CITY OF INDEPENDENCE
FINANCE COMMITTEE MEETING
MINUTES
JUNE 16, 2020 4:30 P.M.
VIRTUAL MEETING VIA ZOOM

Present: Chairman Vice Mayor Dave Grendel
Councilperson Kenn Synek
Councilperson Dale Veverka

Also Present: Mayor Gregory P. Kurtz
Councilperson Kathleen Kapusta
Councilperson Jim Trakas
Finance Director Vern Blaze
Finance Assistant Maggie Osysko
Matt Stuczynski, MAS Financial

Chairman Vice Mayor Grendel called the Finance Committee meeting to order at 4:32 p.m.

You know our agenda is just one topic, and it's discussion of City debt; and it's a very important topic, especially in our volatile world that we live in today. We are getting a pretty good start on this. We are looking at legislation to be introduced in July on First Reading and kept on First Reading. We will discuss this further and hopefully approve it in August.

We have Matt who is here, the veterans on Council have worked very much with Matt Stuczynski for a number of years, but last year we had a number of meetings whether to go between BANs and bonds. So, I am going to get the discussion started with having Vern give us a little introduction.

Finance Director Blaze said you always give the grandest introductions Vice Mayor because it just makes transitioning to what I am going to say so much easier; and thanks to the three committee members and Kathleen for you attending on line and Mayor. It's an important decision. We have the $17,375,000 worth of BANs, the one year notes. They don't mature until early December; so we are doing really good as far as attacking this issue now in June. The reason we are doing that is the market has exhibited some turbulence and ups and downs the last couple of months; and that's why we have Matt here. I am just going to speak for a few minutes, and then Matt will present some stuff. Then we will just engage in a discussion from there.

The question is, in the past couple of years with these BANs the M.O. has been always pretty much to renew them on a one year basis continuously; and that certainly is a viable option here this year 2020 based on the current interest rate market for short term notes, let's call them. The long term bond interest market is equally as attractive, not as low of rates because it's long term, but long term rates are at levels that just, if you read any of the weekly correspondence I have sent out to you; they are at levels that get your attention as well.

There is Councilperson Trakas coming in. Welcome Councilperson Trakas if you could hear us.

So, what we wanted to do is here in June we introduced the topic again. Those of you who served on Council last year you remember some presentations from Matt and the decision process that went through that. The Vice Mayor outlined it. If we could walk away from this meeting today with some direction; we even don't need pinpoint decisions from this body collectively today because what we are going to ask from you by the end of the meeting is for a little bit of flexibility so that when it comes time for us to have to pull the trigger on refinancing this debt later this year that we can make the best decision for the City based on what the short term market is versus the long term at that time. They could be the same as they are today. One could be better, one could be worse. It's changing by the day, changing by the week. We know how world circumstances have changed tremendously this year from Covid-19 to the Minnesota Police incident; and while all these incidents have impacts on the debt market. We are in the debt market because we have over $17,000,000 worth of one year notes that expire or mature later this year.

So, that's a little introduction. I will turn it over to financial advisor Matt. All of you I think who are on served last year except for Councilperson Synek; so I don't know if you know Matt at all or not, but if you don't, Matt Stuczynski. It's more important to hear what he says. So, Matt, the floor is yours.

Matt Stuczynski said good afternoon. I am certainly delighted to be sitting amongst the representatives from the City. It feels good to be back in a Council or Caucus room as opposed to sitting in my office. So, thank you for indulging me and allowing me to join you folks.

I did send to Director Blaze a handout which is a modified version of what we reviewed last year in July. I pared it down from 10 pages down to 5 just to show you some of the bullets of content that we discussed last year as it relates to bonds versus BANs. I have no intention of going through 5 pages worth of bullets; but of course any content that you would like to review, revisit, go in more detail, I am happy to discuss. As Director Blaze mentioned what we are tasked with doing is preparing or strategizing a plan that we need to develop between now and when those notes mature December 3, 2020. As suggested, that can be in the form of rolling over BANs for the entire amount, issuing bonds for the entire amount of notes that are outstanding, or some hybrid, a combination of the two, issuing bonds and BANs.

Thank you very much for starting early as Director Blaze mentioned. With the disruption in the marketplace; while things have settled down in some places and in some areas of the market, they still remain somewhat disrupted in other areas of the market. For the most part, as it concerns us today, one year bond anticipation notes are being well received by the marketplace. Rates have now, where in February they were at less than 1 %, slightly less than 1%, and then through the course of March and April spiked to over 2 ½%. Again, this is for one year note rates, are now in the course of those couple of weeks since the beginning of May, rates have come down considerably on one year notes and now are below one-half of 1%. We have seen good execution of one year notes in the 35 to 45 basis point rate for a variety of different issuers. So, we are in a very healthy, for the time being, one year note rate environment

As it relates to bonds, bonds went through the same dynamic in as much as general obligation bonds, which of course that's what we are discussing here today, this general obligation debt were at their all time lows going into the end of February. They retreated in terms of higher interest rates through the course of March and April and have settled back down into a very comfortable low interest rate range. For a 20 year highly rated general obligation, we are seeing rates just slightly under or right around 2% for a 20 year borrowing, which is very attractive for long term borrowing.

So, when we think about the notes that are coming up for renewal, and we talking about this last year that by way of this outstanding debt being in the form of a one year note; City Council and the Administration have the luxury of making a decision each year as to what they plan to do with the notes that are coming due. As we talked about, stay in the form of notes, convert to bonds or do some hybrid of that game plan.

What we have done since last year to this year is really sit down with the Finance Department and walk through a cash flow of what the TIF revenue is, and again, this is all general obligation debt; but as a reminder, when the debt was issued in the form of BANs there was an intention and the intention was to repay this debt with tax increment finance revenue. What we have done since last year was to sit down and put pencil to paper as to what that cash flow looks like in terms of how much TIF revenue will we receive annually. What is timely dedicated to long term bonds that are already outstanding and how long those are outstanding, what that cash flow looks like. What then remains available to service the debt on a go forward basis; that debt meaning the $17,000,000 and how that one might be structured if it were done in the form of short term notes or long term bonds.

