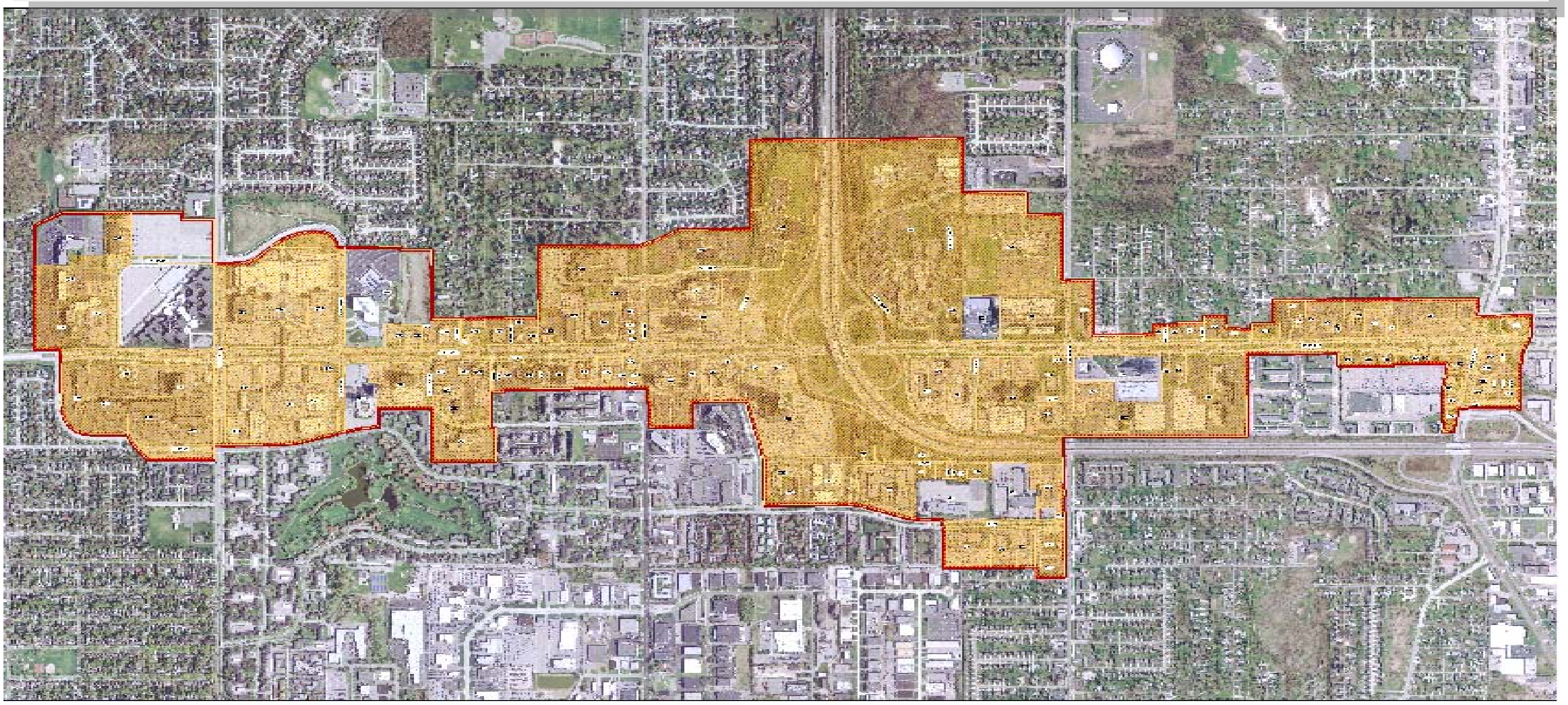
Troy Downtown Development Authority Bond Repayment Proposal June 2013



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History of DDA Formation

1. *City of Troy Ordinance 78:* An ordinance creating a downtown development authority for the City of Troy, designating boundaries of the Downtown District and providing for other matters related thereto. The downtown development authority is known as the Troy Downtown Development Authority (TDDA)

   Termination Per Ordinance 78 (Section 5): **On December 31, 2024** or upon the retirement of all bonded debt, whichever shall later occur, the TDDA shall be dissolved by the Council. The property and assets of the TDDA, after dissolution and satisfaction of its obligations shall revert to the City.

2. *City of Troy Ordinance 80* - TDDA Development Plan and Tax Increment Financing Plan: The ordinance creating the TDDA also requires the governing body to adopt a Development Plan identifying the projects to be undertaken and a Tax Increment Financing Plan identifying the funding mechanisms for all projects.

   Termination Per the Development Plan and Tax Increment Financing Plan: The Development Plan expires in 2018 and the Tax Increment Financing Plan expires in 2018. The Plan states; “the maximum duration of the plan is 25 years.”

