



# Saginaw MYFP Workshop

COUNCIL WORKSHOP MAY 21, 2019  
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# Components of Study

- ▶ General Fund.
- ▶ Tax Supported I&S Fund.
- ▶ Capital Improvements Fund.
- ▶ Water & Sewer Fund.
- ▶ W&S Debt Service.
- ▶ W&S CIP.
- ▶ Other Funds.

# Tonight

- ▶ How much tax-supported debt can Saginaw afford without raising the tax rate?
- ▶ How much more debt can we afford for every penny we raise the tax rate if voters approved?
- ▶ What are the specific assumptions we need to understand?

# Key Assumptions

- ▶ The taxable base for FY 2020 is \$2.077 billion.
- ▶ The population estimate for FY 2020 is 22,563.
- ▶ This results in a critical metric: Tax Base Per Capita (TBPC) of \$91,688.
- ▶ TBPC has risen from \$68,142 to \$91,688 in four years, a robust amount averaging 9.64% annually.
- ▶ The Tax Rate is currently \$0.180671 for Debt Service out of a Total Rate of \$0.47180 or 38.29%, another critical metric.
- ▶ The Average I&S Tax Rate has been 41.24% in the last three years.

# Key Assumptions – Continued

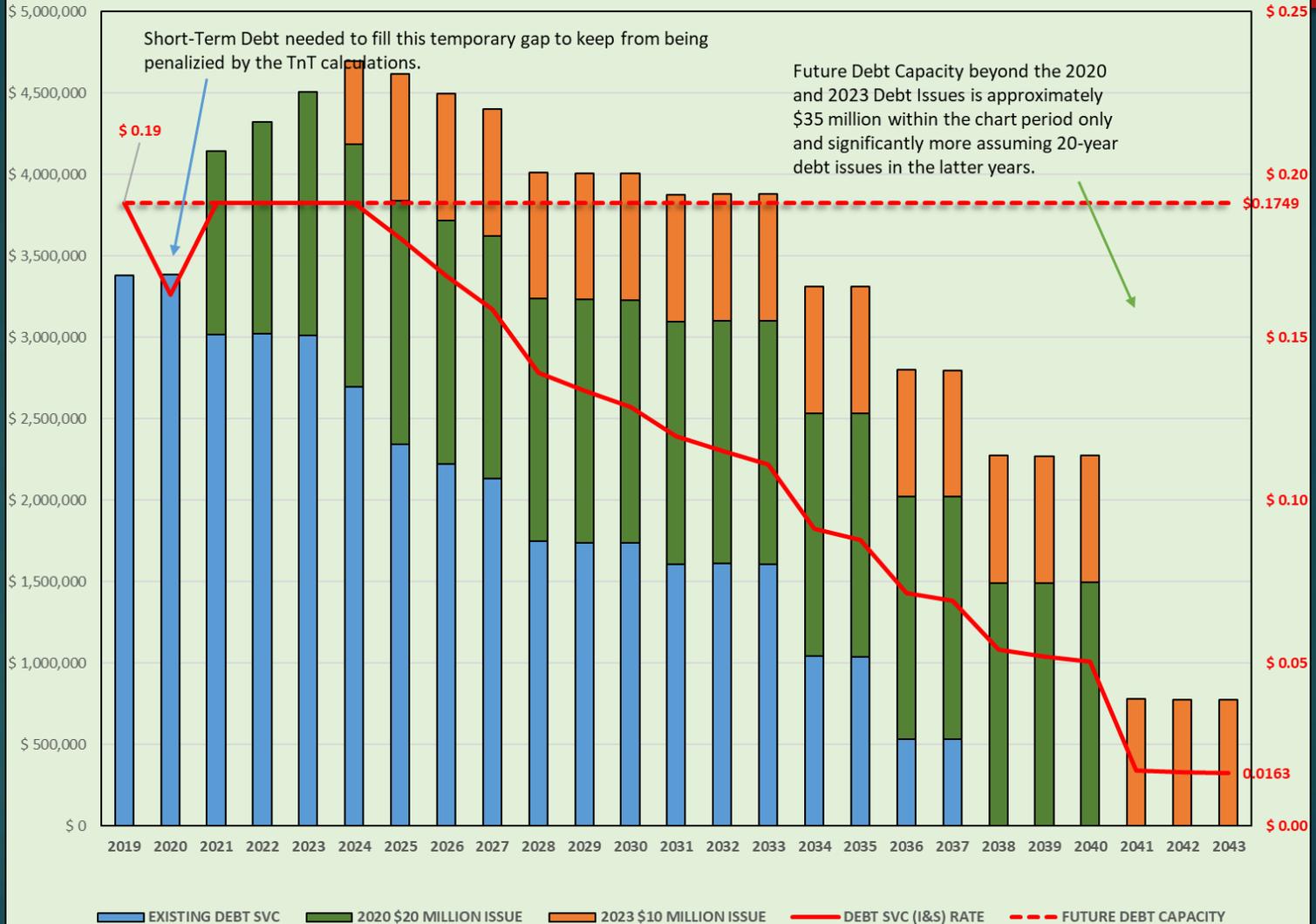
- ▶ The taxable base for the foreseeable future is expected to grow by more than 2%; however, the assumption of 2% growth in TBPC is used for debt financing purposes.
- ▶ The population estimate for FY 2020 and beyond is only 525 per year while the actual rate has been 391 per year for the last 10 years.
- ▶ The assumption has been made that the total tax rate will remain the same at \$0.4718 for the foreseeable future with 40% going to fund current and new I&S Debt Service.

