UniBank Fiscal Advisory Services, Inc.

MEMORANDUM

TO Robert Nason, Town Administrator, Town of Lee
Christopher Ketchen, Town Manager, Town of Lenox
Donna Toomey, Treasurer, Town of Lee

FROM Clark Rowell
Kristy Genga

DATE April 3, 2017

SUBJECT Proposed Road Project Financing

With reference to the proposed road reconstruction project currently under consideration in the Town of Lee, please let this memorandum review our discussion of last week.

It is our understanding that you would like to begin approximately $3 million of road reconstruction projects in the Town, and you are prepared to perform this work over the next two to three years. We also understand that you would like to keep the tax rate impact to approximately $0.15 per year over the next few years, which impact is to include the General Fund portion of a note to be issued in June for the acquisition of a new highway truck.

We believe this is attainable – we think you can proceed by having Town Meeting approve a $3 million borrowing authorization, and then we suggest you draw down the appropriation over the next two to three years through the issuance of one-year notes, each sized to be within the targeted $0.15 annual increase to the tax rate.

For example, we estimate that you could borrow approximately $1,450,000 for road reconstruction projects to be completed in calendar 2017.

- The fiscal 2017 valuation of the Town is $912,719,473, and a $0.15 increase to the levy would produce $136,907.

- The new highway truck is projected to cost $180,000, and the principal is to be amortized over ten years. If the June 2017 note is issued at 1.35 percent, then $20,430 of the $136,907 (or $18,000 for the first principal payment in FY18 and $2,430 for the interest due at maturity) would need to be allocated for FY18 debt service associated with the highway truck.

- After allocating $20,430 for the new highway truck, $116,477 would be available to pay the first year of debt service on the amount borrowed for road reconstruction projects. The road principal must be fully retired in fifteen years, so one-fifteenth of the principal is to be retired in FY18. Thus, the Town could borrow $1,450,000 for fiscal 2018 road reconstruction projects, and the fiscal 2018 debt service would be $116,242 (or $96,667 for principal and $19,575 for interest, leaving a small balance of $235 which could be used as an additional paydown of the note principal at maturity).

Assuming the Town could absorb another $0.15 on the tax rate in fiscal 2019, the Town could repeat this calculation to derive the additional amount of the road reconstruction bond authorization that could be devoted to additional road projects.

Thereafter, the Town could initiate additional projects with the remaining authorization and remain well within the target additional $0.15 impact.

After the full $3 million is used, the Town could continue issuing one year notes up to the allowed maximum of ten years and, thereafter, issue a five-year serial State House Loan Note for the remaining outstanding principal. The continued issuance of notes should provide the Town with a reasonably low cost of capital. However, please note, over the period of note issuance, the Town would be absorbing interest rate risk – the risk that one-year note rates might increase to levels higher than the Town expected.

Alternately, it is reasonable to think over the next ten years, the Town would consider and approve other capital projects in an amount that would warrant the issue of Town bonds. At that time, the remaining road reconstruction principal could be incorporated into that bond issue to produce a more efficient bond issue (relative to issuance costs) and to lock into fixed interest rates over the remaining years of principal amortization.

We hope this is a reasonable plan for you. Please feel free to call or email us with any questions or comments you might have.