS AND TAXPAYERS OF THE CITY OF TROY, OAKLAND COUNTY, MICHIGAN, SECURED BY THE LIMITED TAX FULL FAITH AND CREDIT OF THE CITY AND THE RIGHT TO REFERENDUM THEREON

PLEASE TAKE NOTICE that the City of Troy, Oakland County, Michigan (the “City”) intends to issue limited tax general obligation bonds, in one or more series, in the maximum amount of not to exceed \$15,500,000.

The bonds will be issued for the purpose of financing a portion of the cost of the development program of the Tax Increment Financing Plan of the Downtown Development Authority of the City of Troy (the “DDA”) and in connection therewith, refunding (i) the DDA’s outstanding Downtown Development Authority Development and Refunding Bonds, Series 2001 issued by the DDA to finance the cost of roadway and streetscape improvements to Big Beaver Road and to refinance a portion of the cost of the parking garage adjacent to Somerset North, (ii) the DDA’s outstanding Community Center Facility Bonds, Series 2002 issued by the DDA to finance a portion of the cost of constructing the Troy Community Center, and (iii) the DDA’s outstanding Community Facility Center Junior Lien Bonds, Series 2003 issued by the DDA to finance a portion of the cost of constructing the Troy Community Center.

The bonds of each series will be payable in annual principal installments not to exceed twenty (20) in number and will bear interest at rates to be determined at a competitive or negotiated sale but in no event to exceed such rates as may be permitted by law. The bonds will be issued pursuant to Act 197 of the Public Acts of Michigan of 1975, as amended (“Act 197”). The bonds will not be issued by the City unless and until the City Council extends the existence of the DDA to December 31, 2033 and approves amendments to the DDA’s Development Plan and Tax Increment Financing Plan (collectively, the “Plan”) in accordance with Act 197, which extends the existence of the Plan to December, 2033 and revises the Development Area for the Plan by removing therefrom certain specified properties, with the result that the DDA is projected to capture sufficient tax increment revenues to pay the principal of and interest on the bonds.

SOURCE OF PAYMENT AND SECURITY

The principal of and interest on the bonds will be secured first from the tax increment revenues received by the DDA pursuant to the Plan, as amended as described above, and will be secured secondarily by the limited tax full faith and credit pledge of the City. The City will be obligated, as a first budget obligation, to advance moneys from its general funds or to levy ad valorem taxes on all taxable property within its corporate boundaries to pay the principal of and interest on such bonds in the event and to the extent that such tax increment revenues of the

DDA are not sufficient to make such payments. Taxes levied by the City to pay such principal and interest are subject to applicable constitutional, statutory and charter tax rate limitations.

RIGHT OF REFERENDUM

This notice is given by order of the City Council of the City of Troy, to and for the benefit of the electors of the City in order to inform them of their right to petition for a referendum on the question of the issuance of the aforesaid bonds. The bonds will be issued, without submitting such a question to a vote of the electors, unless within 45 days from the date of publication of this notice a petition, signed by not less than 10% or 15,000 of the registered electors residing within the City, whichever is less, shall have been filed with the undersigned City Clerk requesting a referendum upon the question of the issuance of said bonds. In the event that such a petition is filed, the bonds will not be issued until approved by the vote of the majority of the electors of the City qualified to vote and voting thereon at a general or special election.

This notice is published pursuant to the requirements of Section 5(g) of Act 279 of the Public Acts of Michigan of 1909 (MCL 117.5), as amended.

M. Aileen Bittner, CMC
Troy City Clerk

An aerial photograph of a city street, likely in Troy, Michigan. The street is wide and has several lanes with cars driving. There are trees and greenery along the sides of the road. In the background, there are several tall buildings, including a prominent skyscraper on the right side. The overall scene is a busy urban environment.

Troy Downtown Development Authority Bond Repayment Proposal

June 17, 2013

Expenditures

Original Bonds

What did the original bonds pay for?

