

Town of Essex Proposed General Obligation Bond

Frequently Asked Questions

Q. – *What is a General Obligation Municipal Bond?*

A. - Municipal bonds are long term debt obligations issued by states, cities, counties and other governmental entities, which use the money to build schools, highways, bridges, roads and many other projects for the public good.

Q. – *Why should the Town issue General Obligation Bonds?*

A. - The cost of certain Municipal projects exceed the Town's ability to pay from its annual operating budget and/or sinking funds. Such projects have a useful life well beyond a year (i.e., a new roof would have an expected useful life of 20 – 25 years) and long term bonding allows the Town to match the repayment of the cost through annual debt service to the asset life. Amortizing the cost of the projects over a period of time reduces the impact on property taxes

Q – *Why is the Town bundling the capital projects together?*

A. – There are certain fixed costs associated with issuing a bond (legal counsel, municipal advisor, etc.). By bundling together these capital projects that would require bond financing to complete, we save on the issuance costs. Additionally, small bond issues are not as attractive to underwriters and investors and as such, generally will result in higher interest rates to sell them. When we bundle bonding opportunities together, we can minimize our debt service expense.

Q – *When will the bond be issued?*

A – The bonds will not be issued until the approved projects are substantially complete and the exact amount of State reimbursement is known. This will allow us to bond only the amount expended rather than the full amount authorized. We may use bond anticipation notes (BANS) for interim financing. BANS have a 1 year maturity. With the Walnut Street bridge completion date estimated to be in the summer of 2016, the bonds will likely be issued in late fiscal year 2015-2016 or early fiscal year 2016-2017.

Q. – *What impact will the additional debt service have on the Town's mill rate?*

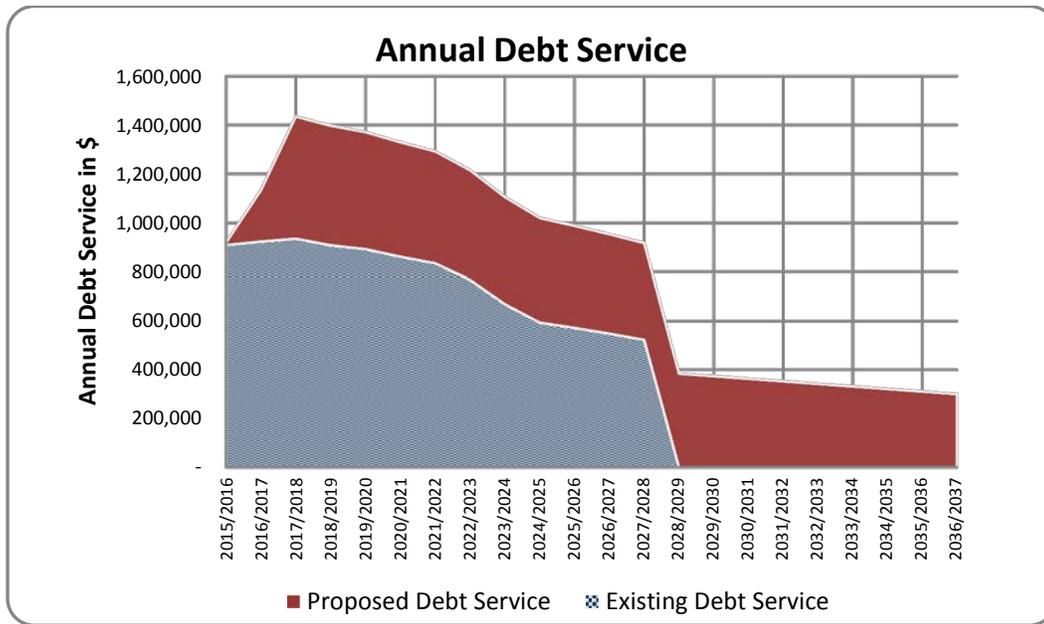
Based on the bonding of approximately \$6,000,000 of the requested \$8,085,000 bond authorization in early fiscal year 2016-2017, a projected interest rate of 3.5%, and equal principal payments over the life of the bond, the total debt service (principal + interest) for fiscal year 2017-2018 (the first year that an annual principal payment would be made) would be \$504,750. Based on our current Net Grand List of \$1,031,550,311, the effect would be an increase in the mill rate of .49 mills. For a property assessed by the Town at \$300,000, the annual impact to your property tax bill would be \$147 or \$12.25 per month.

Frequently Asked Questions (continued)

Q. – How much long term debt does the Town have outstanding currently?

A. – At this point, the Town has one General Obligation bond issue outstanding that was issued for the Essex Elementary School project completed in 2007. The current principal balance is \$8,425,000. The final maturity of the bond will be in fiscal year 2027-2028. A chart reflecting the existing debt service and proposed debt service is presented below.

The Town is also responsible for a portion of the debt issued by the Region 4 School District. As of the end of fiscal year 2013-2014, the Essex share was \$5,945,675 of the total General Obligation Bonds outstanding balance of \$12,875,000.



Q. – Why is the Town requesting bonding authorization for \$8,085,000 if we only intend to bond for approximately \$6,000,000?

A. – The total cost of the projects is anticipated to be \$8,085,000 however, we anticipate receiving State/Federal grant money for the Walnut Street bridge project and the school roof project of just over \$2,000,000 for a net cost to the Town of \$6,000,000. We are required to obtain bonding authorization for the full amount so that if the grants were rescinded prior to the completion of the project, we would not have to go back for additional bonding authorization. The chance of such a cancellation of grant funding is remote.

Q.- When is the last time the Town issued bonds for a capital project that was not related to the schools?

A. – The Town issued \$1,995,000 of General Obligation bonds in 1997 for the construction of the firehouse for our volunteers - Essex Fire Engine Company #1. This debt had a ten year term and the final principal payment was made in 2007.