



MEMORANDUM

Date: March 3, 2023
To: Mr. Tim Gropp, Town Manager
Mr. Dennis Otten, Bose McKinney & Evans LLP
From: Jennifer Hudson
Re: Police Station Financing Options

Town Council has approved moving forward with the build-operate-transfer (“BOT”) structure for the construction of a new police station. At this time, construction costs are still being determined; however, for discussion purposes, we have assumed a project fund of \$11.6 million. It has been determined that the Town plans to pledge it’s certified shares of local income tax (“LIT Revenues”) to the repayment of bonds issued to finance the project. Bonds secured by LIT Revenues are subject to the State’s Constitutional Debt Limit of combined, outstanding debt subject to the limit (i.e. property tax, LIT Revenues, etc.) cannot exceed two percent (2%) of one-third (1/3) of the net assessed value for the taxing unit.

Pay Year 2023 Net Assessed Value	\$ 615,550,856
Times	2%
	<u>12,311,017</u>
Divided by	3
Town's Statutory Debt Limit	<u>4,103,672</u>
Less General Obligation Bonds, Series 2022	<u>1,850,000</u>
Town's Net Statutory Debt Limit	<u><u>\$ 2,253,672</u></u>

Since the estimated construction cost of the project exceeds the Town’s net statutory debt limit, the financing will need to be structured as a lease financing. The Town will create a building corporation which is an entity that’s sole purpose is to issue financings on behalf of the Town. The Town will lease the police station from the Building Corporation after it is constructed and transferred. The Town will use LIT Revenues to make semi-annual lease rental payments to the Building Corporation who will then use the lease rental payments to pay the debt service due on the bonds and annual fees.

In order to move forward with the construction of the project but allow the Town’s LIT Revenues to continue to grow, the Town Council would like to proceed with a bond anticipation note (“BAN”). A BAN is a short-term financing structure that has a term of not longer than five (5) years. Upon maturity of the BAN, the Building Corporation will secure a long-term bond (twenty-year maturity) to repay the BAN.

The Town has a few options to finance the BAN. First, it could select an underwriter and do a traditional market financing. Second, the Town could solicit bids from banks or lastly, utilize the Indiana Bond Bank’s (“IBB) Community Funding Program.

Underwriting

An underwriting may require the Town to seek a bond rating from a rating agency, such as Standard & Poors. The process could add three to four weeks to the timeline. Interest rates on short term financings are currently expensive. The short term yield curve is inverted so rates are higher than they would be in a normal environment. Cost of issuance for an underwriting is assumed to be about \$163,000.

Bank Purchase

Soliciting bids from banks is an easy process. The cost of issuance is nearly \$70,000 lower than an underwriting. However, with the inverted yield curve, the banks are not as competitive.

The Town received an unsolicited proposal dated January 17, 2023 from Citizen's State Bank. Their interest rate was 4.35% for up to three years. For comparison, on February 24, 2023, Regions Bank provided an indicative rate of 4.25% for a two-year BAN.

The bank purchase option is projected to have lower cost of issuance and rate than the underwriting.

Indiana Bond Bank

The IBB has a Community Funding Program that is financed by the State Treasurer's Office. The term of the loan may not exceed ten (10) years. The program rate scale is reset monthly. The February two (2) year rate was 3.02%. The cost of issuance would be about \$135,000, including the municipal advisor and legal counsel fees for the IBB.

Attached are schedules to illustrate the three financing options. Exhibit A is a summary of the sources and uses of funds. Schedules A-1 through and including Schedule A-3 are sample amortization schedules to illustrate the interest cost for each option.

Please keep in mind that the timeline currently contemplates the financing in June 2023. Rates may fluctuate between now and then, and the changes may be material. We will continue to revisit the options as we get closer to the financing but this gives you an idea of the difference in the approaches.

Once you have had a chance to review this memo and the attached schedules, please let me know if you have any questions. I am happy to discuss the options.