   Termination Per Ordinance 80: This ordinance shall take effect 10 days after adoption or publication, whichever comes later, and shall **expire** upon the **implementation** of the TDDA Development Plan.

   P.A. 1975, No. 197 (MCL 125.1653):

   AN ACT to provide for the establishment of a downtown development authority; to prescribe its powers and duties; to correct and prevent deterioration in business districts; to encourage historic preservation; to authorize the acquisition and disposal of interests in real and personal property; to authorize the creation and implementation of development plans in the districts; to promote the economic growth of the districts; to create a board; to prescribe its powers and duties; to authorize the levy and collection of taxes; to authorize the issuance of bonds and other evidences of indebtedness; to authorize the use of tax increment financing; to reimburse downtown development authorities for certain losses of tax increment revenues; and to prescribe the powers and duties of certain state officials.

Borrowing

The TDDA issued three separate bond issues in 2001, 2002 and 2003. The bonds were "naked tax increment bonds" secured solely by the tax increment revenues to be derived from the properties in the Downtown District. This is rare in Michigan and was based on the then perceived strength of the Downtown District's taxable values and the ability of properties in the Downtown District to generate sufficient tax increment revenues to pay the debt service on the bonds. While the City has a AAA rating, its full faith and credit was not utilized or pledged for these three bond issues. The following is a summary of the outstanding bonds of the TDDA:

Purpose	Series	Amount Owed as of 6/30/13	Status
Development and Refund	2001	$10,425,000	Insured
Community Center Facility	2002	$4,500,000	Insured
Community Center (Jr. Lien)	2003	$2,525,000	Not Insured
Total		**$17,450,000**	

Bond Insurance: The TDDA purchased insurance policies from MBIA Insurance Corporation (MBIA) for the bonds issued in 2001 and 2002. MBIA's successor is the National Public Finance Guarantee Corporation (NPFG). The TDDA paid $352,000 total in premiums for these policies. The effect of bond insurance is to provide credit enhancement for the bonds, thus making the bonds more attractive to investors because at the time that the 2001 and 2002 bonds were issued, MBIA had a AAA credit rating. In the event of the TDDA's inability to pay, the bond insurer will step in and make the bond holders whole. However, the bond insurer is then subrogated to the rights of the bond holders who received payment under its policy. Following the payment to the bond holders, the bond insurer has a claim against the TDDA to collect the advanced amounts plus interest on the monies advanced, but only from the same sources to which the bond holders were entitled to payment in the first instance. For reasons stated later in this document, it is incumbent on the borrower (TDDA) and the City of Troy to make the necessary structural changes to facilitate the payment of the debt.

As the TDDA's Bond Attorney, Terence M. Donnelly wrote on September 24, 2012; "Each resolution adopted by the TDDA authorizing the issuance of the Bonds, and especially Section 9 of each resolution, makes it clear that the Bonds are to be payable solely from the collection of the Tax Increment Revenues…….:" "The Security for each series of the Bonds is limited to the Tax Increment Revenues to be received by the Authority pursuant to the Plan and the moneys on deposit….."

This certainly absolves the City of Troy from any legal responsibility of raising funds to pay the debt. For the reasons stated below (Why default is not an option), bond insurance definitely does not relieve the City and the TDDA from considering and developing a strategy for paying the debt.

City's Pledge of Full Faith and Credit: The City never pledged its full faith and credit on these bonds, so therefore there is no present legal obligation for the City to issue bonds. However, the TDDA has an investment rating of "CCC" which is junk bond status so the concept of refinancing by the TDDA is not an option. Unfortunately a default by the TDDA will not put the City in a favorable light on many fronts. Some financial professionals contend that it could even adversely affect the City's AAA status and access to capital markets.

The Problem

Property Values: 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. At the height of the aggregate value for the TDDA, the value peaked at $700,929,970 and the captured value was $271,014,440. In comparison, the projected value for 2013/2014 is $442,177,648 and the captured value is $12,899,118 ***(see exhibit A).***

A major factor leading to the loss of the incremental value differential is the value of properties dropped significantly, in some instances below the base year value, causing the capture to be reduced, bordering on a "negative" capture. A prominent example is the Kmart headquarters building that was valued at $27,646,000 in the base year and is valued at $6,181,000 in 2012. The Bank of America building is another significant example with a base year value of $27,749,000 and a 2012 value of $17,534,800.

The reduction in the separation between the base year value and current taxable value has created a revenue stream reduction trending toward elimination. The result of Proposal A is these properties will not reach the old levels before the Development Plan and Tax Increment Financing Plan expire in 2018 since constitutionally they cannot increase more than 5% or the rate of inflation, whichever is less.

Inability to Pay: The 2014 ($442,177,648) Captured Taxable Value for the TDDA is $12,899,118. The revenues generated by this Capture are not enough to cover the debt service. Even after exhausting its reserves, the TDDA cannot meet its debt obligation without some other assistance.

