FY 2016 Debt Presentation Town Council Meeting

JUNE 14, 2016

Frank Mason, CFO

Municipal Debt 101

There are two ways to spend in the State of NJ:

- By adopted Operating Budget
- By adopted Bond Ordinance for capital projects
- This presentation will focus on Bond Ordinances and capital spending.

Components of a Bond Ordinance

- A bond ordinance authorizes the spending of funds for a specific purpose in which the useful life is 5 or more years

- Purpose-Description of the Ordinance
- Section 20 expenses soft costs- engineering, legal
- Down payment- Minimum of 5% required
- Authorization for CFO to actually fund the ordinance by selling short term notes
- A Supplemental Debt statement is required for any ordinance authorizing debt.

Components of a Bond Ordinance

Down Payment- 5% minimum

- 40A:2-11. a. No bond ordinance shall be finally adopted unless it appropriates to the purpose, or ratably to the respective purposes to be financed, in addition to the obligations thereby authorized, a sum as a down payment which is not less than 5% of the amount of the obligations authorized.

Down Payment is typically funded by the Capital Improvement Fund

The Capital Improvement Fund is an appropriation in the Operating Budget.

Once an Ordinance is adopted, the down payment is transferred to the capital fund.

Components of a Supplemental Debt Statement

- A Supplemental Debt Statement must be filed with clerk prior to any debt being issued.
- The Supplemental Debt statement identifies current debt from prior Annual Debt Statement at Dec 31 of the prior year.
- The principal amount paid to date from the current budget to decrease the debt.
- And the new debt being issued in the ordinance.

Components of an Annual Debt Statement

- An Annual Debt Statement must be filed with the Director of the DLGS before January 31st.
- The Annual Debt statement identifies short term and long term debt.
- It identifies any Utility debt.
- It identifies the Town's portion of School Debt.
- Authority debt is also required.

Components of an Annual Debt Statement

At 12/31/15 Morristown's Net Debt totaled $26,840,845

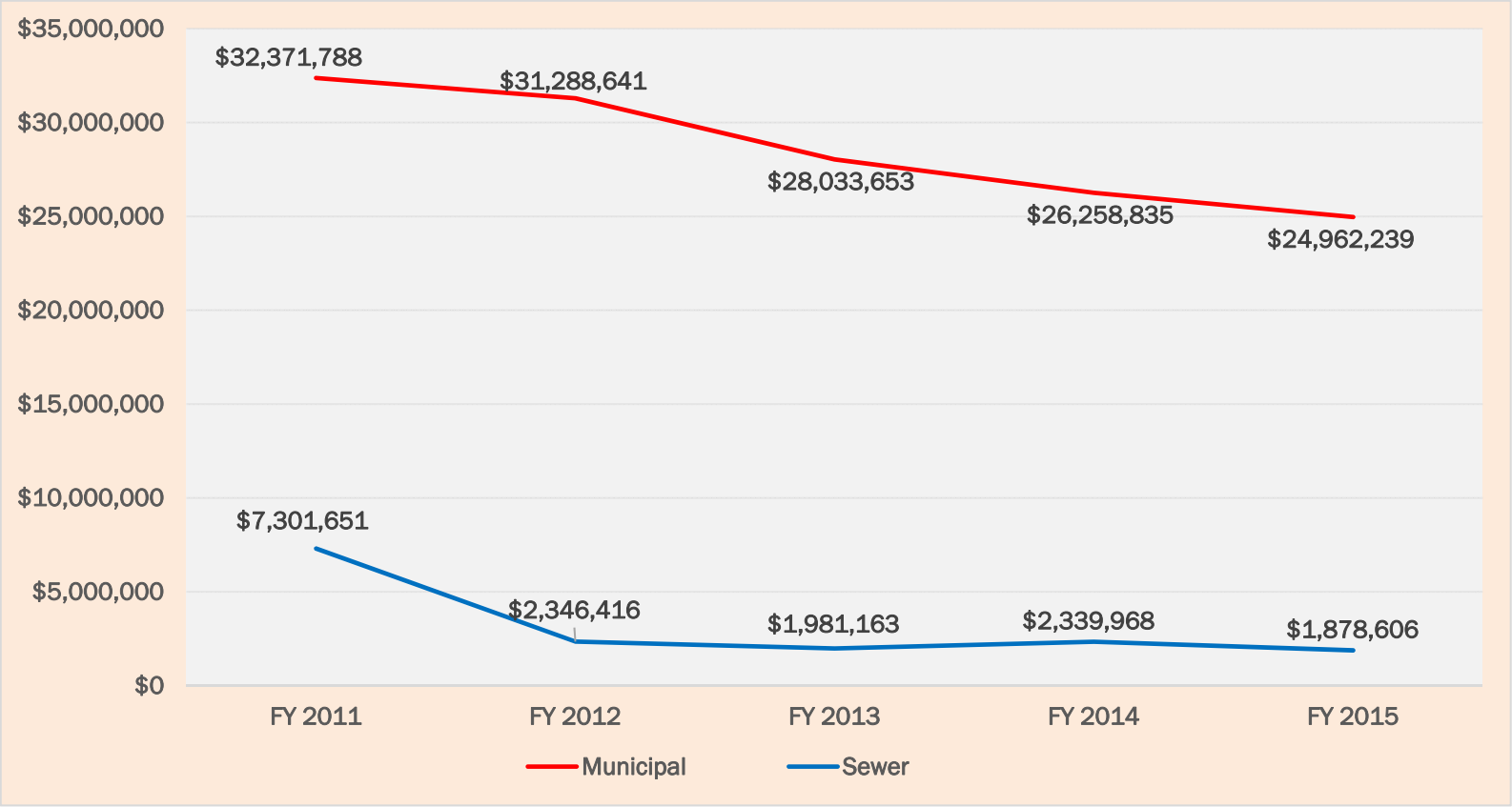
- General Capital Debt - $24,962,239
  - General BONDS = $11,198,920
  - General BANS = $13,763,319
- Sewer Net Debt - $1,878,606