2001: Financed the Roadway and Streetscape improvements to Big Beaver and refinanced a portion of the cost of the parking garage adjacent to Somerset North
(\$24,000,000)

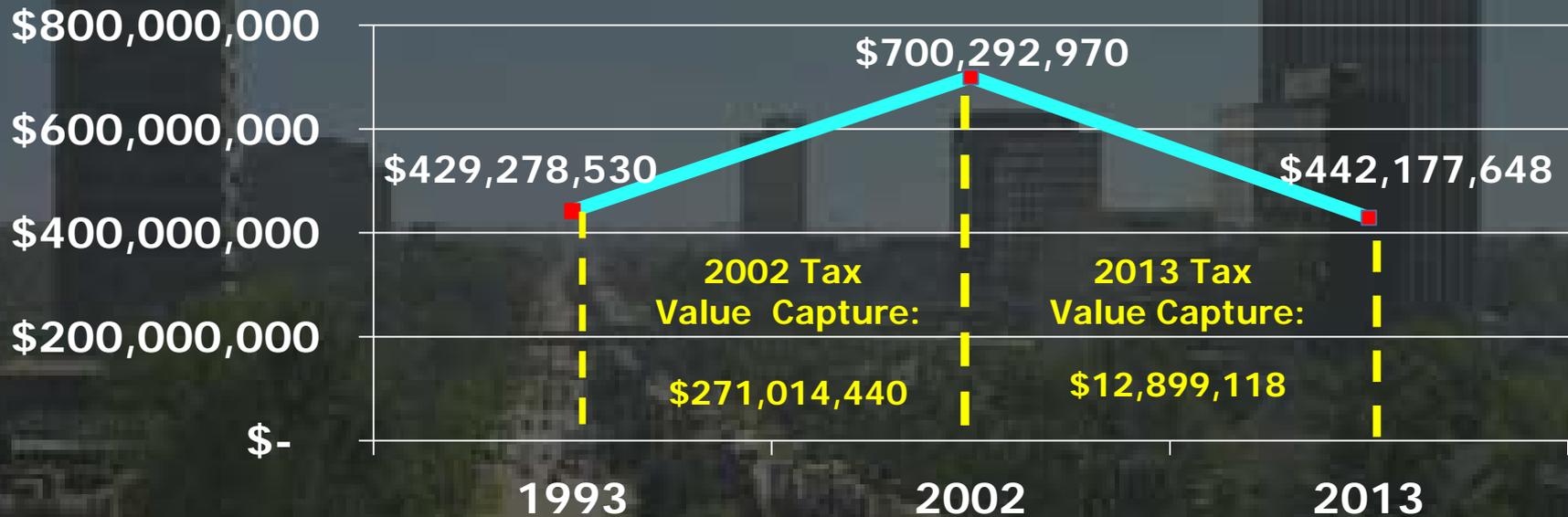
2002: Financed a portion of the cost of constructing the Troy Community Center
(\$9,700,000)

2003: Financed a portion of the cost of constructing the Troy Community Center
(\$4,025,000)

Note: Final Bond Maturity Date: November 1, 2018

Annual Debt Payment		
	2012	2013
Principal	\$ 2,215,000	\$2,365,000
Interest	\$989,480	\$ 888,601
Rate	3.15-5.5%	3.3-5.5%

Structural Problem



Revenue	
2002	\$4,528,787
2013	\$215,550

Two Properties that contributed to the major loss

1. Kmart headquarters was valued at \$27,646,000 in the base year and is valued at \$6,181,000 in 2012
2. The Bank of America building was valued at \$27,749,000 in the base year and was valued at \$17,534,800 in 2012

Problem Summary

- Statement of Problem:

- The initial value of the district in 1993 was \$429,278,530 and is therefore established as the base with all values above the base being captured by the TDDA. The value of properties in the district has dropped significantly, in some instances below the base year value causing the capture to be reduced bordering on no capture.
- TDDA is required to make debt payments in amount of \$3,298,965, in 2014. Annual payments end in 2018.
- 2013 Captured Taxable Value for the TDDA= \$12,899,118 and results in \$215,550 in revenue to TDDA.

- Conclusion:

- There is not enough Tax Capture in the TDDA to make the debt service payments.

Why default is not an option?

- City's bond rating could be impacted
- Access to capital could be significantly impaired
- NPMG(National Public Finance Guarantee)- Bond Insurance possible litigation
- Adverse Impact on other Taxing Jurisdictions
- Negative publicity
- Possible involvement by State of Michigan - Emergency Financial Manager

Proposed Plan

Development Plan/Tax Increment Financing

Plan Change and New Debt Issued:

- Increase the captured value by eliminating underperforming properties from the Development Area
- Extend the debt schedule, the TDDA, the Development Plan and the Tax Increment Financing Plan 20 years
- City of Troy issues bonds (\$14,485,000) backed by City for 20 years with amounts from TDDA tax capture dedicated to bond payments

Proposed Plan

Safety Net:

