



**City of Rochester Hills
AGENDA SUMMARY
NON-FINANCIAL ITEMS**

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Legislative File No: 2009-0521

TO: Mayor and City Council Members

FROM: Keith Sawdon, Director of Finance, Ext 2535

DATE: December 10, 2009

SUBJECT: Proposed amendment to Bond Resolution designating the 2010 Refunding Bonds as Qualified Tax Exempt Obligations (i.e. Bank Qualified).

REQUEST:

We are requesting that City Council amend the 2010 Refunding Bond Resolution that was adopted at its November 23, 2009 meeting by designating the bonds as Qualified Tax Exempt Obligations commonly called "Bank Qualified" bonds.

BACKGROUND:

Banks, like other investors, purchase municipal bonds in order to obtain interest earnings that are exempt from Federal income tax. Banks can purchase non-bank qualified bonds but they seldom do. The rate they would require in order for the investment in non-bank qualified bonds to be profitable would approach the rate of taxable bonds. As a result we can obtain lower rates by selling bonds to banks which are Federal income tax-exempt. In addition, banks generally have a strong appetite for bank qualified bonds because they are generally in limited supply. As a result, bank qualified bonds can carry a lower rate than non-bank qualified bonds.

Under the American Recovery and Reinvestment Act of 2009 (ARRA), several changes were made to encourage banks to investment in tax-exempt bonds. The changes are only effective for tax-exempt bonds issued in 2009 and 2010.

Prior to ARRA, there was a \$10 million annual limit on bank qualified bonds that a municipality could issue in a single year. With the ARRA, that limit was changed to \$30 million. The effect of the increased level of bank qualified bonds, that a municipality could offer, lowered the importance of the bank qualified designation, since they were now NOT in such limited supply. Therefore, it lowered the interest rate difference between bank qualified and non-bank qualified bonds.

When we drafted the 2010 Refunding resolution there was very little rate difference between a bank qualified bond and a non-bank qualified bond. In addition, the City is looking at water storage and we didn't want to be in a position were we had limited our FUTURE ability to issue bank qualified bonds for that function should it move forward. Therefore, we didn't see the need to include that designation within the resolution.

However, we are now seeing a rate differential and feel more comfortable that we will be able to stay under the \$30 million cap should the City move forward with a water storage structure. Therefore, we now believe it will be in best interest of the City to have the bonds designated as bank qualified.

RECOMMENDATION:

We believe that it is in our best interest to have the bank qualified option available to us and we are recommending that City Council adopt the attached resolution that designates the 2010 Refunding Bonds as bank qualified.

APPROVALS:	SIGNATURE	DATE
Department Review		
Department Director		
Mayor		
City Council Liaison		