Debt: What Types Can Be Issued, Terms and Process

Ohio Political Subdivisions – General, Revenue and Special Obligations

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General Obligations

- What does that mean?
  - Pledge of full faith and credit of political subdivision including pledge of ad valorem property taxes
  - Article XII, Section 11
  - Ohio Revised Code (ORC) 133.25
  - Voted vs. unvoted
  - Notes (<1 yr) vs. bonds (>1 yr)

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General Obligation Notes

- Bond Anticipation Notes
  - Must amortize after 5 years
  - Maximum maturity: 20 years
- Tax Anticipation Notes
  - Aggregate amount may not exceed amount of levy proceeds anticipated
  - Mature by 12/31 of last year authorized or last year of collection of anticipated tax levy
- Revenue Anticipation Notes

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General Obligation Bonds

- Fixed vs. variable rate
- Amortization schedule (including mandatory sinking fund payments)
- New money 3:1 test
- Refunding bonds

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General Obligations – Legal Considerations

- Constitutional and Statutory Authority
  - Authorizing legislation
  - Fiscal officer's certificate
  - Other certifications
- Direct Debt Limitations vs. Indirect Debt Limitations

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Statutory/Direct Debt Limitations

- Municipalities (ORC 133.05)
  - Unvoted debt: aggregate principal < 5½% of AV
  - Total debt (voted + unvoted) : < 10½% of AV
- Counties (ORC 133.07)
  - Unvoted debt: < 1% of AV
  - Total debt: < (3% of first $100 million + 1½% of next $200 million + 2½% of amounts above $300 million)

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Statutory/Direct Debt Limitations

- School Districts (ORC 133.06)
  - Unvoted debt: < 1/10 of 1% of AV (with exceptions)
  - Total debt: < 9% of AV; consent from ODE if debt in excess of 4% of AV (special needs exception – ODE approval)

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Statutory/Direct Debt Limitations

- Townships (ORC 133.09)
  - Non-home rule township: < 5% of AV
  - Home rule township:
    - Unvoted debt: < 5½% of AV
    - Total debt: < 10½% of AV
  - Exceptions from these limits for park lands, hospital obligations, energy conservation measures, fire equipment and buildings

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Indirect Debt Limitation (10-mill)

- Article XII, Section 2
- ORC 5705.02
- Prohibits unvoted taxation of all overlapping subdivisions on property from exceeding 10 mills (or 1% of value of the property) (tax value or true value)
- Charter limitations?
- N/A: voted bonds, revenue bonds, TIF bonds, sales tax bonds

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Revenue Obligations

- Utilities
  - Water, storm water or sanitary sewers
  - Trust indentures
  - Covenants
  - Reserve funds
- Special Assessments
  - Assessments applied to property which are used to pay debt service

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Revenue Obligations

- Tax Increment Financings (TIFs)
  - Tax exemption of increased value of property on a date after TIF authorized
  - Commences either (i) the year new value appears on the tax duplicate or (ii) year new value due to an improvement on the parcel appears on tax duplicate
  - Payments in lieu of taxes (PILOTs)
  - Existing value of property on date TIF put in place is NOT exempted

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Revenue Obligations

- Types of TIFs
  - Urban Renewal TIF Bonds (ORC Chapter 725)
  - Community Redevelopment Corporation TIF (ORC Chapter 1728)
  - County TIFs (ORC Sections 5709.77 -.81)
  - Township TIFs (ORC Sections 5709.73 -.75)

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Revenue Obligations

- Types of TIFs
  - Municipal TIFs (ORC Sections 5709.40 -.43)
    - Generally up to 75% for 10 years
    - 100% for 30 years with school district approval
    - .40 TIF: commercial/industrial or residential/incentive district
    - .41 TIF: City must own land prior to authorization of TIF; cannot include residential unless blighted area in an impacted city

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Revenue Obligations

- Use of TIF Proceeds
  - Public infrastructure improvements, compensation to other political subdivisions, payment of debt service, economic development

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Nontax Revenue Obligations

- Charges for services, PILOTs, fines and forfeitures, license and permit fees, intergovernmental reimbursements/revenues, investment earnings credited to the General Fund, asset sale proceeds, rental income
- Covenants
- Additional bonds test
- Reserve Fund

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Special Obligations

- Income Tax
  - Legal Authority
  - Covenants
  - Additional bonds test
- Sales Tax
  - Debt service transferred to pledged fund monthly
  - Covenants
  - Additional bonds test

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Port Authority Financings (Conduit)

- Loans
- Base lease/lease
- Port ownership of property
  - Off-balance sheet financing
  - Sales tax exemptions on construction materials
- Ownership of public improvements
- Credit enhancements: bond funds

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