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From: Mann, Steven D. <mann@millercanfield.com>
Sent: Wednesday, March 20, 2019 10:37:58 AM
To: Steven Aynes
Subject: March Basin Meeting Discussion

Steve,
I am providing some guidance to the questions that have been raised below.

1. Is it possible to get bonding that does not include an early pay off penalty?
Generally municipal bond purchasers (investors) want a 10-year call protection period. This means that for the first 10 years after issuing the bonds, there is no ability to make prepayments. This 10-year call protection period could be shorted to 7-years or 5-years (or perhaps less depending on the method of sale and purchaser), but the trade-off would be that the Township pays a higher interest rate on the bonds.

2. If yes, can it be made part of a contract with a developer that there is a fee or cost they have to pay that would go to paying down the bond balance?
We would have to discuss the specifics, but it would be unusual for such a provision to be included in a development agreement. Such a provision may also run afoul with the Federal tax regulations applicable to tax-exempt bonds. In general, fees charged to developers and other property owners should be based on a uniform fee schedule adopted by the Township Board for connecting to the Township's sewer system.

3. Cannot imagine this happening but someone is going to ask to make the basin less palatable, if the bond goes into default status (never happened with the PSB bond and it much more costly), does the outstanding expense fall on the tax payers?
The Township would need to avoid a missed bond payment at all costs as such an event is significant and would have long-term consequences for the Township. The type of bond being proposed is a capital improvement bond which would pledge as security the Township's "full faith and credit." The Township would be obligated to pay the bond payments as a first-budget obligation, before any other non-debt service related expenses. So, if the revenues of the sewer system were insufficient to pay debt service on the bond, the debt service would become a first budget priority payment from the general fund.

An alternative to issuing a capital improvement bond would be for the Township to issue a revenue bond payable solely from the revenues of the sewer system. As pointed out in Bobby Bendzinski's March 11th letter, a revenue bond would require (among other things) that the Township to set aside approximately one year's debt service in a bond reserve account. Such set aside would allow bondholders nearly a one-year period to take necessary action (litigation) against the Township in light of a shortfall in revenues and a draw on the bond reserve to make a bond payment. As Mr. Bendzinski also points out, a revenue bond would draw a higher interest rate than a capital improvement bond. Again, even with a revenue bond, the Township would be well advised to take any actions necessary to avoid a missed bond payment or a draw on the bond reserve account.

I hope that this information is helpful.

Thanks,
Steve

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