This disclosure is to detail the potential available bond sale options available to the community and the various bond sale and security options available. Based on discussions with the City, Bendzinski & Co. will be advising on a bank RFP bond sale method with a Limited Tax General Obligation security pledge. This is due to the following reasons:

- Lower bond costs of issuance
- Par amount of $1.5 million
- Best estimated overall cost of borrowing (bond costs plus expected interest costs)
- Ease of bond process and timing for completion
- Competition amongst bond bidders

Signed,

Andy Campbell, CPA
Registered Municipal Advisor

BOND SALE OPTIONS & DISCUSSION

Bendzinski & Co. (the "Firm") is a Registered Municipal Advisor in accordance with the rules and regulations set forth by the Municipal Securities Rulemaking Board ("Board" or "MSRB") and the Securities and Exchange Commission ("SEC"). The MSRB rules are designed to promote fair, efficient, and transparent transactions; to prevent fraudulent, manipulative and other unfair practices; and to minimize dealer and advisor conflicts of interest.

Bendzinski & Co. promises to abide by the current and any future rules and regulations set forth by the MSRB and the SEC including but not limited to:

- Provide an explicit fiduciary responsibility solely to the client;
- Dealing fairly with all persons;
- Will not engage in any deceptive, dishonest or unfair practices;
- Provide a duty of loyalty and care to the Issuer; and
- Make recommendations that are solely in the best interest of the Issuer.

You may verify a municipal advisor's registration on the MSRB's website at:

https://www.msrb.org/Registered-Firms-and-Qualified-Municipal-Advisor-Professionals

As part of our duties, advising on the best possible bond sale alternative that will bring the client the best overall cost of borrowing is imperative. Below is a discussion about the possible bond sale options. This information is for discussion purposes only.

Competitive Sale

A competitive sale method allows all potential open market bond purchasers to submit a bid on the bonds. This method can target both banks and brokers. A competitive sale can require an official statement, which the firm helps the client complete, and a bond rating if the bond issue is over $1 million. An official statement and rating are not required but may be recommended by the firm to ensure a better overall financial result, if the issue is less than $1 million. The bonds are marketed nationwide up to the bond sale date. On the bond sale date, potential bond purchasers submit bids, and the bonds are awarded to the purchaser who provides the lowest True Interest Cost ("TIC") (State Law requirement).

Strengths:

- All potential bond purchasers can bid on the bonds
- Client receives lowest interest rates for that date by receiving multiple bids.

Weaknesses:

- Lower bond sale timing flexibility. Bids are only evaluated on the bond sale date.
- Higher bond costs of issuance – official statement printing and distribution fees, bond rating fees and broker reselling fees might result in a higher overall cost of borrowing

Negotiated Sale

A negotiated sale is like a competitive sale, but the client selects the underwriter(s) or bond purchaser(s) and negotiates the interest rates with that/those purchaser(s) only. The bond sale date is flexible and can be adjusted as market conditions allow. This method of sale is typically reserved for "story bonds," which are bonds that the credit or circumstances around the borrowing or repayment need explaining.

Strengths:

- Marketing access flexibility due to being able to negotiate interest rates ahead of the potential bond pricing, and moving the pricing date, if needed.

- Allows for greater financial planning and bond structuring due to being able to receive estimated interest rates ahead of the bond pricing.

Weaknesses:

- No competition between potential bond purchasers as the bond purchaser is selected ahead of the bond pricing.

<u>Request for Proposals ("RFP")</u>

This is a method of sale where the client, with the firm's help, prepares a bond RFP to be distributed to banks, but not typically underwriting firms. An official statement is not prepared, and a bond rating is not obtained. The client receives multiple bids on the bond sale date, similar to a competitive sale process. The potential bond purchaser with the lowest cost of borrowing bid is selected as the winner.

Strengths:

- Bond sale process is shorter.
- Lower bond issuance costs. Bond rating, official statement printing and broker reselling fees are not required.
- Competitive process due to accepting multiple bids.

Weaknesses:

- Not effective for long-term financing. Typically, a bond term of 15 years or less is required to receive multiple bids.
- Brokers are not able to bid on these bonds, as the reselling of bonds to end buyers is restricted.

<u>Placement</u>

A placement is like a RFP, but the client selects the bank to purchase in lieu of a competitive process and negotiates the interest rates with that purchaser only. No official statement is prepared, and a bond rating is not obtained. This process will typically involve an underwriting firm acting as a placement agent.

Strengths:

- Bond sale process is shorter.
- Lower bond issuance costs. Bond rating and official statement printing fees are not required.
- High market flexibility. Negotiation timing and closing can be adjusted, based on client and bank needs.

Weaknesses:

- Not effective for long-term financing. Typically, a bond term of 15 years or less is required.

- Competitive process eliminated.

