



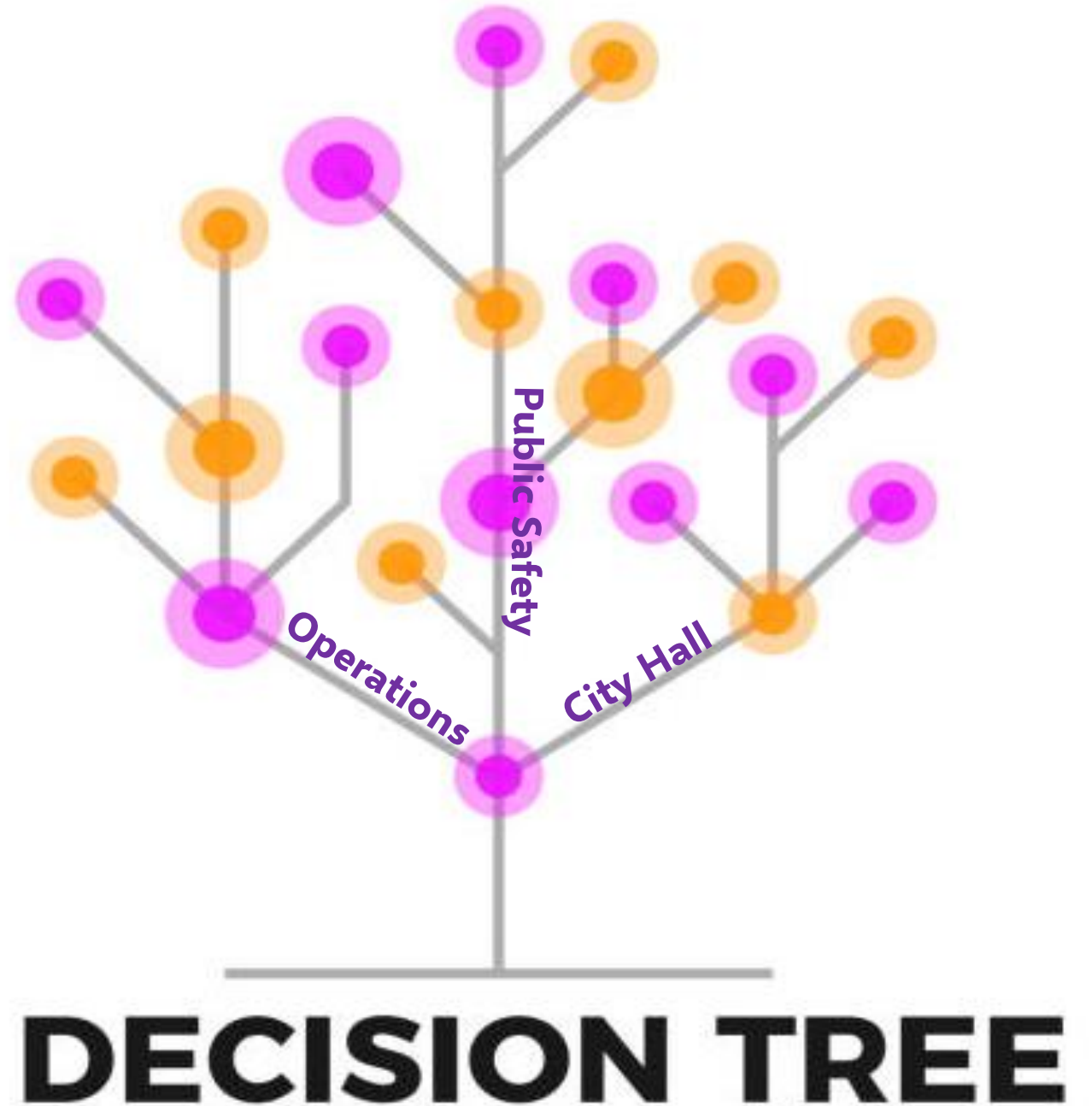
CITY OF GAHANNA

Facility Financing Overview



AGENDA

- Local Government Powers
- Types of Financing
- Capacity
- Pros & Cons
- Next Steps
- Questions