Morristown Net Debt:
December 31 Comparison

	FY2014	FY2015	Difference
Municipal	$26,258,835	$24,962,239	($1,296,596)
Sewer	$2,339,968	$1,878,606	($461,362)
TOTAL	$28,598,803	$26,840,845	($1,757,958)

State Statute 40A:2-6 allows debt up to 3.5% of total equalized value. Morristown is well below the State limitation at 1.018% for 2015 at $26,840,845.

Morristown Net Debt – 5 Year Trend



Short Term vs. Long Term

- Bond Anticipation Notes(BANS):
  - Can be rolled over annually for up to 10 years.
  - Must be permanently financed after 10 years.
  - Typically, **interest only** is paid for the first 3 years. Principal must be paid in years 4-10. Principal is paid to the extent the budget will allow for BAN's.
- As the BAN'S age and the Town's debt schedule permits, new BONDS are issued, as BANS are converted into BONDS.

General Bonds- Long Term- prior to 2016 bond sale

	General Obligation Refunding Bonds, Series 2005	General Obligation Refunding Bonds, Series 2009	General Obligation Refunding Bonds, Series 2011	General Obligation Refunding Bonds, Series 2012	General Obligation Refunding Bonds, Series 2014	Total Debt Service
2016	946,307	53,425	262,876	1,182,475	1,409,400	3,854,483
2017	929,715	53,425	252,839		1,362,350	2,598,328
2018	911,078	53,425	242,849		1,340,600	2,547,952
2019	931,286	283,725			1,326,000	2,541,011
2020		269,138				269,138
2021		263,375				263,375
2022		246,750				246,750
2023		225,500				225,500
	COMBINED TOTAL					12,546,537

General Bonds- Long Term-
After the 2016 bond sale

Year Ending	General Obligation Refunding Bonds, Series 2005	General Obligation Refunding Bonds, Series 2009	General Obligation Refunding Bonds, Series 2011	General Obligation Refunding Bonds, Series 2012	General Obligation Refunding Bonds, Series 2014	General Obligation Refunding Bonds, Series 2016	Total Debt Service
2016	739,192		242,428	1,165,000	1,235,000		3,381,620
2017	770,647		240,844		1,225,000	410,000	2,646,491
2018	802,102		239,260		1,240,000	515,000	2,796,362
2019	874,447	235,000			1,275,000	555,000	2,939,447
2020		230,000				620,000	850,000
2021		235,000				635,000	870,000
2022		230,000				650,000	880,000
2023		220,000				665,000	885,000
2024						685,000	685,000
2025						700,000	700,000
2026						725,000	725,000
2027						745,000	745,000
2028						765,000	765,000
2029						810,000	810,000
2030						810,000	810,000
2031						815,000	815,000
2032						819,000	819,000
Principal	**3,186,388**	**1,150,000**	**722,532**	**1,165,000**	**4,975,000**	**10,924,000**	**22,122,920**

WHAT CHANGED?