BOND SECURITY OPTIONS & DISCUSSION

A municipality that desires to finance a project must do so according to State law. A financing or "obligation" is narrowly defined as bonds or notes. Hence, financings primarily take the form of bond issues with the exception of installment purchase agreements. The following is a listing of commonly used bond issue formats. This is intended as an introduction to and workable outline for bond financing in Michigan. Based on experience and expertise, Bendzinski & Co. guidance in selecting the bond format.

Unlimited Tax General Obligation (UTGO)

UTGO Bonds are voted issues and are considered by the market to be the most secure and most preferred form of financing. A voted issue can be for a wide variety of public purposes. Because it is the most secure option, a UTGO Bond will typically produce the lowest net interest rate of any open market bond option. The ballot language may limit the application to one bond issue or a "series" of bond issues for the completion of a project and is capped by a dollar amount. The ballot language must include an estimation of the simple average millage rate over the life of the issue and the estimated millage rate for the first-year levy.

Limited Tax General Obligation (LTGO)

There are several choices that allow for an LTGO pledge. The pledge would be a first budget obligation of the general fund but is only allowed to the charter or statutory millage limit. Often a referendum period is required for the pledge. The following are possible LTGO bonds:

Act 34 of 2001, **"Capital Improvement Bonds"**: This allows a county, city, village or township to issue bonds for a wide variety of public purposes including municipal facilities. A 45-day referendum period is required. The aggregate amount of Capital Improvement Bonds may not exceed 5% of SEV.

Act 31 of 1948, **"Building Authority Bonds"**: Previous to Act 34 of 2001, a county, city, village or township was not able to directly issue limited tax bonds for most projects. Under Act 31 of 1948 a building authority may be formed that can issue the bonds with a limited tax pledge of the community without a vote. The building authority has always seemed like an unnecessary step in the process, which has been remedied with Capital Improvement Bonds authorized by Act 34 of 2001. The Building Authority Act, which is still an option, authorizes the construction of specific types of facilities including most public purpose municipal buildings. It even allows for revenue bonds, which might be useful for such projects as parking structures. Building Authority Bonds count toward the general 10% of SEV debt limit, which is an advantage over the 5% limit for Act 34 Capital Improvement Bonds. Other "Authority" options are available such as for fire department facilities.

Act 233 of 1955, **"Utility Authority Conduit Bonds"**: This method involves forming a water or sewer utility authority by two or more local units. The purpose of an Authority is to accomplish financings and/or have operational control. The powers of the Authority can be limited or broad. Many are designed to only have the power to issue bonds on behalf of the members. A primary advantage of the Act 233 Authority is that bonds can be issued as revenue bonds or limited tax general obligation bonds.

Act 185 of 1957 or 342 of 1939, **"County Conduit Bonds"**: This method offers a conduit for issuing bonds for one or more local units in financing water and sewer projects. The local unit pledges their limited tax full faith and credit to the repayment of the bonds in the contract. The County, in turn, typically pledges its limited tax full faith and credit to the issuance of County bonds. One advantage is that the County may have a bond rating and be more readily acceptable to potential purchasers than that of the local unit.

Various Acts **"Special Assessment"** (SA) and **". . . Portion Bonds"**: A Special Assessment roll of benefited properties may be established as a method of supporting a bond issue. This can be used in conjunction with other forms of financing. This is most appropriate for infrastructure benefiting specific properties. A city, village or township portion bond may be issued in conjunction with a SA bond that is supported in some other fashion, e.g. rates and charges for water and sewer, or general fund for roads.

Various enabling Acts including Act 197 of 1975, Act 450 of 1980 Act 281 of 1986 **"Tax Increment Bonds"**: There are various bond options that rely on tax increment revenue capture. It must be demonstrated, however, that the improvement serves the defined area.

Act 99 of 1933, **"Installment Purchase Agreement"**: Utilized by cities, villages, and townships, (counties have a separate authorization) this format has a fifteen-year duration and the total of all outstanding IPAs is capped at 1.25% of Taxable Value. Typically, the IPA is used for equipment purchase but may have certain limited application for infrastructure and building projects. The market for an IPA is typically only banks that will treat the IPA as a bank investment.

Revenue Bond Obligation

This type of bond issue is supported and secured solely by the revenues of the system. The issuer does pass an ordinance that covenants that rates will be maintained sufficient to cover debt service. This type of bond issue is most common for water and sewer projects but is used on a limited basis when it comes to building projects, e.g. parking structures and marinas. Of the bond options outlined, this type of bond typically produces the highest interest rate in the open market.

Act 94 of 1933, **"Revenue Bond"**: A Bond Ordinance, much like a Bond Resolution, is used to authorize the issuance of Revenue Bonds. A 45-day right of referendum period is required. If 25% of the project is grant funded, or if placed with the Municipal Bond Authority (including SRF, DWRF, and SWQIF) a LTGO pledge can additionally secure the bonds.

For comments or questions on this information, please contact one of our Registered Municipal Advisors.

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