POWERS OF LOCAL GOVERNMENT

- Basic powers of a municipality are expressly granted by the State (Dillon's Rule).
- Certain powers, through the home rule provisions of the Ohio Constitution Article XVIII Section 3, are granted to municipalities including local self-government and local police, sanitary, and other similar regulations that are not in conflict with general laws.
- In most cases, in order to exercise local self-government, a government must adopt a Charter as the City of Gahanna has.
- However, even as a Charter City, certain powers are still limited by the Ohio Constitution to prevent abuse including the power to levy taxes and incur debt.
- This presentation will focus on the City's power of taxation and ability to incur debt which are restricted by various Articles of the Ohio Constitution and Ohio Revised Code.

FACILITIES FINANCING - TAXATION

- Property Tax Limitations
 - Limited to 10 mills without a vote of the people (Ohio Constitution, Article XII Section 2)
 - As a Charter City a different limitation may be established by Charter, but it is complex and would still require a vote of the people as an amendment to the Charter.
 - Levies in excess of the 10-mill limitation require a vote of the people and may be for current operations, special levies for a specific purpose, or bond levies for payment of debt and related charges.
- Municipal Income Tax Limitations
 - Limited to 1% of qualifying income under Ohio Revised Code Section 718.04.
 - Anything in excess of 1% must be approved by the voters and may only be used for the purpose identified on the ballot.

FACILITIES FINANCING - DEBT

- Ohio Revised Code 133
 - Allows for the issuance of General Obligation Bonds
 - General Obligation Bonds are securities where the City is pledging the full faith and credit and taxing power of the City.
 - There are specific purposes the City may issue General Obligation Bonds for, and facilities would be eligible as a permanent improvement.

FACILITIES FINANCING - DEBT

- Limitations placed on General Obligation Bonds under ORC 133 include:
 - Length of maturity is generally based on the estimated useful life of the improvement.
 - For facilities, this is based on the fiscal officer's determination of estimated useful life. The determination cannot exceed 30 years.
 - Interest rates are required to be fixed or specified in the authorizing legislation but there is no limit on interest rates beyond any maximums established in the authorizing legislation.

FACILITIES FINANCING - DEBT

- Limitations on the amount of debt or net indebtedness of the City:
 - Excludes special obligation debt and Tax Increment Financing debt
 - 10-mill limitation is the limit for unvoted debt: an individual parcel of property cannot exceed 10-mills without a vote of the people and this limitation considers all subdivisions a parcel may be included in
 - Indirect debt limit for unvoted debt is the City's share of the 10-mill limitation pledged for debt repayment
 - There are two direct limitations of net indebtedness for the City.
 - Unvoted cannot exceed 5.5% of the City's tax valuation
 - TY 20 \$64,443,916
 - Total (voted and unvoted) cannot exceed 10.5% of the City's tax valuation
 - TY 20 \$123,029,294
- The City currently has \$4,590,000 of bonded debt subject to the limit and \$14,315,000 not subject to the limitation.
- Municipal Income tax has been pledged for the \$14,315,000 not subject to the limitation however other funding sources are also used as applicable.

FACILITIES FINANCING - DEBT

- Article XVIII Section 3 of the Ohio Constitution
 - Allows for municipalities to issue special obligation debt where the City pledges municipal income tax receipts for the repayment of the debt
 - The limitations under ORC 133 do not apply
- Chapter 5709 of the Ohio Revised Code Tax Increment Financings (TIF)
 - The City may pledge payments in lieu of taxes for infrastructure improvements that directly benefit the exempted parcels within the TIF District
 - Requires an in-depth review of the legislation that created each TIF and a legal opinion
 - The ORC 133 limitations do not apply

FACILITIES FINANCING - OTHER

- Other options
 - Leasing of property
 - Cash financing
 - Other

FACILITIES FINANCING - CAPACITY

- All taxes that can be levied without a vote of the people have been levied
- 0.75% of the voted income tax levy for capital improvements and maintenance can be used for facility purposes
- 10 TIF districts can be evaluated
- Unvoted general obligation debt
- Consideration of a voted bond issue
- Selling existing assets to raise capital
- Utilize the services of the CIC for land sales