In 2015 the projection is for the TDDA to be in a negative capture situation. In other words, the total Taxable Value of the TDDA will be less than the 1993 Base Value. Negative capture means no revenue for the TDDA. No revenue for the TDDA, along with the depletion of the reserves from the previous year will place the TDDA in default on its debt obligation.

Why Default Is Not An Option

Defaulting on the bonds, even though they (2001, 2002 series) are insured by NPFG, would negatively impact several aspects of Troy government. The City's rating could be impacted and access to capital could be significantly impaired. In addition, NPFG has made it clear to the City administration that it will pursue whatever measures are necessary to be repaid for whatever amounts it has paid to bond holders under its policies, plus interest, which is likely to result in lengthy, costly and highly visible litigation. This will result in a firestorm of negative publicity, confrontation with NPFG and possible involvement by the State of Michigan. NPFG has threatened to seek appointment of an Emergency Finance Manager, as well as the joinder of city on the TDDA debt restructuring.

Safety Net/Revenue Enhancement Possibilities

1. ***Parking Structure (Somerset):*** The TDDA financed the construction of the Somerset North parking structure and retains ownership. However, there is an agreement with the Somerset owners to use the structure and repay the cost of the structure based on an amortized schedule.

   At the end of the schedule or end date of the TDDA, which is when the deck payment is required by agreement, the payment is $4,035,171 (January 1, 2020).

2. The Somerset owners have offered an early buy back at a discounted rate to provide an infusion of cash. This amount could be used if necessary to reduce the amount of the City bond issue described below. This proposal does not recommend transfer of the parking structure prior to 2020 because the earlier sale would result in a significant loss of revenue.

3. ***Millage Rate Implementation:*** MCL 125.1662 allows a downtown development authority, with the approval of the municipal governing body, to levy an ad valorem tax on the real and tangible personal property in the district that is not exempt by law. The tax shall not be more than 2 mills.

The Proposal

a. ***Development Plan/Tax Increment Financing Plan Change and New Debt Issued:*** The proposed solution aims to increase the captured value to a level that is capable of contributing toward a bond issue by the City of Troy by eliminating underperforming properties from the Development Area, extending the debt schedule, the TDDA, the Development Plan and the Tax Increment Financing Plan **20 years**. There are several steps to successful implementation of this proposal and they include:

   1. Existence of the TDDA must extend to 2033 (Ordinance 78).
   2. The TDDA Development Plan and Tax Increment Financing Plan must extend to 2033.
   3. The Development Area in the Development Plan/Tax Increment Finance Plan must be 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. ***(see exhibit B)***
   4. The City should/must obtain County concurrence of the Development Plan/Tax Increment Financing Plan change.
   5. City of Troy must issue approximately $14,485,000 in bonds backed by the full faith and credit of the City.
   6. TDDA cannot issue, re-issue or refinance these bonds. They would not be marketable due to the “CCC” junk bond status of the TDDA.

Year	Total Taxable Value	Captured Taxable Value	Captured Taxes (16.7105 Mills)	Estimated Bond Payment *	Over / (Under) Debt Payment
New Base	313,248,060.00				
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
2029/2030	436,668,529.24	123,420,469	1,984,293	1,618,725	365,568
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**

2019/2020 thru 2023/2024 presupposes a 1% increase in value
2024/2025 thru 2033/2034 presupposes a 2% increase in value

The table above demonstrates a positive cash flow between the capture on the revised Development Area and the new debt. In fact, the revised plan is projected to generate a surplus cash flow over the life of the debt schedule.

b. ***Up to 2 mill levy:*** The City of Troy has a safety net in the event the tax capture is insufficient to fund the new bonds. This safety net comes in the form of a possible TDDA levy, with City Council approval, of up to 2 mills to cover the debt payment. Two mills will be levied only in the event there becomes a structural deficit and would continue until all bonds are retired. The TDDA Board must agree to the levy, and the City must approve the levy of up to 2 mills which would then be imposed across the TDDA district and applied to payment of the City bonds.

c. ***Parking Structure:*** The proposal does **NOT** seek to transfer the parking structure to Somerset North earlier than planned to obtain a short term infusion of cash. The projected payment at the end of the agreement is $4,035,131.

It is recommended that the funds from sale/transfer be considered as a safety net as well, for the City Council's backing of the bond issue. The funds from the parking structure transfer represent approximately 1/3 of the total issue. These funds are realized in 2020.

d. ***Oakland County:*** This plan/proposal was presented to Oakland County representatives including Treasurer Andy Meisner, Chief Deputy Treasurer James VanLeuven Jr., Deputy County Executive Robert Daddow, and Chief Deputy County Executive Gerald Poisson. The Oakland County representatives are in agreement with the plan and will support concurrence at the County level when presented.