Taking a step back to last year when the 2020 budget was created, there was at least a game plan that was established back in 2020 to spend about $2,000,000 this year retiring the $17,000,000 worth of notes; that's a combination of TIF revenue and general obligation revenue. We will call it general revenue that was going to be set aside to retire approximately $2,000,000 worth of notes this year, therein reducing the outstanding notes from $17,375,000 to just over $15,000,000. That's not cast in stone, but that was done on a preliminary basis six months ago. So, that can always of course be revisited, and (inaudible) whether or not that is still a game plan for this year.

I am going to take a second here and just stop and ask the Mayor if the Mayor has any comment. Again, we have had a brief conversation on this. Mayor, this is an opportunity I suppose for you to weigh in as to what your preferences are or what your thought process is as to a strategy.

Mayor Kurtz said what we talked about earlier was watching, I think the Finance Director eluded to a dual prong process legislatively, giving us authority to look at a combination of BANs and bonds, depending on how the market develops or re-develops over the next several months. I am more of the volition of if we can go to 2% for the $15,000,000 for 20 years, it's a fixed amount, it's easy; and we know that we can absorb that as well as our general obligation debt through our projected TIF financing. So, it's a strategy, but it's going to develop over time because of some of these markets.

Mr. Stuczynski said thank you Mayor.

If I could go back just for a quick second to the cash flow analysis that we did, and I will paint this in broad strokes; if you think about the City's TIF revenue as it's been modeled, annual TIF revenue generally speaking is in the range of $2,100,000 to $2,200,000. Of course, that assumes no one appeals the value that it is going to stay consistent on a go forward basis, and that would increase annually based upon some of the new projects that have been part of the infrastructure that's going in, and that being of course Topgolf and Vista Springs and Home2. Those projects should add additional incremental TIF revenue to the left side of the equation, the revenue side.

Current outstanding debt, general obligation debt that is intended to be paid back with TIF revenue is roughly about $950,000 annually for the next 10 or so years. So, you have already committed out of that $2,100,000 to $2,200,000; you have an obligation to pay back general obligation bonds currently outstanding of approximately just under $1,000,000. That gives you about $1,000,000 to $1,100,000 to $1,200,000 on the high end available to retire the $17,000,000 currently outstanding, but after pay down this year somewhere between $15,000,000 and $16,000,000.

If the City were to issue bonds for all of the outstanding, and let's say after pay down, let's just say that's roughly $15,000,000 worth of bonds to be issued with a 20 year amortization, roughly 2 ½% just for a conservatively high estimate; that would require approximately $1,000,000 in annual debt service. That would come from the TIF revenue that is in excess after you paid off the old bonds, that's what would be remaining to pay off the potential new series of bonds if the City decided to go to bonds for all that $15,000,000 to $16,000,000 outstanding. That gives you a little bit of wiggle room; it's not a very good financial term, but it gives you a little bit of capacity if you will with the excess revenue should there be some disruption by way of either collection of the TIF revenue or a challenge to value. If the TIF revenue doesn't come in as expected, or should decline slightly, you still have some room within the existing projected revenue stream to issue and cover the current outstanding debt and a projected debt service for a 20 year bond structure with a little bit left over. I just want to get (inaudible) the cash flows that we evaluate. Locking in of 20 years at roughly 2% was more or less how we modeled that, we know that rates are in a good position now; but as we have seen over the last two or three months, that could change dynamically and dramatically the wrong direction as quickly as it's come to our benefit in the right direction.

So, we are trying to leave as much flexibility as we progress and get closer to this maturity of this note. This has been done in other cities, that Council entertain the notion of having two pieces of legislation, one that would consider a bond structure with a not to exceed amount for all of it; and one that would consider a note structure with a not to exceed amount for all of it. Therein giving the City maximum flexibility should one of those options not be available to you as we get closer to the maturity date or to the strategy of issuing bonds or notes. I think the predisposition, or we will call it the disposition coming out of a conversation that we have had briefly is bonds seem like a very logical and straightforward strategy, with rates being as low as they are, but should there be some disruption and you can't go to the bond market for whatever reason, either as a result of the lack of hindsight or rates all of a sudden moving higher, it would be helpful to have in place legislation that allows you the luxury of renewing those notes and then converting to bonds at some future point in time. You want to have the benefit of maximum flexibility in this environment. So, if you choose one path, and don't use the other, you will rescind the legislation or it dies in the sunset. Many cities have entertained that strategy so that if some disruption occurs, they have the luxury of one path or another. With that I am going to stop and see if there's other questions.

Finance Director Blaze said let's see if you have been able to digest what you have heard either from Matt, the Vice Mayor, the Mayor or myself; and if you have any questions or any knee-jerk responses, and then we can talk from there.

Councilperson Kapusta said I like the idea of the flexibility. I like being able to say this is what maybe looks good, but if we have to go another route, we would have that ready.

Mr. Stuczynski said of course, just like we did last year, we would come back to Council and provide guidance as to what the strategy currently looks like and what the market environment looks like; and this would be the path that we would like to proceed, always knowing that we have to communicate that to you. If the pathway is still consistent with the original planning, or whether or not there's been some disruption to it.