# Key Assumptions – Conclusion

- ▶ With the assistance of Saginaw's Financial Advisors, given the assumptions stated, it has been determined that the City can issue the following debt without raising the tax rate:
  - ▶ \$20,000,000 in FY 2020.
  - ▶ \$10,000,000 in FY 2023.
  - ▶ This would still leave capacity for the future. LFM has estimated that this amount could be another \$35+ million likely to be issued after 2025.
  - ▶ The approval of debt by the Citizens and the timing of bond issues and project implementation are different. Approval is generally for debt to be issued in the next 3-5 years as ability to implement dictates.

### City of Saginaw - Property Tax Supported Debt Capacity

Assumes Population Growth of 525 Annually + Property Values Per Capita Increase of 2%



# How Much More for Each Penny?

- ▶ Using an average tax base assumption of \$2.4 billion over the next five years, each penny generates \$240,000 annually.
- ▶ With the policy of a 60/40 ratio, the I&S Fund would receive \$96,000.
- ▶ Assuming an average interest rate of 4% for a 20-year debt schedule
  - ▶ Each penny tax rate increase could support an additional \$1.3 million in Bonds Issued.
  - ▶ For example, if Saginaw were to raise the total tax rate by 5-cents, the Bond Program could be increased by \$6.5 million.

# One Concern

- ▶ By the time Saginaw issues the FY 2020 debt, the first payments will not occur until FY 2021.
- ▶ This means that the actual debt service for FY 2020 will be lower than the I&S Tax Rate, creating a potential (and common) Truth-in-Taxation trap.
- ▶ Saginaw has at least two choices to remedy this issue.
  - ▶ Temporarily drop the I&S Tax Rate by \$0.0282 in FY 2020 and then raise it back in FY 2021.
  - ▶ Leave the total tax rate the same by shifting the \$.0282 to the General Fund, likely triggering a Rollback situation.
  - ▶ Obtain a bank loan or issue short-term private placement debt to fill the gap and to be used to start projects in the CIP.

# What About the TnT?

- ▶ Cannot know for sure until legislation is worked out and governor signs.
- ▶ Will not get the TAD certified tax roll until July 25.
- ▶ However, there is a possibility that Saginaw may be able to stay under a 3.5% cap if the short-term debt strategy is realized.
- ▶ Likely local governments are going to have to conduct more elections to meet citizen needs if they are willing to pay. Mathematically, and practically, a balance is required.

ROLLBACK TAX RATE FOR FY 2020 WITH VARYING CAPS AND ADDITIONAL DEBT SERVICE								
		ADDITIONAL DEBT SERVICE						
		\$0	\$100,000	\$200,000	\$300,000	\$400,000	\$483,173	\$500,000
TAX CAP	\$0.471800							
	1.0000	\$0.436052	\$0.440867	\$0.445681	\$0.450496	\$0.455311	\$0.459315	\$0.460125
	1.0250	\$0.444970	\$0.449785	\$0.454599	\$0.459414	\$0.464228	\$0.468233	\$0.469043
	1.0350	\$0.448537	\$0.453352	\$0.458166	\$0.462981	\$0.467796	\$0.471800	\$0.472610
	1.0450	\$0.452104	\$0.456919	\$0.461733	\$0.466548	\$0.471363	\$0.475367	\$0.476177
	1.0550	\$0.455671	\$0.460486	\$0.465300	\$0.470115	\$0.474930	\$0.478934	\$0.479744
	1.0800	\$0.464589	\$0.469404	\$0.474218	\$0.479033	\$0.483847	\$0.487852	\$0.488662

# Pros & Cons

- ▶ Potential for misunderstanding.
- ▶ Potential to lower the rate and then not be able to raise it a year later.
- ▶ Potential for the Bond Election to not succeed or even be hurt by a perceived abuse of this financing strategy.
- ▶ However, a short-term, revolving private placement could assist with future I&S Stream Balancing such that this dedicated money can be used to match the tax base growth that might ebb and flow with economic cycles.

# Recommendation.

- ▶ Approve this short-term financing strategy to optimize the debt issuance to fund as many projects as possible without raising the tax rate.
- ▶ Follow an aggressive timetable to get input on the needed capital projects in order for adequate time to explain and promote a bond program.
- ▶ Embrace the 60/40 tax rate split in order to fund CIP projects while providing for sufficient funds to address companion operating and maintenance needs in the General Fund.
- ▶ Continue the ongoing monitoring of revenue production efforts to assure that adjustments can be made as needed to pace the debt issuance with available capacity.

# Next Steps

- ▶ Adopt this debt strategy.
- ▶ Complete the CIP needs for the next 5-10 years.
- ▶ Assign the appropriate Bond Committees to review and prioritize the plan to take to the voters.
- ▶ Call and promote the bond election for next May.
- ▶ Continue and complete the Water & Sewer Fund for July 16 meeting.
- ▶ Continue and complete the General Fund MYFP with Staffing and O&M Assumptions for August 6 meeting.
- ▶ Adopt the FY 2020 Budget, primarily the first year of the MYFP.



Questions?