

# Debt Management Plan

William Broughton  
Township Manager

December 4, 2012

# Debt Management Team

- Christine L. Brown, CPA/RMA – Chief Financial Officer, Township of Teaneck
- Stanley Turitz, Esq. – Township Attorney, Ferrara, Turitz, Harraka & Goldberg P.C.
- Paul W. Garbarini, CPA/RMA – Auditor, Garbarini & Co.
- Steve Rogut, Esq. – Bond Counsel, Rogut McCarthy LLC.

# Purpose

- Present a long-term financial plan to manage Township's debt
- Establish a financial framework to accomplish future capital projects, including developing a strategic plan
- Secure long-term, low-interest rates to assure debt service and tax rate stability

# Current Debt: \$41 Million

- \$12 Million – Total existing debt service
- \$29 Million – Interest-only, “unscheduled” debt payments

# What's Our Credit Limit?

- State Law N.J.S.A.40A:2-6 allows municipalities to borrow up to 3.5% of the average of 3 years' equalized assessed valuation
- Teaneck's 3.5% maximum would be \$207 Million
- Teaneck's current debt of \$41 Million is 0.69% of the average of 3 years' equalized assessed valuation

# How Did We Get Here?

- Lack of attention to infrastructure
- Deficient personnel policies and procedures
- Lack of insurance

# Financial Impact

- Lack of attention to infrastructure
  - Significant dollars spent in capital improvements over last 10 years because little was spent in 1980s, 1990s
- Deficient personnel policies and procedures
  - Led to unsuccessful defense of employee lawsuits totaling \$8.5 Million in awards

# Financial Impact (cont'd.)

- Lack of insurance
  - Since Township was self-insured, had to bond judgments
  - Township acquired insurance in 2010

# What's the Plan?

- \$12 Million in existing, permanent bonds that cannot be re-financed and sets stage for plan
- Issue bond sales in years 2013 and 2014, which will address an additional \$17.2 million
- A proposed third bond sale in 2020 for the balance when \$12 Million in existing bonds are paid off

# Assumptions

- Increase of no more than  $\frac{1}{2}$  of 1 point in tax rate, or \$17/year (average home assessed at \$465,300) for first three years, and levels off thereafter
- Interest rates used in bond sale projections were 3% for 2013, 3.5% for 2014, and 4.5% in 2020

# Alternatives

- Adopt a responsible, comprehensive financial plan allowing for stabilization of debt service

OR

- Continue financing through short-term, temporary methods (BANs) with balloon payments and fluctuating interest rates

# Debt Management Plan

- Paul W. Garbarini, CPA/RMA – Auditor, Garbarini & Co.
- Steve Rogut, Esq. – Bond Counsel, Rogut McCarthy LLC.

# Capital Financing Process

- Bond ordinances:
  - Authorize improvements
  - Appropriate funds
  - Authorize debt (Bond Anticipation Notes, Bonds)

# Capital Financing Process (cont'd.)

- After bond ordinance is adopted and effective (after 20-day estoppel period), contracts can be entered into and money can be spent on the project (whether from cash on hand or from debt issued against ordinance)

# Capital Financing Process (cont'd.)

- Bond Anticipation Notes (BANs):
  - Short-term debt instruments (maximum one-year maturity)
  - Can be renewed annually (at market interest rate at time of each renewal) for up to 10 years
  - Interest-only is required for first three years
  - Minimum principal payments required annually on or after third anniversary of original issue
  - At end of 10-year period, notes must either be paid in full or converted to bonds

# Capital Financing Process (cont'd.)

- Bonds:
  - Long-term, fixed-rate debt instruments with annual principal payments and interest rates fixed at time of issue (serial bonds)
  - Final maturity within average statutory life of projects being financed

# Debt Financing Plan

- Manage \$41 Million of both issued, authorized debt
- How?
  - Take advantage of historic low interest rates
  - Examine \$12 Million in existing bonds, notes for possible refinancing
  - Sell bonds in 2013, 2014 to capture low interest rates
  - Limit debt service tax increase to maximum 0.5 points per year for first three years

# Debt Financing Plan (cont'd.)

- In 2013, sell bonds for \$10 Million, first principal payment in 2014 with 19-year maturity schedule
- In 2014, sell bonds for \$7.2 Million, make first principal payment with 17-year maturity schedule
- In 2020, sell \$11.8 Million in bonds with 15-year maturity schedule



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**DETAIL OF EXISTING DEBT SERVICE**

