
Bonds 101 Followup City of Manzanita



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How much can you legally borrow?

State law sets debt limits:

City Debt Limits

- Cities may issue General Obligation bonds totaling no more than 3% of Real Market Value (RMV).
- Limit does not apply for general obligation bonds for water supply treatment or distribution; sanitary or storm sewage collection or treatment, hospitals or infirmaries, gas, power or lighting, or off-street motor vehicle parking facilities.
- Limit also does not generally apply to Full Faith and Credit obligations or Revenue Bonds; however some city charters may have a limit on such borrowings.

How much **SHOULD** you borrow?

Possible vs. Prudent:

- Possible - GO bond limit of 3% of RMV is about \$28 million—and unlimited for certain essential projects
- Possible - City FFCO authority is theoretically unlimited
- Prudent – you have to be able to pay it back! Default is no laughing matter
- Prudent – any cuts or substitutions in order to make debt service should be less important than the project itself
- City's lowest General Fund surplus in last 5 years would be a prudent upper benchmark for annual FFCO debt service, plus retired obligations. \$554k can service about \$8mm over 20 yrs.

Federal Tax-Exemption

Interest paid not taxed as income; lower interest charged to governmental issuer

Limitations related to tax-exempt projects and proceeds. Key provisions:

- Use of Proceeds
 - ✓ Public purpose projects are OK (certain private activity allowed)
 - ✓ Capital projects
- Reimbursement of past expenditures during a limited period with approval of a reimbursement resolution
- Timing of Spending Proceeds:
 - ✓ Issuer must have a reasonable expectation it will spend 85% of the proceeds in 3 years
 - ✓ Includes any premium on proceeds

Questions?



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