Finance Director Blaze said one thing Matt did throw out for our consideration, even though the BANs don't expire until December 3rd, we could refinance those up to 90 days before that, so that's early September; and that's the closing date. So, feasibly the City could sell notes or bonds to take those BANs out late August. One advantage of doing that at the time, if the market is still very favorable for one decision or the other, is it's before the election. This year Matt and I did a competitive sale, well 2019, and it was the week right before Thanksgiving. By waiting until after the Presidential election this year, nobody knows who is going to get elected, what the country's reaction is going to be, what the debt market's reaction is going to be. So, I like in some of my conversations that I have had with him, just saying look we could consider pulling the trigger on refinancing these BANs prior to November 3rd this year so that we avoid whatever might happen nationally and internationally after the Presidential election here in this country this year.

Matt went into the weeds a little bit with some of the cash flow and that, and really in how I can explain it and summarize it is with our mortgages, when we went to buy our houses, especially when we were younger; you got an option to do a fixed rate mortgage for 15 years, 30 years, they are the two typical ones or a variable rate mortgage where the interest rate adjusts periodically. Typically that variable interest rate is initially lower than what you could get in the fixed market, but it can adjust. Whereas, you get the fixed rate mortgage, and your payments lock in for that 15 or 30 years, and you know exactly what it's going to be. It's kind of the same decision for the City, do we want to stay with the one year BANs? The current interest rate environment for short term BANs is super favorable; but will that last forever or do we lock in the 2% or less than 2% current for a longer term bond and then know okay now we know it's not going anywhere for the next 20 years. Matt threw out, maybe there is some type of hybrid option; and so I'm comfortable asking Council for the flexibility to introduce both piece of legislation in July, passing both in August. I don't know when the August Council meeting, whatever the second Tuesday is; that will be right before our window when we could maybe start looking at seriously selling them if the market is very competitive right then, and giving the City flexibility, obviously we can't do both. It's not like you are giving us legislation to buy two pieces of equipment, and we could feasibly go out and buy both. This one we have to exercise one or the other; so there's really no risk in Council. We can't borrow $17,000,000 in bonds and then also borrow $17,000,000 in BANs because you gave us the flexibility to do both. It's not feasible or practical. We would have to do one or the other. So, I am comfortable advocating and asking Council if they have that comfort level, put it on First Reading in July. If we need another meeting in between July and August, we do so. We maybe update where the market is, both on the short term market and the long term market. We adopt both pieces in the August Council meeting, and then we exercise one of the options at the right time, based on the market conditions that exist and communicating all that with Council. I have tried to be very transparent and open with Council since arriving here in November, and there's no reason for me to deviate from that M.O. regarding this. This is a major decision. It's over half of the City's debt right now. So, we want to make the best decision we can for the City.

Councilperson Trakas said a quick question to Matt out of curiosity. It is related. What do you think the issuance of all the new Federal debt, probably they have gone into debt another $3,000,000,000 to $4,000,000,000 this year for the Coronavirus; and they are looking to go into debt even more on the national debt side. What does that have on the markets; does that have any bearing on what we are talking about?

Finance Director Blaze said great question. I am glad. I want to hear the answer.

Mr. Stuczynski said I will give you my personal opinion because I have no better insight than every other economist, and I am not an economist; but the reality being that while we may enjoy the benefits of low interest rates today because the Fed obviously is going to manage those low interest rates. The magnitude of the debt that is going to be issued, has been issued to fund all this; there's a price to be paid at some point and time. What my concern is that the price to be paid is going to come in higher interest rates later. So, we might enjoy the benefit of these low rates for the next couple of years, and that would favor these short term rates; but when the caps come off, and the yield curve control comes off, it's not going to be anytime soon. The economy is going to be in recovery mode for a long time, but it's not going to be 20 years' worth of recovery. We will just say the ability to lock in low long term interest rates now may look fantastic 5 years from now where rates do start to ratchet up on the back end of the curve. Now out beyond 10 years and 15 years and 20 years, you are going to have to see the treasury yield curve go higher because there's going to be more supply than there likely is demand for the magnitude of debt, unless the Federal Reserve comes in and puts some type of yield control in place that limits those treasury bills. Even then, people see through that treasury, and they start to say money is limited, (inaudible), we want something more. We know that even though the Federal Reserve is putting a cap on treasuries, we want more; and (inaudible) with treasury bills. A muni market may disconnect, which it often does from where treasuries are; and that just happened as recently as two months ago where the treasury (inaudible) at lower rates, but the munis didn't follow. The munis were disconnected altogether. Some people weren't even buying things. My concerns about munis go deeper into your question as it relates to the impact on local governments and there wherewithal to repay their debt because of disruption in their revenue stream.

So, there could be a bifurcation that only the strong credits get done, and who knows where they draw the line of the strongest credits. The weaker credits come in at a much higher price.

I hope that answers your question, but the likelihood of higher interest rates in the future, it's still a strong probability.

Councilperson Trakas said that does answer the question. I guess that also influences a little bit of my thinking on the flexibility part of it because I just have a hunch that we are in for some pretty high interest rates coming in the next several years.

Finance Director Blaze said I'm certainly no economist, but some people who I respect in the financial field and economics field are just beside themselves at the magnitude of national debt and saying that it has been a house of cards at the national level through the last decade and now it has ratcheted up even more; and they are just waiting for the whole system to implode. Personally, they are putting a lot of their investments into gold because they just see that they think that the whole U.S. financial system is being propped up by (inaudible) that the term, and there's not enough to back it; and they think they are going to profit when all of this comes tumbling down. Whether that happens or not, I don't know, but I like what Matt's comments were. Councilperson Trakas, I tend to agree that there's a price to be paid for everything, and these current low rates that we are enjoying in the short term will have some cost in the long term.

Councilperson Synek said I have a couple of questions and observations. So, you know I am an avid bearer of the CAFR. Debi, could you let me share my screen for a minute?

So, I looked at the CAFR, and the CAFR shows roughly $33,000,000 in total bonds and notes payable outstanding. My information is from 2018. It's dated, but if I could just share this with you to help you, help me understand. Hopefully you are seeing this sort of summary schedule, Notes and Bonds payable from 2009 to 2018, and the total balance outstanding according to the CAFR and running around $33,000,000 outstanding for a long time now.