	APRIL 2016	MAY 2016	CHANGE
BONDS	$11,198,920	$22,122,920*	$10,924,000
BANS	$13,763,319	$2,839,319	($10,924,000)
TOTAL	$24,962,239	$24,962,239	$0

*10.9 Million 2016 BOND SALE
closed June 9, 2016

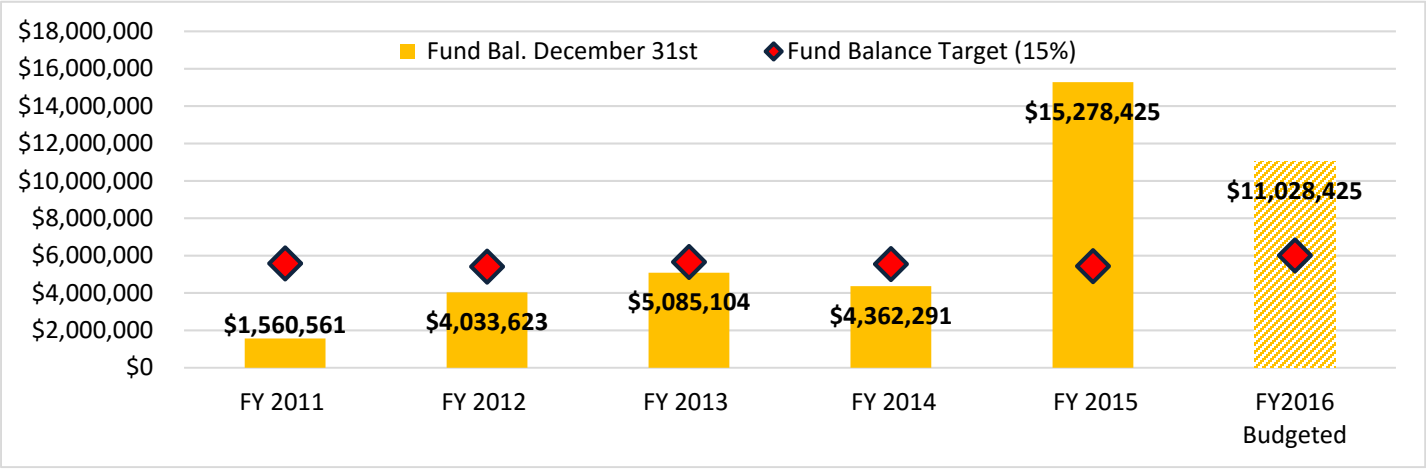
Standard & Poors

RATING UPGRADE !!!!!!	FY2016 GO BONDS
FROM AA STABLE TO AA POSITIVE!!!	
Significant reserve increase!	Hospital
Very Strong Economy – broad and diverse. Town's market value increase by 6.9%	
Strong Management- good financial policies and practices	
Adequate Budgetary Performance & Very weak (LOW)Debt!	

Outlook from S&P

- Expectation that 1 TIME revenue will increase reserves and **be sustained** at higher levels
- Town will Continue to reduce debt levels
- S&P indicated that there is a Potential raise in future rating
- The Town's very strong area economy and strong management scores lends stability to the rating. Conversely, if the town were to draw on reserves, returning reserves to adequate, S&P could revise the outlook to stable.

Fund Balance Trend



YEAR END	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY2016 Budgeted
Fund Bal. January 1st	$2,307,961	$1,560,561	$4,033,623	$5,085,104	$4,098,735	$15,278,425
Fund Bal. December 31st	$1,560,561	$4,033,623	$5,085,104	$4,362,291	$15,278,425	$11,028,425
Change in Fund Balance	($747,400)	$2,473,062	$1,051,481	($722,813)	$11,179,690	($4,250,000)
Percentage Change	-32.38%	158.47%	26.07%	-14.21%	272.76%	-27.82%

Debt Service (Sewer Utility)

- Sewer Utility Debt Outstanding as of 12/31/15 - $12,054,335
  - Long Term Debt - $7.09 million
  - Bond Anticipation Notes - $4.96 million
- "Pay-As-You Go" - Utility Budget includes $670,000 for Capital Improvement Projects.
  - No new Sewer Utility Debt – Fourth year in a row!

Debt Service Sewer

- Strategy since 2012 has been pay as you go
- Sewer can absorb approximately $670,000 in capital projects within the operating budget.
- No new ordinances have been issued to fund with BANS
- Therefore, existing long term debt services is scheduled to be paid off in 2023, if no bond ordinances are issued.

Capital Projects – 2016 Multi-purpose ordinance

Total allocated for new capital funding is $3.795 million which includes:

- $2,775,000 in sidewalk, curb and roadway improvements
- $519,000 for DPW heavy equipment
- $222,000 for pool and park improvements
- $201,000 for technology improvements
- $41,500 for Town Hall and Fire Department building improvements
- $36,500 for Tree Planting and Speedwell Dam Gate ladder
- DOWN PAYMENT IS $1,000,000 – DEBT AUTHORIZED IS $2,795,000

Q&A