KENT COUNTY BOARD OF COMMISSIONERS
Tuesday, February 2, 2016
Room 310, Administration Building
Space Needs
- WORK SESSION -

Meeting called to order at 8:00 a.m. by Chair James R. Saalfeld.

Present: Commissioners Bolter, Brieve, Bulkowski, Chivis, Hennessy, Jones, Kallman, Koorndyk, Morgan, Ponstein, Shroll, Stek, Talen, Vonk, Voorhees, Chair Saalfeld - 16.

Absent: Antor, Mast, Vander Molen – 3.

Handouts include: 1) Memorandum from Steve Duarte, Fiscal Services Director, re: Financing of Proposed Capital Projects; and, 2) copy of the PowerPoint presentation.

INTRODUCTION

This is a continuation of the Space Needs Work Session held January 19. Administrator Delabbio explained that, since the January 19 work session, Ferris State University/Kendall School of Art and Design requested a delay with regard to the purchase of 82 Ionia, to allow time to perform due diligence. He introduced Mr. Duarte to review financials for other projects.

OVERVIEW

Fiscal Services Director Duarte explained that with the delay of the sale of 82 Ionia there are three other projects that are recommended for construction and funding.

Proposed Capital Projects	Amount
1) Jail – new kitchen and work release entrance for the jail (Construction period: March 2016 – March 2017)	$ 4,000,000
2) Juvenile Detention Facility construction (Construction period: January 2017 – May 2018)	20,500,000
3) Courthouse - Buildout of the courtrooms for new judge (Construction period: November 2016 – December 2017)	3,000,000 (1)
Contingency/Cost of Issuance	1,000,000
Capital Needs for the projects	$ 28,500,000
CIP: Strategic Capital	(3,000,000)
Total Capital Needs (financed by bonds issued no later than Oct 2016)	$ 25,500,000
Projected 20-year level debt service	$ 1,693,697 (2)

(1) $3 million in the CIP fund will be used to cash fund this project. The balance of the CIP: Strategic Capital will be held as a contingency

(2) Annual debt service to be paid from the Correction & Detention millage

Based on construction schedules, cash needed now is for a new kitchen, Work Release entrance ($4,000,000), and architectural and engineering (A&E) costs for the Juvenile Detention facility ($1,400,000).

Not issuing bonds until the fourth quarter of 2016 will save $436,900. A preliminary official statement will be prepared and the Board will need to adopt a bond resolution authorizing $25,500,000 CIP bonds with a closing date no later than October 2016.

The bond proceeds will reimburse the County the cash advanced for those projects. The repaid dollars will fund the courtroom buildout. Principal and interest on the bonds (20-year level debt service is estimated at $1,700,000 annually) will be paid from the Correction and Detention Millage.

Q & A

Com. Bolter: Can the Correction and Detention Millage sustain the bond debt payment?
Mr. Duarte: Yes. The County receives $16,000,000 annually from the millage. Currently, $2,400,000 annually goes to the correctional facility. The new debt service of $1,700,000 would make the total $4,100,000. That leaves $11,900,000 to transfer into the general fund to help defray the cost of operating the jail.

Com. Talen: The County has $60,000,000 in cash. Why wouldn't we borrow from ourselves and save costs?
Mr. Duarte: If we spend or loan reserves to another fund, that amount would be reported as "non-spendable." "Non-spendable" is not available to be used in any way greatly reducing the strength of the balance sheet (which is looked at by bond rating agencies).

Com. Talen: It has never been clear if there is one particular thing that affects the County's bond rating. By borrowing from ourselves, Kent would gain interest on the revenue side and save interest on the borrowing side, far outweighing the cost of not having the cash.

Mr. Duarte: The County's strong financial management and cash reserves should continue in case there is a need for the cash. Borrowing from ourselves puts the fund balance below what is considered prudent.

Chair Saalfeld: The Board passed a policy to keep 40 percent of our fund balance in reserve. It is at 42 percent now. If we borrow from ourselves, it would drop below the policy requirement. Because an emergency didn't happen in the past doesn't mean it cannot happen in the future.

Com. Talen: Would like to see a cost comparison between borrowing from ourselves and issuing a bond. If we save $2,000,000 by borrowing from cash reserves, should we consider an exception to the policy?

Administrator Delabbio: We have loaned money in the past (Airport for land acquisition) and have charged interest. The quarterly financial overview charts cash flow, which could go into a negative position. There isn't just one factor that the rating agencies consider, but Kent County has been able to point to its fund balance and its policy as reasons Kent deserves to continue with its high credit rating. This offsets the negatives that are out of our control. Yes, we can do the comparison.
Mr. Duarte: Each July, reserves are at their lowest and if money is loaned, cash would basically be down to zero.
Chair Saalfeld: By having a fund balance, Kent does not have to borrow under the tax anticipation notes, which saves money.