FACILITIES FINANCING - INCOME TAX CAPACITY

- Currently utilizing 100% of all income tax receipted in the General Fund and Capital Improvement Fund.
- If using General Obligation Bonds or Special Obligation Bonds, a determination needs made on what the debt service payments would be and identify reductions in order to meet debt obligations.
- 1.5% income tax receipted to the General Fund is needed for basic operations and to meet annual debt service requirements (judgement bonds and to bridge the gap for other outstanding bonds).
- The .75% receipted to the Capital Improvement Fund could have capacity but would require a reduction to capital maintenance or other capital improvements.

FACILITIES FINANCING - SUMMARY

- 1.5% of income tax collected in the General Fund has no capacity for additional debt service
- The .75% of income tax collected in the Capital Improvement Fund has some capacity
- TIF legislation can be explored
- Additional funding through the sale of existing assets.
- Voted bond levy for one or all projects as the total debt limitation has capacity.
- Other financing arrangements such as a lease

FACILITIES FINANCING - PROS & CONS

| Cash Financing | |
|-------------------------|--|
| Pros | Cons |
| No financing costs | Significant delays while cash balances are accumulated |
| No agreements to manage | Risk of re-direction to other projects |
| | Fluctuations in the interest rate environment for investing |
| | Cash sitting idle for long periods when it could be put to work |
| | Large cash outlays that may be difficult to budget for if a “pay for it as we have it” methodology is used |

FACILITIES FINANCING - PROS & CONS

| General Obligation Bonds | |
|--|--|
| Pros | Cons |
| Allows for better cash flow management | Subject to debt limitations |
| Puts public dollars to work quicker | There is a cost to issuing the debt |
| Have an option to increase resources for repayment by placing a voted bond issue on the ballot | Interest rate fluctuations until they can be locked |
| Attractive to investors as a secure investment with tax exempt interest earned | Possible deferment of other projects or maintenance to meet required debt service payments |
| Typically, a lower cost of borrowing than other debt instruments | |

FACILITIES FINANCING - PROS & CONS

| Special Obligation Bonds | |
|---|---|
| Pros | Cons |
| Allows for better cash flow management | There is a cost to issuing the debt |
| Puts public dollars to work quicker | Interest rate fluctuations until they can be locked |
| Attractive to investors as a secure investment with tax exempt interest earned. | Possible deferment of other projects or maintenance to meet required debt service payments. |
| Typically, a lower cost of borrowing than other debt instruments. | |

FACILITIES FINANCING - PROS & CONS

| Tax Increment Financing (TIF) Bonds | |
|---|---|
| Pros | Cons |
| Allows for better cash flow management | There is a cost to issuing the debt |
| Puts public dollars to work quicker | Interest rate fluctuations until they can be locked |
| Attractive to investors as a secure investment with tax exempt interest earned. | Possible deferment of other projects or maintenance to meet required debt service payments. |
| Typically, a lower cost of borrowing than other debt instruments. | Additional costs of researching TIF legislation and seeking legal opinions |

FACILITIES FINANCING - PROS & CONS

| Leasing and Other Arrangements | |
|---|--|
| Pros | Cons |
| Does not impact debt limitations | Can be more costly than a traditional borrowing |
| Puts public dollars to work quicker | Risk of the landlord terminating the lease without a viable location to go to |
| Ability to negotiate terms | Risk of unsuccessful negotiations |
| Do not have to purchase if a better options presents itself | Purchasing may be more costly over the course of the lease than an out right purchase. |
| | Overly complex agreements that could be difficult and time consuming to manage. |

FACILITIES FINANCING - NEXT STEPS

- Release of RFP for Operations Complex (Service, Parks, Fleet) *
- RFP for design/architectural work for Justice Center *
- Evaluating TIF legislation and legal opinion
- Develop estimated project timelines
- Continued exploration of City Hall options
- Continued exploration on financing options

*Note this action does not bind the City to anything, but gives a better factual understanding of costs and location options

QUESTIONS?