TOWN OF MCCORDSVILLE, INDIANA

Proposed Bond Anticipation Note, Series 2023

(Police Station Project)

Estimated Sources and Uses of Funds

	<u>Underwriting</u>	<u>Bank</u>	<u>IBB</u>	<u>Footnotes</u>
<u>Estimated Sources of Funds</u>				
Par Amount of Bonds	\$ 9,840,000.00	\$ 10,650,000.00	\$ 11,665,000.00	(1)
Bond Issuance Premium	879,007.20	0	0	(5)
Cash Contribution	1,046,320.00	1,046,320.00	1,046,320.00	(2)
Total Estimated Sources of Funds	<u>\$ 11,765,327.20</u>	<u>\$ 11,696,320.00</u>	<u>\$ 12,711,320.00</u>	
<u>Estimated Uses of Funds</u>				
Project Fund	\$ 11,602,379.00	\$ 11,602,379.00	\$ 11,602,379.00	(3)
Underwriter's Discount	59,040.00	0	0	(4)
Costs of Issuance	103,500.00	93,500	133,500	(5)
Rounding	408.20	441.00	2,003.50	
Total Estimated Uses of Funds	<u>\$ 11,765,327.20</u>	<u>\$ 11,696,320.00</u>	<u>\$ 12,711,320.00</u>	
Estimated Total Interest Cost	\$ 1,066,000.00	\$ 980,687.50	\$ 763,279.83	(1)

(1) See Schedules A-1 through A-3.

(2) Town will use cash on hand to pay for FF&E (\$310,000) and design (\$736,320).

(3) Per estimate provided by Meyer Najem dated January 11, 2023.

(4) Estimated to be \$6/bond.

(5) Estimated and subject to change.

TOWN OF MCCORDSVILLE, INDIANA

Proposed Bond Anticipation Note, Series 2023
(Police Station Project)
Estimated Debt Service Schedule

Date	Principal	Interest Rate (1)	Interest	Debt Service	
				Semi-Annual	Annual
6/1/2023					
2/1/2024			\$ 328,000.00	\$ 328,000.00	\$ 328,000.00
8/1/2024			246,000.00	246,000.00	
2/1/2025			246,000.00	246,000.00	492,000.00
8/1/2025	\$ 9,840,000.00	5.00%	246,000.00	10,086,000.00	10,086,000.00
	<u>\$ 9,840,000.00</u>		<u>\$ 1,066,000.00</u>	<u>\$ 10,906,000.00</u>	<u>\$ 10,906,000.00</u>

(1) Estimated, subject to change.

TOWN OF MCCORDSVILLE, INDIANA

Proposed Bond Anticipation Note, Series 2023
(Police Station Project)
Estimated Debt Service Schedule

Date	Principal	Interest Rate (1)	Interest	Debt Service	
				Semi-Annual	Annual
6/1/2023					
2/1/2024			\$ 301,750.00	\$ 301,750.00	\$ 301,750.00
8/1/2024			226,312.50	226,312.50	
2/1/2025			226,312.50	226,312.50	452,625.00
8/1/2025	\$ 10,650,000.00	4.25%	226,312.50	10,876,312.50	10,876,312.50
	<u>\$ 10,650,000.00</u>		<u>\$ 980,687.50</u>	<u>\$ 11,630,687.50</u>	<u>\$ 11,630,687.50</u>

(1) Estimated, subject to change.

TOWN OF MCCORDSVILLE, INDIANA

Proposed Bond Anticipation Note, Series 2023
 (Police Station Project)
 Estimated Debt Service Schedule

Date	Principal	Interest Rate (1)	Interest	Debt Service	
				Semi-Annual	Annual
6/1/2023					
2/1/2024			\$ 234,855.33	\$ 234,855.33	\$ 234,855.33
8/1/2024			176,141.50	176,141.50	
2/1/2025			176,141.50	176,141.50	352,283.00
8/1/2025	\$ 11,665,000.00	3.02%	176,141.50	11,841,141.50	11,841,141.50
	<u>\$ 11,665,000.00</u>		<u>\$ 763,279.83</u>	<u>\$ 12,428,279.83</u>	<u>\$ 12,428,279.83</u>

(1) Estimated, subject to change.