What the CAFR shows us is eight or ten different borrowings for specific purposes; and I have heard the number $17,000,000 throughout this conversation, but how do I bridge that $17,000,000 to the roughly $30,000,000 of the City's total debt. What were the purposes of each one of those borrowings? I presume Vern you are tracking them separately. I hope you understand the $17,000,000 versus the total $30,000,000 of City debt.

Finance Director Blaze said I think with Matt's assistance, the Northeast Quadrant TIF, our short term bonds; so that $3,700,000 is the short term. The Northeast Quadrant is also short term. So, that one. The Rockside Woods Sanitary, that's a special assessment; so that's a bond.

Mr. Stuczynski said Selig is a note.

Finance Director Blaze said that's $1,863,000; so you can highlight that one in yellow. The $151,000, I think that's an OPWC so I don't think that is part of any TIF. Pleasant Valley widening at $3,600,000; that is also an OPWC, so that's out. The Northwest Quadrant, that is a bond, so that's not included, and the Southwest Quadrant is also a bond, so not a BAN. It's $10,800,000 roughly and then somehow with your category and the various refunding is not all, maybe in 2018 those were all notes because then between 2018 and 2019 some of that principle was paid off.

Mr. Stuczynski said I would tell you what's not showing there in 2018 is the additional note you issued in 2019.

Councilperson Synek said like I said, my information is obviously a little dated. I am just trying to get my head around the $17,000,000 versus the total $33,000,000.

Would it make sense, certainly the TIF ones, in a perfect world, we would forecast out over the full whole life of the TIF which is a limited number of years, how much we are going to collect, is it enough to satisfy those bonds? It's just a matter of time. Have you done that forecasting? Are we going to run out of time on the TIF before the note or obligation is satisfied? What is the relationship between time and the balance on these TIF borrowings?

Mr. Stuczynski said so that goes back to the analysis I eluded where we have a little over $2,000,000 in TIF revenue. You are right, I don't think we have drilled down to when each TIF started and when each TIF burns off; but we looked at the TIF revenue, and we feel, I believe, fairly confident that the TIF revenue from 2020 to 2030, which is when the existing debt service, that's outstanding the form of bonds, is paid off. As I mentioned, that's roughly $950,000, and we have $2,000,000 worth of TIF revenue coming in for the next 10 years to pay off the existing bonds. That's part of what you see in Column 2018. Whether I mentioned that was above and beyond that is available to pay off the $17,000,000 of outstanding BANs that were intended to be repaid with TIF revenues.

Councilperson Synek said again, you guys are the managers. It's just my observation that, for instance for these TIFs, we have to go to the County every year and assert the need for the TIF for the County to continue the TIF. Having this debt makes it a pretty easy fact to present to the Budget Commission to say we have this debt so we need to continue to collect the TIF. As long as the TIF is there to satisfy that obligation in plenty of time, there's not a huge incentive to pay those off any quicker because then we just might lose the TIF revenue. It will just go away. Assuming that there's enough time left on the TIF, and the annual collections are going to be enough to satisfy that debt. Just again, my opinion is that there ought to be some matching between the time amount of the TIF and the amortization of those particular borrowings.

Mr. Stuczynski said well I think only one point of clarification, the TIF does not have to be used just to be repaid, to pay back debt. The TIF in each one of those TIF districts has a public purpose improvement clause at the end of each TIF section that identifies what those TIFs could be used for; and they could be used in a current basis for current capital projects as long as they qualify under that list of public purpose improvements. It does not have to be necessarily just for the debt associated with a specific project that was identified 10 years or so ago. As long as the public purpose improvement provided latitude, you could use current TIF for those on a cash basis, on a pay as you go basis.

Councilperson Synek asked does there exist a forecast for each one of those TIFs that kind of shows the estimated revenue, this is how much we have to use to repay debt, this is how much additional shortfall or surplus there is over the remaining life of the TIF?

Mr. Stuczynski said I don't believe there is such a reconciliation of that nature. There's a historical list of each TIF, and the TIF collections from each of those TIFs; but there's no allocation of each TIF against debt service and public purpose improvement. That's never been done.

Finance Director Blaze said and here's why I haven't done that Councilperson Synek is because even though it's been sold to Council that it's a good thing that we were dedicating TIF revenue to pay back these BANs with and some of the bonds that the City has; these still are general obligation BANs and general obligation notes. These are not just revenue bonds where the City is only pledging TIF revenue to pay these back. If we were, we would be paying interest rates a lot higher than what we have been getting in the past and what we would be getting the next time we go to market. We get good interest rates because we have pledged the full faith and credit of the City to pay these BANs and bonds back. So, when I am calculating, I just look at it on a more macro level. Matt will drill down like okay your TIF revenue is $2,100,000. Your bond deficit risk is this. Your BAN debt service is this. I look at the macro level and say like you do, you pointed out in the past look net revenue to the City minus the HIDTA and Strike Force is significant; and the operating budget is $24,000,000; so that gives us multiple millions, $16,000,000, throw whatever number you want in there as a gap to do debt service and capital infrastructure. So, if that gap is $16,000,000, and our debt service is $2,000,000 to $3,000,000 a year on that; I still have multiple millions to apply to capital and infrastructure. I am looking at it more in an aggregate basis, knowing that TIF revenue was sold as a way to pay these bonds and BANs back; but we also have every other revenue source available to us to pay these back. If we only needed the TIF, great; but we get good interest rates because we sell them to the market as general obligation debt and not just TIF revenue debt.

