To: President and Members of the Munster Town Council

From: Wendy Mis, Clerk-Treasurer

Date: June 19, 2023

Re: Ordinance 1906: Surplus Bond Proceeds

The Town issues general obligation each year. The bonds are repaid from ad valorem property taxes. These bonds are used to finance large, capital expenditures such as street resurfacing, equipment purchases, and major park and building improvements. There are times when a project does not proceed. This can happen when a higher priority situation presents itself unexpectedly. There are times when a project or piece of equipment comes in at a lower price than expected at the time of bond issuance. In these instances, the amounts not spent are considered surplus bond proceeds.

I.C. 5-1-13-2 et seq. provides the Town Council, as the local issuing body, with options for how to use surplus bond proceeds. The proceeds can be used to reduce the property taxes imposed by the Town in a subsequent year, to create a reserve fund for repayment of the bonds, or to directly pay the principal and/or interest due on any of the property tax-supported bonds issued by the Town.

Currently, there are proceeds available from 2015 through 2018 totaling $138,138.13. The projects planned from these bond issues have either been completed under budget or were abandoned. Staff recommends declaring these amounts surplus and using them to pay the principal and interest payment due on the 2019 bond issue ($125,921.25) and a portion of the payment due on the 2020 bond issue ($12,216.88 towards the $256,205.08 payment). Using the surplus proceeds in this way has the effect of lowering the property taxes needed in 2024 for the debt service fund.

The Town is subject to federal arbitrage rules. These rules are in place to prevent government units from issuing excessive debt and to minimize interest earned on the proceeds. Over the past decade, interest rates have been so low that arbitrage was not a concern. It is unlikely that the Town is in an arbitrage position, but the rules and required calculations are complex and potentially costly.

In light of the rising interest rates and the length of time the proceeds have been unspent, department heads were informed in multiple meetings since last November that the proceeds from the older bond issues need to be spent by the end of May 2023.

The ordinance has been drafted to declare surplus a portion of the bond proceeds from the general obligation bonds of 2015 through 2018. These bonds are fully amortized and the surplus totals $138,138.13. Because of how the budget process works, and to take advantage of the reduced property taxes in 2024, the ordinance would need to be adopted this evening. As such, Council is asked to suspend the rules, waive the readings, and adopt Ordinance 1906 on first reading as presented.

Recommendation:

By motion and roll call vote, suspend the rules and waive the readings.

THEN

By motion and roll call vote, adopt Ordinance 1906 on first reading as presented.