<u>Date</u>	<u>Total Existing Debt Service</u>	<u>Existing</u>		<u>GO 2002 Bonds</u>	<u>Rate</u>		<u>D/T Bus Loan</u>	<u>Rate</u>	<u>Existing</u>		<u>Existing</u>	<u>Existing Note Interest</u>	
		<u>5.95mil BAN</u>	<u>Int. Rate 2%</u>		<u>4.1 - 4.45%</u>	<u>0.00 %</u>			<u>Rate</u>	<u>EDA LOAN</u>			<u>Int. Rate 1.50%</u>
5/1/2012	\$1,954,452	\$500,000	\$119,000	\$300,000	\$42,804	\$40,000		\$142,542	\$10,192	\$67,500	\$2,531	\$468,924	\$260,959
11/1/2012													
5/1/2013	\$1,955,270	\$400,000	\$101,000	\$325,000	\$30,558	\$40,000		\$152,636	\$7,292	\$67,500	\$1,013	\$660,987	\$169,284
11/1/2013													
5/1/2014	\$1,074,792	\$400,000	\$101,000	\$350,000	\$16,162	\$40,000		\$163,444	\$4,186			\$150,000	
11/1/2014													
5/1/2015	\$1,194,260	\$600,000	\$93,000	\$369,000	\$5,388	\$40,000		\$86,012	\$860			\$200,000	
11/1/2015													
5/1/2016	\$896,000	\$775,000	\$81,000			\$40,000						\$200,000	
11/1/2016													
5/1/2017	\$905,500	\$800,000	\$65,500			\$40,000						\$200,000	
11/1/2017													
5/1/2018	\$914,500	\$825,000	\$49,500			\$40,000						\$225,000	
11/1/2018													
5/1/2019	\$898,000	\$825,000	\$33,000			\$40,000						\$225,000	
11/1/2019													
5/1/2020	\$881,500	\$825,000	\$16,500			\$40,000							
11/1/2020													
5/1/2021	\$40,000					\$40,000							
11/1/2021													
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5/1/2035													
	\$11,914,274	\$5,950,000	\$659,500	\$1,344,000	\$94,912	\$400,000	\$0	\$544,634	\$22,530	\$135,000	\$3,544	\$2,329,911	\$430,243

**PROPOSED PLAN TO  
PERMANENTLY FINANCE  
B TEMPORARY DEBT AND DEBT  
AUTHORIZATIONS**

<u>Date</u>	<u>Principal/ Bond Issue # 1 - 1-19 yr</u>	<u>Int. Rate</u>	<u>Principal/ Bond Issue</u>	<u>Int. Rate</u>	<u>Principal/ Bond Issue</u>	<u>Int. Rate</u>
		<u>3.0%</u>	<u>#2 - 17 yr</u>	<u>3.50%</u>	<u>#3 - 15 yr</u>	<u>4.50%</u>
5/1/2012						
11/1/2012						
5/1/2013		\$300,000				
11/1/2013						
5/1/2014	\$500,000	\$300,000	\$300,000	\$216,000		
11/1/2014						
5/1/2015	\$500,000	\$285,000	\$300,000	\$207,000		
11/1/2015						
5/1/2016	\$500,000	\$270,000	\$400,000	\$198,000		
11/1/2016						
5/1/2017	\$500,000	\$255,000	\$400,000	\$186,000		
11/1/2017						
5/1/2018	\$500,000	\$240,000	\$400,000	\$174,000		
11/1/2018						
5/1/2019	\$500,000	\$225,000	\$400,000	\$162,000		
11/1/2019						
5/1/2020	\$500,000	\$210,000	\$400,000	\$150,000		
11/1/2020						
5/1/2021	\$500,000	\$195,000	\$400,000	\$138,000	\$600,000	\$531,000
11/1/2021						
5/1/2022	\$500,000	\$180,000	\$400,000	\$126,000	\$600,000	\$504,000
11/1/2022						
5/1/2023	\$500,000	\$165,000	\$400,000	\$114,000	\$600,000	\$477,000
11/1/2023						
5/1/2024	\$500,000	\$150,000	\$400,000	\$102,000	\$600,000	\$450,000
11/1/2024						
5/1/2025	\$500,000	\$135,000	\$400,000	\$90,000	\$600,000	\$423,000
11/1/2025						
5/1/2026	\$500,000	\$120,000	\$500,000	\$78,000	\$600,000	\$396,000
11/1/2026						
5/1/2027	\$500,000	\$105,000	\$500,000	\$63,000	\$600,000	\$369,000
11/1/2027						
5/1/2028	\$600,000	\$90,000	\$500,000	\$48,000	\$700,000	\$342,000
11/1/2028						
5/1/2029	\$600,000	\$72,000	\$500,000	\$33,000	\$700,000	\$310,500
11/1/2029						
5/1/2030	\$600,000	\$54,000	\$600,000	\$18,000	\$700,000	\$279,000
11/1/2030						
5/1/2031	\$600,000	\$36,000	\$0	\$0	\$900,000	\$247,500
11/1/2031						
5/1/2032	\$600,000	\$18,000			\$1,000,000	\$207,000
11/1/2032						
5/1/2033	\$0	\$0			\$1,200,000	\$162,000
11/1/2033						
5/1/2034					\$1,200,000	\$108,000
11/1/2034						
5/1/2035					\$1,200,000	\$54,000
	\$10,000,000	\$3,405,000	\$7,200,000	\$2,103,000	\$11,800,000	\$4,860,000

