To: City of Mackinac Island City Council

From: Warren Creamer, Managing Director, MFCI, LLC
Steven Burke, CFA, President, MFCI, LLC

Date: August 6, 2024

Re: City of Mackinac Island Competitive Public Bond Sale Overview

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The City of Mackinac City (the "City") will sell its 2024 Capital Improvement Bonds (Limited Tax General Obligation) (the "Bonds") in a competitive public sale on August 15, 2024, at 11:00 a.m. On the day of the public sale, underwriters from around the county will submit bids to purchase the City's bonds. Unlike traditional banks (i.e., Huntington National Bank, Capital One, Citizens National), which buy bonds to hold as loans, underwriting firms (i.e., Stifel, Jefferies, TD Securities) buy the bonds to resell to their clients. The underwriter may resell the bonds to a number of different buyers, such as insurance companies, banks, individual investors, and investment funds.

In the current market, for a twenty-year maturity, the advantage to selling the bonds in a competitive public sale is that the underwriters are willing to purchase the bonds at a substantially lower interest rate than a traditional bank placement. MFCI estimates that the interest rate for the public market sale is more than 1.00% lower than with a traditional bank placement. This difference in estimated interest cost equates to more than $400,000 over the life of the bonds. Additionally, there is only one active bank in Michigan that is consistently interested in purchasing bonds with twenty-year final maturities. We expect several underwriters to submit bids on the public sale.

Participating underwriters will submit their bids to a bidding platform known as Parity based on the demand of their clients and their view of the market on the day of the sale. Each bid will have slightly different variables within the overall bidding parameters set out in the Notice of Sale. At 11:00 a.m., the City, MFCI, Miller Canfield, and the Municipal Advisory Council of Michigan (the "MAC") will hold a conference call to digitally open, review, and verify the bids. The underwriter who has submitted the lowest true interest cost, or "TIC," will be awarded the bonds. TIC is an apples-to-apples comparison of all the parameters of a bid and awards the bonds to the lowest-cost provider of funds. We expect the bonds to receive significant attention in the marketplace due to the City's well-known name, strong credit, and low supply of Michigan local government bonds in the market.

We will not know the final structure of the bids until after they are opened. When MFCI estimated the structure of the bond issue for the City, we assumed that the bonds would sell for a net discount of 2%, the discount set as the floor in the bidding parameters. The sizing estimate of $3,100,000 incorporated this assumption so that the City would net about $2,966,000 after the underwriter's fee and all other costs of issuance.

There is a possibility that the winning underwriter may submit a bid with less of a discount or even an original issue premium. Premium in a bond issue is created when the coupon rate of the bonds is higher than the prevailing market interest rate for that bond. This means that the underwriter will pay the City more for the bond upfront in order to be paid more interest later. The amount of the premium is calculated as the present value of the future interest payments. Simply stated, the premium is prepaid interest which will be paid back over the life of the bond issue.

It is likely that the City will receive a winning bid that nets more than $2,966,000 in bond proceeds. Based on winning comparable taxable bond bids in the market, we estimate that the additional funds may be between $5,000 and $65,000, with a bias toward the low end of the range.

The City will have the following three options in the event it receives a higher amount of bond proceeds:

1. Resize the Bond amount down by the amount of the premium so that the deposit remains at about $2,966,000, or other lower amount if less funds are needed;
2. Keep the Bond size at $3,100,000 and retain the premium for additional project costs, if needed, or

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3. Keep some premium but limit the total proceeds for the project to an amount determined by the Council as on the current estimates for the project, resizing the Bond amount down by any additional premium.

The City will need to make the decision in preparation for the sale on August 15, at 11:00 a.m. If the Bonds net higher than expected proceeds, MFCI will resize and/or finalize the Bond amount based on the City's decision.

MFCI will be virtually attending the City Council meeting to answer any questions about the sale.

Sincerely,

Warren Creamer
Managing Director

Steven Burke, CFA
President