Plan Summary

The concept includes the following components:

1. Amendment of the TDDA Ordinance (78) to extend the TDDA until December 31, 2033.
2. The TDDA Development Plan/Tax Increment Financing Plan must be extended to December 31, 2033 and the Development Area of 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 must issue approximately $14,485,000 in bonds backed by the full faith and credit of the City which would be paid with the amounts generated in tax increment in the amended and extended TDDA.

Time Frame

- June 17, 2013- City Council issue notice of intent to issue bonds
- June 19, 2013- TDDA Board adopts Plan amendments and recommends approval to City Council
- July 8, 2013- City Council schedules a public hearing for Plan amendments
- August 12, 2013- Public Hearing after which City Council approves bond authorizing resolution and Development and TIF Plan amendments

Exhibit A

Type	Base Taxable Value - Deletes	2011/12 Actual Taxable Value	2011/12 Captured Taxable Value	2012/13 ActualT/V	% Change	2012/13 Captured Taxable Value	2013/14 Actual TV - Deletes	% Change	2013/14 Captured Taxable Value	*2014/15 Estimated Taxable Value	% Change	2014/15 Captured Taxable Value
Comm Real	243,993,340	394,696,540	150,703,200	353,332,580	(10.48)	109,339,240	278,510,690	(21.18)	34,517,350	270,155,369	(3.00)	26,162,029
Ind Real	690,100	630,980	(59,120)	647,730	2.65	(42,370)	660,740	2.01	(29,360)	640,918	(3.00)	(49,182)
Res Real	241,000	352,290	111,290	345,260	(2.00)	104,260	340,790	(1.29)	99,790	340,790	0.00	99,790
Total Real	244,924,440	395,679,810	150,755,370	354,325,570	(10.45)	109,401,130	279,512,220	(21.11)	34,587,780	271,137,077	(3.00)	26,212,637
Comm Pers	68,323,620	98,493,950	30,170,330	100,168,730	1.70	31,845,110	97,347,580	(2.82)	29,023,960	97,347,580	0.00	29,023,960
Ind Pers	0	5,271,280	5,271,280	3,691,560	(29.97)	3,691,560	4,309,070	16.73	4,309,070	4,179,798	(3.00)	4,179,798
Utility Pers	0	1,290,060	1,290,060	1,431,450	10.96	1,431,450	1,591,910	11.21	1,591,910	1,607,829	1.00	1,607,829
Total Pers	68,323,620	105,055,290	36,731,670	105,291,740	0.23	36,968,120	103,248,560	(1.94)	34,924,940	103,135,207	(0.11)	34,811,587
Grand Total	313,248,060	500,735,100	187,487,040	459,617,310	(8.21)	146,369,250	382,760,780	(16.72)	69,512,720	374,272,284	(2.22)	61,024,224

Type	*2015/16 Estimated Taxable Value	% Change	2015/16 Captured Taxable Value	2016/17 Estimated Taxable Value	% Change	2016/17 Captured Taxable Value	2017/18 Estimated Taxable Value	% Change	2017/18 Captured Taxable Value	2018/19 Estimated Taxable Value	% Change	2018/19 Captured Taxable Value
Comm Real	267,453,816	(1.00)	23,460,476	264,779,277	(1.00)	20,785,937	264,779,277	0.00	20,785,937	264,779,277	0.00	20,785,937
Ind Real	631,304	(1.50)	(58,796)	621,834	(1.50)	(68,266)	615,616	(1.00)	(74,484)	609,460	(1.00)	(80,640)
Res Real	340,790	0.00	99,790	340,790	0.00	99,790	340,790	0.00	99,790	340,790	0.00	99,790
Total Real	268,425,910	(1.00)	23,501,470	265,741,902	(1.00)	20,817,462	265,735,684	(0.00)	20,811,244	265,729,527	(0.00)	20,805,087
Comm Pers	97,347,580	0.00	29,023,960	97,347,580	0.00	29,023,960	97,347,580	0.00	29,023,960	97,347,580	0.00	29,023,960
Ind Pers	4,179,798	0.00	4,179,798	4,179,798	0.00	4,179,798	4,179,798	0.00	4,179,798	4,179,798	0.00	4,179,798
Utility Pers	1,623,907	1.00	1,623,907	1,640,146	1.00	1,640,146	1,656,548	1.00	1,656,548	1,673,113	1.00	1,673,113
Total Pers	103,151,285	0.02	34,827,665	103,167,524	0.02	34,843,904	103,183,926	0.02	34,860,306	103,200,491	0.02	34,876,871
Grand Total	371,577,195	(0.72)	58,329,135	368,909,426	(0.72)	55,661,366	368,919,609	0.00	55,671,549	368,930,019	0.00	55,681,959

Exhibit B