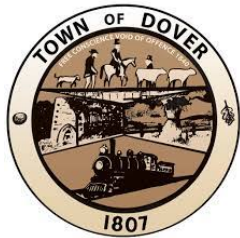


The Bonding Process

Prepared for the



Town of Dover

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Municipal Advisors to Local Governments

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The Players

- Primary
 - Issuer: Borrowing municipality.
 - Municipal (Financial) Advisor: Provides advice on structure, timing and terms. Only party with fiduciary duty to issuer.
 - Bond Counsel: Provides legal opinion confirming issuer authorization to issue bond and tax-exempt bond opinion.
 - Underwriter: Purchaser of bond or note.
 - Rating Agency: Provide relative credit quality of issuer.
 - SEC/MSRB: Regulatory bodies.
- Secondary
 - DTC: Depository Trust Company. Clearinghouse for debt payments.
 - Municipal Bond Insurer: Provides insurance covering principal and interest in event issuer is unable to make payments on time.

What is a municipal bond?

- A *general obligation* municipal bond is the written evidence of a debt, issued by a municipality, secured by the pledge of the issuer's full faith, credit, and taxing power.
- Municipal obligations may be issued as long-term bonds (more than 13 months) or short-term notes (1 year or less BANs, TANs, RANs, Budget Notes).

Authorization

- Complete State Environmental Quality Review Assessment (SEQRA)
- Adopt Bond Resolution
 - Drafted by Bond Counsel.
 - Necessary before moving forward with any project.
 - Allows for reimbursement of costs only when adopted prior to funds being spent.
 - Approved by supermajority (2/3) of board or referendum of general public.
 - Approximately 60 days before effective.
 - Permissive Referendum (30 days)
 - Publish
 - Estoppel (20 days)
 - Allows for issuance of bond anticipation notes (BANs) and bonds.

BANs vs. Bonds

- Bond Anticipation Notes (BANs) – issued for one year or less, must be renewed each year until paid off or permanently financed
 - May only be renewed for 5 years, unless a water or sewer project
 - Pros: Less steps to issue, less costly
 - Cons: Interest rate risk; issuance costs paid each year at renewal
 - Current BAN interest rate: 3.75% - 4.25%
- Bonds – issued for 5 - 30 years
 - Final maturity corresponds to period of probable usefulness (PPU), the allowable financing term established by local finance law
 - Pros: interest rates fixed for term of the bonds
 - Cons: More steps to issue, more costly
 - Current bond interest rates:

<u>Rating</u>	<u>5 Yr</u>	<u>10 Yr</u>	<u>15 Yr</u>	<u>20 Yr</u>	<u>25 Yr</u>	<u>30 Yr</u>
AA	2.42%	2.47%	3.02%	3.42%	3.67%	3.75%
A	2.55%	2.71%	3.25%	3.65%	3.90%	3.95%

Timing and Issuance Process

Bond Anticipation Notes (BANs)

Approximately 4 - 6 weeks

- Determine project and amount to be financed
- Draft Preliminary Official Statement (POS)

- Distribute POS to investors
- Sale
- Close

Bonds

Approximately 8 - 10 weeks

- Determine project and amount to be financed
- Draft Preliminary Official Statement (POS)
- Debt Statement filed with Office of the State Comptroller
- Rating Agency Call
- Publish Notice of Sale
- Distribute POS to investors
- Sale
- Close
- Annual Continuing Disclosure

Ratings

- A rating is required whenever bonds are issued.
- There are three major rating agencies.
 - S&P Global Ratings (S&P), Moody's Investors Service (Moody's), Fitch Ratings (Fitch)
 - 4 areas of review determine rating
 - Demographics
 - Finance
 - Debt
 - Management

Moody's	S&P/Fitch	
Aaa	AAA	Rated as the highest quality and lowest credit risk.
Aa1	AA+	
Aa2	AA	Rated as high quality and very low credit risk.
Aa3	AA-	
A1	A+	
A2	A	Rated as upper-medium grade and low credit risk.
A3	A-	
Baa1	BBB+	
Baa2	BBB	Rated as medium grade, with some speculative
Baa3	BBB-	elements and moderate credit risk.
<i>Sub Investment Grade</i>		

Sample Debt Service and Tax Impact

(Recreation Center at Thomas Boyce Park)

Assumptions		
Issue Amount		\$8,750,000
Rating		A Rated
	<u>25 years</u>	<u>30 years</u>
Interest Rate (current market + .50)	4.40%	4.45%
2024 Assessed Value	\$381,226,461	\$381,226,461
Estimated Debt Service		
Total Interest Paid	\$5,850,020	\$7,271,967
Avg Annual Debt Service	\$584,000	\$534,000
Annual Increase per \$100,000 AV	\$153.19	\$140.07
Monthly Increase per \$100,000 AV	\$12.77	\$11.67