Association of Town Finance Committees Annual Meeting

Borrowing Options for the Local Share of School Construction Costs

October 18, 2014

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First Southwest Company

Municipal Borrowing Flow Chart

10/21/14
To borrow short or long term?

- Interest rate environment
- Size of project
- Spending schedule
- Budget constraints

Debt Issuance

**Short term versus Long term Financing**

- **Short Term Financing = Bond Anticipation Notes 'BAN'**
  - Fixed rate securities issued in anticipation of future bond issues
  - Issued for 1 year or less
    - Can be renewed up to 5 yrs; principal payback required by first maturity after second anniversary of original dated date
  - Issuance costs for BAN are less than long term

- **Long Term Financing = General Obligation Bonds**
  - Permanent financing (1 – 40 years)
  - Often issued once projects are complete
  - Cost of issuance are higher than short term financing
Long Term Structuring

- What to consider when structuring debt?
  1. Legal limits as described in M.G.L. Ch.44 and Ch. 70B
  2. Tax/rate impact of structure
  3. How new debt fits into existing debt
  4. Impact of new debt in future fiscal years
  5. How each purpose will be structured - equal principal versus level debt

How is interest calculated?

- Each principal payment needs to be multiplied by the associated coupon rate.
- Take the total amount of interest and divide by 2 to obtain the semi-annual interest payment amount.

<table>
<thead>
<tr>
<th>Principal</th>
<th>Rate</th>
<th>Annual Interest</th>
<th>Semi-Annual Interest</th>
<th>FY TOTAL</th>
</tr>
</thead>
<tbody>
<tr>
<td>7/15/2011</td>
<td>100,000</td>
<td>3.00%</td>
<td>1,500</td>
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<tr>
<td>1/15/2012</td>
<td>100,000</td>
<td>4.00%</td>
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<td>2,500</td>
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<tr>
<td>7/15/2013</td>
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<td>5.00%</td>
<td>2,500</td>
<td>105,000</td>
</tr>
<tr>
<td>1/15/2014</td>
<td>100,000</td>
<td>6.00%</td>
<td>3,000</td>
<td>8,000</td>
</tr>
</tbody>
</table>

TOTAL: 300,000 3,000 8,000 15,000 326,000
Equal Principal Versus Level Debt

EQUAL PRINCIPAL:
• Amortization of principal can be equal or declining throughout the life of the loan.
• Interest (and total debt service) will decline as principal is retired.

LEVEL DEBT:
• Municipal Relief Act enables all projects to be issued on a level debt basis
• Old Way - Authorizations were required to fall into one of the following:
  – Exempt from Proposition 2 ½
  – Fully self-supported enterprise fund
  – Received special legislation
  – Received State Qualified Bond Act approval

HYBRID???

Equal Principal versus Level Debt (Cont.)
• Total interest costs are higher with level debt
• Tax rate impact remains constant throughout the loan

<table>
<thead>
<tr>
<th>Equal Principal</th>
<th>Level Debt</th>
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<tbody>
<tr>
<td>Principal</td>
<td>Total PnI</td>
</tr>
<tr>
<td>200,000</td>
<td>74,000</td>
</tr>
<tr>
<td>200,000</td>
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<tr>
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<td>175,000</td>
<td>7,000</td>
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<tr>
<td>1,850,000</td>
<td>395,000</td>
</tr>
</tbody>
</table>

DEBT SERVICE COMPARISON:
LEVEL DEBT: 2,281,000
EQUAL PRINCIPAL: 2,245,000

Additional interest costs associated with level debt
**Proposition 2 1/2**

- Proposition 2 ½ places constraints on the amount of property tax levy a community can raise and how much the property tax levy can be increased from year to year.
  - Levy may increase up to 2 ½ percent over the prior years levy.
  - Maximum levy equal to 2 ½ percent of the assessed valuation.

- Additional taxes must be approved by the voters at an election by a majority vote.
  - Override: obtain additional funds for annual operating budgets and fixed costs
  - Exclusion: raise additional taxes to fund capital projects only (annual debt service)
  - Statutory language (Ch. 59, Section 21C) excludes project, not amount

**Proposition 2 ½ (Cont.)**

- Override increases the levy limit for the fiscal year voted
  - Becomes part of the base for calculating future years’ levy limits.

- Exclusions are temporary property tax increases.