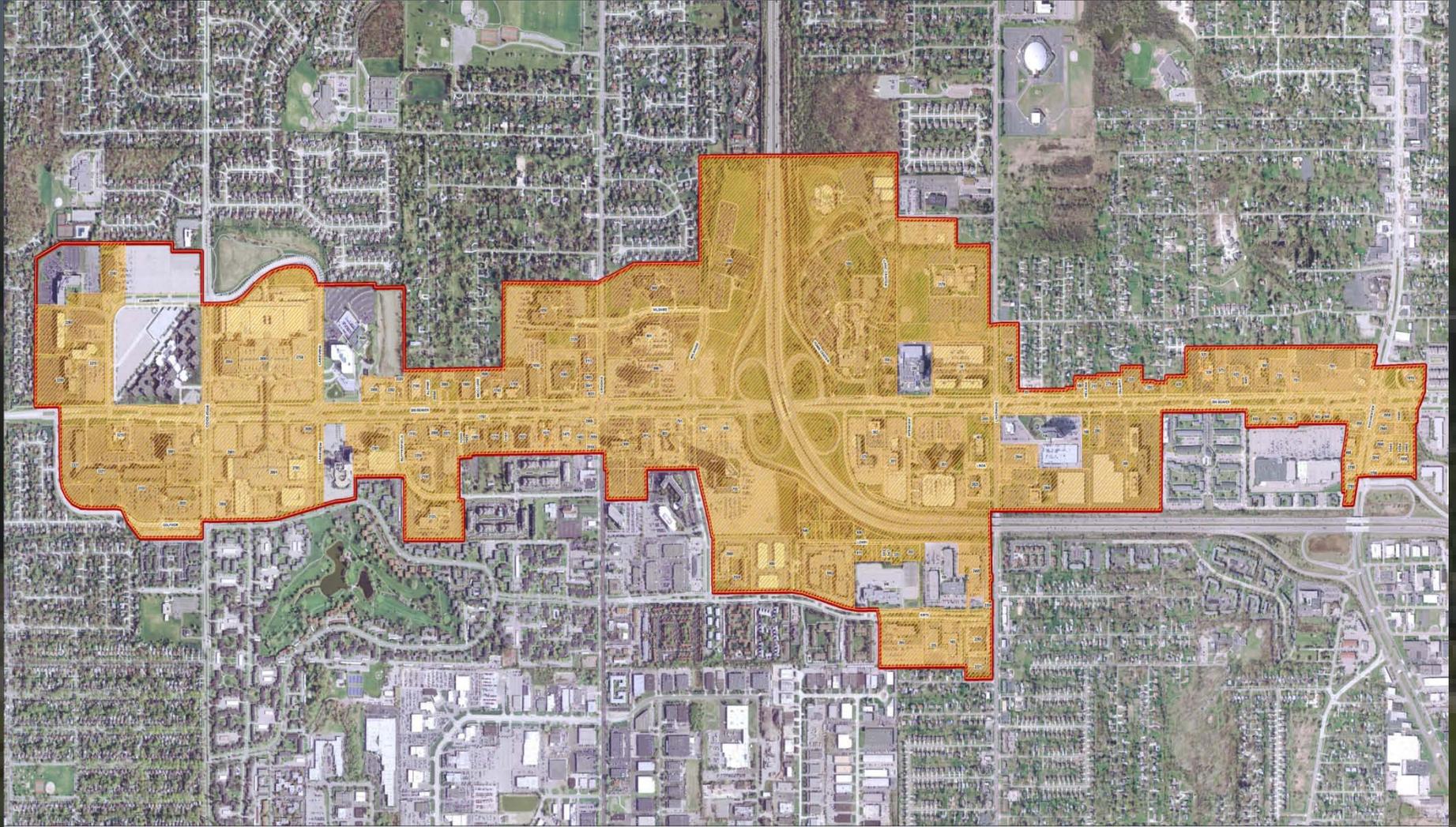
1) Parking Structure:

- The projected payment at the end of the agreement (2020) is \$4,035,131 and is viewed as a safety net to the City
- The proposal does not recommend transfer of the parking structure prior to 2020 because the earlier sale would result in a significant loss of revenue

2) Up to 2 mill levy

- MCL 125.1662 allows a downtown development authority, with the approval of the municipal governing body, to levy an ad valorem tax

Proposed TDDA Amended Development Area/TIF Plan



Values, Yield and Debt Schedule

Year	Total Taxable Value	Captured Taxable Value	Captured Taxes (16.7105 Mills)	Estimated Bond Payment *	Over / (Under) Debt Payment
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Timeline to Implement the Plan

Date	Action
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