Councilperson Synek said and again, I would just reiterate that it's easy to have the County approve the TIF while (inaudible) the separate debt out there. It's just an easy fact to present to them to say hey keep renewing our TIF; but it would be very important to know whether we should amortize these over 5 years, 10 years or 20 years, based on the life of the TIF, the balance of the loan, the future cash flows from property tax collections from the TIF. Are we over or under? Where are we at with each one of these things? Having that sort of information would better form my thinking about how to sell off these bonds. What we should do. Again, we only get the TIF revenue to the extent that we justify a need for the revenue. If there were no debt, we might not get the TIF. So, we might as well keep the debt around to maximize the revenue that's coming from the TIF.

Finance Director Blaze said but I would call attention to the fact though, besides the debt we owe to others, we have the debt we owe to ourselves. Each one of these TIF funds have been advanced millions of dollars, and that number is $18,000,000, $19,000,000, $20,000,000; and so once we go to the County, if our cash flow is great and we paid all this debt back in 5 years, the County can't cut us off and say no more need for the TIF because we say we paid the debt off. We paid to others, and now we have to pay all the advances back that we paid ourselves back.

So, we have a lot of justification for the TIFs, and I don't anticipate them running out. Let's say we were so good financially that we paid all of our debt to others off, and we paid ourselves back. By that time, all of these TIF districts, the infrastructure is already 15 or 20 years old, guess what, we have to start doing multi-million dollar repairs after these roads have been, and these sewers have been in place for that long.

So, I think it's more of a theoretical discussion about us wanting to maybe keep the debt out there so that the County doesn't ever cut the TIF off. Between what we owe others, what we owe ourselves and the needs within each one of these districts as Matt outlined, I could see us, as long as the TIF district is in place, we could justify its existence.

Councilperson Synek said the only comment I would like to make with these different notes or debt is that it would make perfect sense to amortize the debt over the useful life of the asset. When we have to totally rip up or replace Selig Road next year, yet we still have the debt from the original construction, that would not be a good thing. If we could amortize the loan over the life of the asset, that's a fine way to go.

The Northeast Quadrant Improvements, the Selig Road, those are fairly new investments; so we are early in the life of those assets, and if they take a longer term to pay off that's good. It matches the period of the benefit against the period of the amortization.

This bigger nut down here, the $9,800,000, that personally editorially is a little more troubling to me because you look back, that kind of came into being in 2011 when these 2010 loans were refinanced, part of which is the Shared Use Facility which has been around awhile, and we are carrying a pretty big debt for that asset that maybe I would looking to pay that off faster or sooner and get done with that. On top of the fact, to the best of my knowledge, no TIF was associated with this various refunding obligation. There's no dedicated revenue source other than general City. So, I would be looking to pay that one down quicker, and let these guys go over the life the asset. That's a more granular thing than what we have been talking about. So far, we have talked grand totals on the whole thing. Have you done much analysis on the individual items of debt that we have?

Finance Director Blaze said I think Matt or Dave or Maggie are all trying to talk our response on that.

Mr. Stuczynski said so we have no choice when we issue bonds. It will be done by purpose, and the purpose meaning the projects. There's a fiscal officer's certificate when these BANs are originally issued, and it outlines the useful life of each of those projects. When you compile these different projects together in one offering, you still have the limitation for each project of not exceeding the useful life that was identified when it was originally issued. So, even though you might be consolidating 6 or 7 projects in one bond issue, you still have to structure each component within the useful life originally identified. So, in fact, Selig Road for example was intended to be paid as currently outstanding at the end of 2019 was $1,525,000. It was anticipated that $325,000 would be paid off this year, and that would bring it down. So, if this was cash flow years ago, it was intended to be paid back in 4 to 5 years in a course of issuing BANs; and in the course of issuing bonds, it would be paid back in a similar manner.

You wouldn't be extending Selig, you would be structuring a bond and wrapping these altogether with separate amortization schedules for each project.

So to do just what you are describing. You don't want to issue Selig Road, what remains of Selig Road in a structure of a 20 year bond issue and then to pay it off when it's been outstanding for 10 years. So, you are trying to make sure that each component within the bond issue has lived by the original fiscal officer's certificate a useful life that was identified when the project was started. So, we have to compile all those pieces together and put together a bond structure that complies. That is State law. We don't have any choice but to do it with those limitations.

Finance Director Blaze said the key part of that was and Councilperson Synek your one line showed Shared Use Facility $11,000,000 of debt there back in 2011. That was the bond that was defeased. So, Council in the last couple of years actually did what you just advocated we do. They paid off that debt that had no repayment source. So, they are sitting out there I think defeased but not technically paid off because it's within the 10 year call feature. The bottom line is the debt is not on our books anymore because they have been defeased for the reason you bring up that the previous Finance Director felt that there was no dedicated revenue repayment source for those versus the TIF. So, I believe that is what Council did, and they actually did what you are advocating for now.

Mr. Stuczynski said and that was done in 2019. So, the challenge to the spreadsheet that you are in the CAFR, you can't drill down in what's called the funding; and those are likely the notes that are being rolled every year. They call them re-funding, but technically those are notes that are just being renewed each year. In 2019 there was in fact a cash defeasance of some of that outstanding debt. So, it's a little confusing in terms of that graphic that you have in the spreadsheet.

Councilperson Synek said it's dated; 2018 is the most recent CAFR. It might be good Vern if you could provide us with more up to date figures as to how much is outstanding on each obligation, what the interest rates are. Again, we are just talking about one lump sum, $33,000,000; but if you could break it down into more manageable components, like this is how much we owe for this project, this is how much we owe for that project. Some of them are zero interest rates. Obviously, we would all borrow as much as we possibly could if interest was zero. You couldn't borrow enough. It is the interest cost, it's not the balance itself, it's the interest cost that is the penalty to the City if we are holding on to too much money.