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**DEBT SERVICE -V- BUDGET APPROPRIATION**

<u>Date</u>	<u>Total Existing</u>	<u>Debt Service</u>	<u>Tax</u>	
	<u>and Proposed</u>	<u>Budget</u>	<u>Point</u>	
	<u>Debt Service</u>	<u>Appropriation</u>	<u>Variance</u>	<u>600k</u>
5/1/2012	\$1,954,452.00	\$1,954,452.00	\$0.00	2012
11/1/2012				
5/1/2013	\$2,255,270.00	\$1,954,452.00	\$300,817.00	0.50 2013
11/1/2013				
5/1/2014	\$2,540,792.00	\$2,255,270.00	\$135,523.00	0.23 2014
11/1/2014				
5/1/2015	\$2,686,260.00	\$2,390,792.00	\$95,468.00	0.16 2015
11/1/2015				
5/1/2016	\$2,464,000.00	\$2,486,260.00	-\$222,260.00	(0.37) 2016
11/1/2016				
5/1/2017	\$2,446,500.00	\$2,264,000.00	-\$17,500.00	(0.03) 2017
11/1/2017				
5/1/2018	\$2,453,500.00	\$2,246,500.00	-\$18,000.00	(0.03) 2018
11/1/2018				
5/1/2019	\$2,410,000.00	\$2,228,500.00	-\$43,500.00	(0.07) 2019
11/1/2019				
5/1/2020	\$2,141,500.00	\$2,185,000.00	-\$43,500.00	(0.07) 2020
11/1/2020				
5/1/2021	\$2,404,000.00	\$2,141,500.00	\$262,500.00	0.44 2021
11/1/2021				
5/1/2022	\$2,310,000.00	\$2,404,000.00	-\$94,000.00	(0.16) 2022
11/1/2022				
5/1/2023	\$2,256,000.00	\$2,310,000.00	-\$54,000.00	(0.09) 2023
11/1/2023				
5/1/2024	\$2,202,000.00	\$2,256,000.00	-\$54,000.00	(0.09) 2024
11/1/2024				
5/1/2025	\$2,148,000.00	\$2,202,000.00	-\$54,000.00	(0.09) 2025
11/1/2025				
5/1/2026	\$2,194,000.00	\$2,148,000.00	\$46,000.00	0.08 2026
11/1/2026				
5/1/2027	\$2,137,000.00	\$2,194,000.00	-\$57,000.00	(0.10) 2027
11/1/2027				
5/1/2028	\$2,280,000.00	\$2,137,000.00	\$143,000.00	0.24 2028
11/1/2028				
5/1/2029	\$2,215,500.00	\$2,280,000.00	-\$64,500.00	(0.11) 2029
11/1/2029				
5/1/2030	\$2,251,000.00	\$2,215,500.00	\$35,500.00	0.06 2030
11/1/2030				
5/1/2031	\$1,783,500.00	\$2,251,000.00	-\$467,500.00	(0.78) 2031
11/1/2031				
5/1/2032	\$1,825,000.00	\$1,783,500.00	\$41,500.00	0.07 2032
11/1/2032				
5/1/2033	\$1,362,000.00	\$1,825,000.00	-\$463,000.00	(0.77) 2033
11/1/2033				
5/1/2034	\$1,308,000.00	\$1,362,000.00	-\$54,000.00	(0.09) 2034
11/1/2034				
5/1/2035	\$1,254,000.00	\$1,308,000.00	-\$54,000.00	(0.09) 2035
	\$51,282,274.00			

## TEANECK DEBT RESTRUCTURING PLAN

<u>Description</u>		Principal
Schedule 1	Existing Debt Service (Payments to Continue as Set)	<b>\$11,653,315.00</b>
Schedule 2	BAN Princiipal (Targeted for 2013 & 2014 Bond Issues)	<b>\$17,397,274.00</b>
Schedule 3	Debt Authorized But Not Issued (Targeted for 2020 Issue)	<b>\$11,173,312.19</b>
	<b>Total</b>	<b>\$40,223,901.19</b>

Schedules based on information available November 2012. Certified by Christine L Brown, CPA, RMA.