Com. Stek: Have any changes been made in the design of the juvenile facility in light of the State's proposed juvenile justice legislation?
Al Jano: Yes. The space needs study assessed the facility and the architectural concepts made provisions for additional areas that may be mandated. Modifications can be made to meet new legislative requirements.

Com. Stek: The $20,000,000 is only a conceptual projection. Does the proposed legislation require a fairly substantial change?
Al Jano: When we do the architectural design, we will meet the legal requirements for 17-year olds.

Com. Kallman: Agrees with Commissioner Talen's request to look at using existing funds. The cost to bond will be about $8,000,000. We should look at creative alternatives. We need an appropriate level of capital available, but there is a risk in the $8,000,000 in bond costs.

Com. Ponstein: Agrees with Commissioners Talen and Kallman and noted that having a policy does not mean that we can't not do something. Smart government looks at policies on a daily basis. We say that we can't tap those funds because of a potential emergency but if we have an emergency, like the Flint water crisis, there will be state and federal aid available. If we do issue bonds, will they be callable or non-callable?
Mr. Duarte: Callable bonds out about 10 years.

Com. Ponstein: How much lower will interest rates go?
Mr. Duarte: They will not go lower. When selling into the market, the coupons out at the long end are usually higher than the current rates and you adjust that so when you get further out, there may be an opportunity to call the bonds.

Com. Ponstein: Is there anything in the future that could happen where we would reconsider this plan like a collapse of the U.S. markets or a recession?
Mr. Duarte: Given the way the economy operates, I don't foresee that happening.

Next Steps

Administrator Delabbio: The intent is to go through the process to draft and pass a bond resolution. Just like the Notice of Intent, this does not commit the County to do anything but allows us to move once the resolution is adopted. His recommendation is to continue on this track. Commissioners will get the comparison of borrowing from ourselves versus issuing bonds.

Other Business

Com. Bulkowski: Can you explain what comprises the AAA bond rating? What is the cost to the County if the rating drops? Would it be more in interest? Should we look at the policies and determine what a high rating really save us and where does our community need shoring up?

Supports the decision to hold off on 82 Ionia to complete the due diligence. However, last month we had concerns over the cost of delay. Will we have that opportunity in March or April as opposed to waiting until June 30?

Mr. Delabbio: Yes, we intend to gather the information, and thoroughly vet the questions and get answers to the Board. This has bought us a little time and allows us to focus on our immediate needs.

Any Board Chair who has met with the bond rating agencies will confirm that they don't share all of the factors that are involved. We've received articles that tell us a dozen factors that go into their ratings. They provide some information regarding our strengths and weaknesses and we can get that information to the Board, however, it might not paint the entire picture. They look at factors such as: 1) long term debt; 2) the economy of the local area, the State of Michigan and the Midwest; 3) fund balances; and, 4) management and board policies. Even then, we don't know how much the fund balance might offset a weak economy. We can show where we scored well and where we can use improvement.

Chair Saalfeld: When Detroit went through its bankruptcy, there was chatter that it could affect all of Michigan's municipalities' bond ratings. Fortunately, that did not happen.

Mr. Delabbio: Being in Michigan resulted in additional basis points added to Kent County's bonding in 2009 - 2012.

Com. Hennessy: The current bond issue that we would be asked to consider is for $25,500,000? If we move forward with the sale of 82 Ionia, would there be more costs with a separate bond issue?
Mr. Delabbio: Yes, there will be some costs associated with a second bond issue.

Mr. Duarte: That is correct. The timing would be that we would need the cash before we would be in a position to move forward on 82 Ionia. While it would be preferable to do one bond issue, it is likely we will have to do two. One other clarification – if we were to front the cash, rather than borrow it, it would not change our fund balance. Our fund balance would remain the same except that a huge portion of it would be classified as "non-spendable." This significant change in cash position would be viewed poorly. At the low point in the year, our cash would be virtually zero.

Com. Morgan: The County's current fiscal policy has worked well over the years. Its current debt to equity ratio is under two percent. Commissioners have been diligent in looking at the issues for these types of projects. He supports the way Kent County has conducted business over his 16 year tenure.

Com. Hennessy: If this were to cost $4,100,000 in debt service out of the Correction and Detention Millage, we still would have enough for the other needs funded by that millage?
Mr. Delabbio: We receive about $16,500,000 annually from the Corrections and Detention Millage and most of that has historically been used for operations and construction maintenance. Most of the money has transferred from the Corrections and Detention Millage into the General Fund to offset costs of operation. We would reduce the amount available for operations by $1,700,000 moving forward.

Com. Hennessy: Was there quite a bit of unspent money left in the reserves from the millage last year?
Mr. Delabbio: Yes, that is a cushion in the fund balance. We always try to keep at least one year's debt service as part of the fund balance for the Correction and Detention fund. There is about $5,400,000 in that fund now.

ADJOURNMENT

At 8:37 a.m., Chair Saalfeld adjourned the work session.

James R. Saalfeld, Chair

Mary Hollinrake, County Clerk