The other sort of challenge I heard was something that was mentioned early was a 20 year amortization. To me, I'm not nearly as close to the numbers as you are Vern or Mayor or others who have been around here longer; that's too long in my opinion. We are going to have such positive cash flow from the operation that we are going to build a big cash balance that we don't need when we are carrying the same debt. So, I would advocate that we make some attempt at a longer term cash flow forecast. We have $10,000,000 of excess cash, wouldn't we use that to pay down debt sooner. Does a 20 year amortization could it be too long? Again, we don't want to sit on cash. The markets are awash in cash and just wondering is 20 years too long?

Mayor Kurtz said well the 20 year just to clarify from my perspective, 20 years is a term period that you lock, you know what you are going to pay every year. It's fixed, and if you can get a 2% interest rate; I'm like you, it's like almost free money.

The other component of that is we have a very high appetite, a large appetite for spending; and there's $40,000,000 or $50,000,000 of infrastructure projects that are forecasted. There are a number of different capital projects. We are never going to have enough cash to run the size of this organization. The other side of that coin if you flip it over nowadays, I am not so sure what the new normal is going to be when the dust settles in terms of the demand for office space and our current structure of our economic development strategy. So, we are wrestling with that on a daily basis right now, and as it becomes more clear we will not only sit with Council, we will discuss with Council, and then we will project with Council. So, there are a number of different variables that are just so off the wall right now; but we have tens of millions of dollars of projects that they can be shovel ready quickly.

Councilperson Synek said what I am just trying to suggest here is that we should think about the maturity, the term of these notes kind of by project as opposed to a lump sum. Try to match for those that are supported by TIF revenue to try to match the maturity of the debt over the life of the TIF, certainly no longer than that, perhaps even shorter depending on the forecast they show or other general debt that doesn't have a TIF, consider is 20 years too long of a period. It could be paid off sooner thereby eliminating the interest costs. Maybe the interest cost becomes so nominal at that point, okay we go over 20 years. The maturity has to be half the interest or more than a 20 year maturity; so it's the interest costs that is the penalty in this. If we could pay it off over 10 years, that's fine.

All these projects that we need to borrow for, I have no trouble with that. You can't save up enough cash to pay for a 30 year life asset. You have to finance it with debt, and that's fine. If new projects come along, there will be an economic life and revenue source with many of those, but the debt we have today, I am just challenged with the assumption that 20 years is the right period. I just ask the question, should we consider shorter than 20 years?

Mayor Kurtz said I guess my only point would be that I can lock in, again I will go back to a business perspective; if I can lock in 20 years of financing for less than 2%, and in 5 years if we are sitting on some cash, and we have a $10,000,000 or $20,000,000 project to finance at 4% or 5%, even tax free, then we made a good calculation if in fact interest rates are such that in 5 or 10 years that they are still at sub 2% on BANs, then at least I know what my debt structure is and I know what I am paying off. I have flexibility if these projects come on board down the road. It's just philosophical.

Mr. Stucynski said Mayor if you don't mind my adding, on a 20 year bond issue generally speaking these days, we would build in an optional redemption provision in 8 years that gives the City the flexibility after that call date or optional redemption date to pay down bonds that are farther out on the maturity schedule. So if you did have some flexibility in the form of excess revenue, you could apply that to bonds that are out (inaudible) 2016 and thereafter to shorten the maturity of the debt.

Mayor Kurtz said that's true, as long as it's, I have been in financial structuring of debt where the financial institution wants to leverage for that. I want the leverage for that.

Mr. Stucynski said that's your decision. That's not a push feature. It's your luxury and your benefit to make that decision; it's not the financial institution's. It's not a push by them, it's an option that's given to you. I don't mean to challenge you, but that is a luxury that you have.

Mayor Kurtz said I have been on both sides of that one. In the private sector I have been on both sides of that.

Mr. Stucynski said right. I don't blame you. Again, that's an analysis you do at the time you have cash to determine whether or not that cash is better served paying off debt at 2% or possibly reinvesting at something more than 2%, depending on the marketplace at the time.

Mayor Kurtz said you have to build in some flexibility is what you are saying Matt.

Mr. Stucynski said right, and in 2019 when the City did defease $4,000,000 worth of debt, those bonds were outstanding at four plus percent. That looks like a brilliant decision today where you can't earn 60 basis points on short term investments. So, you basically took cash and put aside 4% debt which looks like a really smart move of having paid that debt down last year.

Finance Director Blaze said so all we are looking at is to maybe bring it home is that flexibility. I know Councilperson Kapusta you indicated you liked that dual option to give us some flexibility. Councilperson Trakas you indicated that you think long term rates are going to pop up at some point indicating maybe a preference for going the long term. Councilperson Synek I agree 100% with your comment about matching the life of the asset to the debt term and borrow more short term, long term asserts borrow more long term. Would it be a safe assumption then that because all of the assets that we are borrowing for these BANs are all infrastructure projects, those are long term assets; but effectively we are borrowing them on one year notes that you would be more of a proponent of bonding those out, maybe not for 20 years, but bonding them out because that's a long term debt and it's matching better to a long term asset than a one year note is.

Councilperson Synek said I would say that everybody now has the distinct advantage of getting the low short term interest rates. We have ample cash reserves if things got really bad, we could pay down the debt without penalty. There's flexibility in that regard and have gotten a cost savings out of it. Again, I look at debt as an important component to be able to justify the TIF, and so where there is TIF revenue it's going to pay for that; it doesn't much matter to me whether it's long term or short term borrowing. Again, TIF money is like free money. It's revenue that the City wouldn't collect but for the TIF. So, we get that and continue to pay down the debt, that's a beautiful solution. I can't say that I have a strong opinion one way or the other whether the debt should be long term fixed rate or short term year to year rollover. Everybody has been thinking interest rates are going to go up in the last 10 years; they can't go much lower. They are approaching zero, and some people are talking about having negative interest rates. So, who knows, but keep an eye on that. Nothing goes straight up, and nothing goes straight down. There's always the time factor to work with.

