

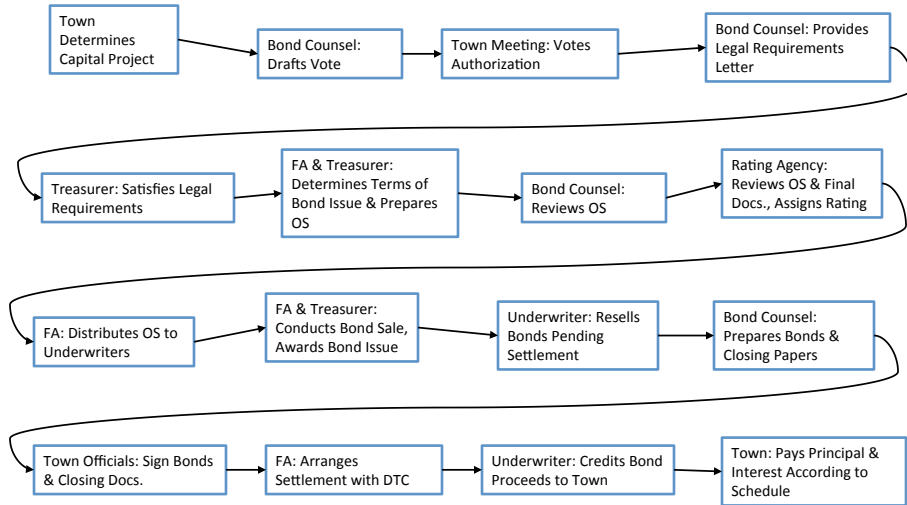
Association of Town Finance Committees Annual Meeting
Borrowing Options for the Local Share of School Construction Costs

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First Southwest Company



Municipal Borrowing Flow Chart



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



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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.

	Principal	Rate	Annual Interest	Semi-Annual Interest		FY TOTAL
7/15/2011				1,500	2,000	2,500
1/15/2012	100,000	3.00%	3,000	1,500	2,000	2,500
						112,000
7/15/2012					2,000	2,500
1/15/2013	100,000	4.00%	4,000	2,000	2,000	2,500
						109,000
7/15/2013						2,500
1/15/2014	100,000	5.00%	5,000			2,500
						105,000
TOTAL:	300,000			3,000	8,000	15,000
						326,000



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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

Equal Principal				Level Debt				COMPARISON
Principal	Interest	Total P+I	Tax Rate Impact	Principal	Interest	Total P+I	Tax Rate Impact	
200,000	74,000	274,000	0.27	155,000	74,000	229,000	0.23	45,000
200,000	66,000	266,000	0.27	160,000	67,800	227,800	0.23	38,200
200,000	58,000	258,000	0.26	165,000	61,400	226,400	0.23	31,600
200,000	50,000	250,000	0.25	175,000	54,800	229,800	0.23	20,200
175,000	42,000	217,000	0.22	180,000	47,800	227,800	0.23	(10,800)
175,000	35,000	210,000	0.21	185,000	40,600	225,600	0.23	(15,600)
175,000	28,000	203,000	0.20	195,000	33,200	228,200	0.23	(25,200)
175,000	21,000	196,000	0.20	205,000	25,400	230,400	0.23	(34,400)
175,000	14,000	189,000	0.19	210,000	17,200	227,200	0.23	(38,200)
175,000	7,000	182,000	0.18	220,000	8,800	228,800	0.23	(46,800)
1,850,000	395,000	2,245,000		1,850,000	431,000	2,281,000		(36,000)

DEBT SERVICE COMPARISON:

LEVEL DEBT:	2,281,000
EQUAL PRINCIPAL:	<u>2,245,000</u>
	36,000 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.