Finance Director Blaze said and Councilperson Veverka is the third member of the Finance Committee, any opinion at this point or you need more information or can you give us some direction because I know Debi you are on deadline and I'm ready for your e-mail any day where you are saying hey the deadline for the July legislation is coming up. So, we would like to give the Law Department the heads up and get them started because it could be some fairly complicated legislation. So, if we do intend on getting it on the July agenda, getting started on that sooner rather than later would be advantageous.

Councilperson Veverka asked are you aiming that towards me now?

Finance Director Blaze said if you want.

Councilperson Veverka said well you ended up going in Debi's direction. I think we have been particularly successful with working with the BANs up to this point, and there does seem to be an advantage of having run the BANs compared to the bonds because the rates tend to have been better. So, I'm not real anxious to jump into a bunch of bonds at this particular point yet. We do have a chance to see if the tendency switches. I mean as Kenn said, they have been saying for years that how can they go any lower with the rates, and it has. There doesn't seem to be any big push in my mind to flip over and jump out of BANs and jump totally into bonds. Continuing to look at it seems to make sense to me.

Finance Director Blaze said sure, okay. I'm just trying to get a sense if we put both options on the table in July, obviously that's just First Reading. There is no vote on it. So, hopefully that wouldn't be an issue, and then we would talk about it more between July and August, keep monitoring the municipal bond market, the BAN market, update you more and see if in August we are ready to make a decision on one or the other, or for the ultimate flexibility still going down that two lane path so that if the municipal bond market and BAN market is still in any level of turmoil come later this summer that we do have the flexibility to make the best decision for the City. So, I guess at least the first step is the five members who are on here, Councilperson Narduzzi, Councilperson Walchanowicz are not, just to see if at least if the five if they are amenable to First Reading on both BANs and bonds in July for step one. Then we will cross step two in August when we get closer to that.

Councilperson Trakas said I would be in favor of that.

Councilperson Kapusta said I would as well.

Councilperson Synek said again I would reiterate Mr. Finance Director if you could provide us with a forecast for each one of these TIF districts as to how they are expected to factor out, this is the revenue, this is the bonds, this is the shortfall or the excess that's estimated to be derived from each one of these TIF districts. Knowing where we are at on that is an important factor, and it's hard for me. If we were running huge surpluses in a TIF district or huge deficits in a TIF district, knowing that would shape my decision making on whether to go short term or long term fix. I just don't have that information right now to make an informed decision about what to do with the debt with respect to each individual TIF district. Does that make sense?

Finance Director Blaze said it makes sense, and I will try to obtain that information. I know I have to get working on the Five-Year Capital Plan because that's kind of out of whack in my opinion where the next couple of years we are showing millions of dollars more in projects on the books than we have the ability to fund internally. So, there's a big project in that. I could try to get you that, but also always know that these are either BANs or bonds. These are general obligation debt, and TIF revenue at $2,000,000 a year is a small, small fraction of the $30,000,000 in income tax that is also pledged to repay these. So, I always steer back to that, that I am not so hung up as Matt presents and as the previous Finance Director was that I am just looking at the TIF debt, making sure the TIF debt supports this. I just say look we have $30,000,000 or $40,000,000 in revenue to pay these debts back with; and I am looking at it on a macro basis versus the micro basis. We could try to put something together for you, sure.

Councilperson Synek said thank you.

Mr. Stucynski said but we will need some form of legislation passed, BANs or bonds, one way or another.

Councilperson Synek asked in July or by December?

Mr. Stucynski said no, presented to City Council so that you have at least time to review it and think about passing something in August. I think what we are trying to do is just set the table for giving both the maximum flexibility to City Council to proceed with one path or another at their August meeting.

Chairman Vice Mayor Grendel said so to summarize, I think what we are going to do is going to have two pieces of legislation, one promoting the BANs, one promoting the bonds; and again with your expertise, you are going to provide Council with some more data. Like I said, it changes, as we looked at some of the data from February and March until now; so many things have changed. So, between the legislation going on in July, and even the August meeting and even beyond before the September meeting, we are going to continue to monitor the situation, see what is in the best interest of the City. I think the Mayor mentioned if we get long term bond interest rates at 2% or less than 2%, forward looking, looking over the next 10 or 20 years, and maybe three or four years from now the bond interest might be even 3% or 4%, it would be a brilliant move to get that locked at the low rate it is now.

So, I think what we are going to do right now is for flexibility, there would be two pieces of legislation on First Reading at the July meeting. Again, we are probably going to have at least one more Finance meeting if not two that will continue to monitor. Matt, if you could provide us information as it becomes available, especially for all the Council members so that we can make the most informed decision. Right now looking at the statistics, things have changed for the two, like Matt had mentioned in his presentation how bonds which back in February were lower if I am correct. They went up a little bit higher in March or April, and now they have gone back a little bit lower. So, things change rapidly, and again we are talking a few percentage points; so for over a long term if it gets down to 2% or 1.9% for long term, it makes sense to lock that in. This way we know exactly what our obligations are for the next couple decades. The BANs might look very attractive now, extremely attractive, but a year from now or even a couple of years from now, the opportunity we have to lock in that interest rate might be fleeting and that. Again, it's a thing that we are going to give two options available, and we are going to keep those two options available for the longest time period until we finally at the August meeting or maybe if it needs to be later and have a special meeting, depending on what the world events are. Flexibility is the key I think to our way of looking at this issue. Any other questions from Council?

So, this way, I think Kenn calls for more information. I guess if you gentlemen can provide us with again a little more information on things and arguments and that, the better that we can make our decision based on. Likewise Mayor to your feelings too on the topic.

Finance Director Blaze said this was helpful.

Chairman Vice Mayor Grendel asked any other questions either for Matt or Vern? That's the approach we will take. I know that my committee, especially all members of Council would like to have as much information as possible. So, Vern that's the key if you could provide us, and Matt too because it's not an easy area to understand. The more that we can be given to make it understandable; I think we have more up to date information on the TIF revenue and the projection of that. I think Matt maybe you could provide a table or two that will provide how much revenue we are getting, what our obligations are and what money is available after we meet those obligations. It might make it a little bit easier Kenn for you to understand the TIF revenue and how it's being utilized.

Any other things?

Finance Director Blaze said no, I am good. Thank you.

Chairman Vice Mayor Grendel said so Council expect that you are going to see two pieces of legislation, not to be confused. We are trying to take the global view and keep our mind open to how things change down the road; and then we will have a better idea come August. If we are able to jump on a low rate for bonds in early September, I think that would be the way to go. If we could get something at 1.7% or 1.8% or something like that and lock that in, it would be almost a no-brainer at that point. We will have to see. The market changes rapidly.

Anything else Mayor?

Mayor Kurtz said no, I am fine. I appreciate the dialogue, and I always walk away with more knowledge. So, thank you everyone.

Councilperson Synek said Mayor could I just ask a quick question?

So, next week we have an Economic Development Committee meeting, and one of the things that would be a good discussion at that point would be an update on the IRG Northwest Quadrant thing. Will you be present at that meeting? Will Jessica be in a position to speak on that subject?

Mayor Kurtz said both of us will be at the meeting. We have not heard from them since I had a meeting with them before Covid.

Councilperson Synek said I was just wondering if it's something we could put on the agenda. Should we put something on the agenda for next week's meeting on that or not?

Mayor Kurtz said let me reach out. If there's something that's relevant or time sensitive, absolutely. If it's in a pause mode, then it's not relevant at the time. We will reach out to them and at least see if there's anything shaking.

Chairman Vice Mayor Grendel asked and Mayor is there anything on the St. Michael, would that be a topic for next Tuesday?

Mayor Kurtz said what we are going to do is we are going to meet with the stakeholders in the area; and there's some history that needs to be vetted that the neighbors have introduced some information. So, my goal is to meet with the neighbors, St. Michael and obviously the City and have Jessica get her arms around the situation so that we would be in a better a position. If that happens between now and Tuesday, we will be in a position to discuss it more fully; and if it doesn't happen, it will in the near future.

Chairman Vice Mayor Grendel said thank you Mayor.

Councilperson Kapusta said Mayor I have a question.

I wanted to know and Vern I don't know if you have this information now or if it's something we can find out; but as I continue to read the articles that come forward regarding the municipal tax and possibility of employees wanting to pay tax where they are living and working versus like in their buildings. I keep seeing that figure of, if I am understanding correctly, this would be an issue for consideration in businesses whose annual sales were at least $500,000 or above. Is that accurate?

Finance Director Blaze said that's probably more of a tax question. I don't know if Councilperson Synek knows that off the top of his head what that is referring to or we would have to do some research on that.

Mr. Stucynski said it's my understanding that it's over $500,000.

Councilperson Kapusta said so that's what I have been reading. So, my next question then for that is could we try to get a handle on what percentage of our businesses in town would be impacted by that then?

Mr. Stucynski asked how do you do that?

Finance Director Blaze said I don't know if that's information the Regional Income Tax Agency would share with us. I know they obviously share tax information with us, but whether they share annual revenues of the companies since those are private companies, I am not sure RITA is at liberty to legally share that. I guess I would have to ask RITA that.

Councilperson Kapusta said I would be interested because if that's going to be the barometer that they use potentially to make this decision, then I don't know that it's very fair or not that they would share that information ahead of time because that could have a significant impact to us as we all know.

Councilperson Synek said it would be an impact. I'm not sure it would be significant. If you think about a business with $500,000 of revenue, maybe they have $400,000 of payroll, but it's probably less than that. With $400,000 of payroll, it equates to $8,000 of City income tax withholding. So, you have to have an awful lot of $500,000 businesses with 80% payroll.

Councilperson Kapusta said and that's what I want to know because I agree with you. It could be insignificant or I didn't know.

Councilperson Synek said it would be a rounding difference in our budget still. Those micro businesses, they tend not to have payroll, there's some net profit income they would pay; $500,000 is a very small business. If you are going to rent space on Rockside Road, you probably have revenue quite a bit higher than $500,000 unless you are one of those sort of shared office group. Maybe you're an insurance agent or lawyer or accountant kind of sharing office space, but by and large the tenants down on Rockside are significantly larger than $500,000 in revenue.

Finance Director Blaze said I don't know Mayor if you want to share just real quick. You shared with us about your attempt maybe to talk to Columbus a little bit more seriously about this issue so that communities like the outer ring suburbs such as Independence and even downtown business districts like Cleveland, Columbus, Cincinnati, how they would be impacted and trying to take some action now to prevent a negative occurrence going forward.

Mayor Kurtz said we discussed earlier some of the dynamics that are taking place relative to Columbus and all the taxpayers about what's going to happen, the new normal after this thing settles down. We need to have the legislator probably redress some type of tax situation that continues the 20 day provision for construction projects; but there's going to have to be a revisit or new look in terms of office mix, people working from home and the impact on these different communities. So, we are talking to a number of people to try to get our arms around it, be proactive in terms of income tax and stabilizing that number for these affected communities. That's a to be continued discussion.

Hopefully, that answers your question Kathleen.

Councilperson Kapusta said thank you.

Chairman Vice Mayor Grendel asked any other questions? There were none.

Moved by Veverka, seconded by Synek, to adjourn the Finance Committee meeting of June 16, 2020. Voice Vote: 3 yes/0 no; motion carried.

The Finance Committee meeting of June 16, 2020 was then adjourned at 5:47 p.m.

Debra J. Beal, Clerk of Council
Minutes Unapproved at Time of Release 06/18/20