

**MENDHAM TOWNSHIP**  
**INTEROFFICE MEMORANDUM**

**To:** Mayor and Members of the Township Committee  
**Cc:** Chief Financial Officer, Township Attorney  
**Date:** October 5, 2020 (revised October 15, 2020)  
**From:** Bob Casey, Interim Administrator  
**Subject:** Financing Mechanism for Renovations of Town Hall / New Police Building

Attached to this memo is a projection for the impact of a \$5 million bond ordinance on the annual budget / debt requirements of the Township. Several qualifications:

1. The projections are very conservative. The BAN interest rate calculations (short term 1-year notes that are used before the formal multiyear bonds are issued) is 1.7%; the long-term bond debt interest is projected at 3.5% - significantly higher rates than currently being experienced
2. The anticipated draw down of funds is \$2.375 million in March of 2021 and \$2.375 in March 2022 (\$250,000 in available cash must be used as the bond down payment)
3. The bond ordinance paid back schedule is similar to a mortgage – constant amount annually with the interest / principal varying as the bond total is drawn down. In reality this schedule may change given other requirements foreseen at the time the final bonds are issued.
4. The weighted average “useful bond life” is calculated at 13.3 years – “Useful Bond Life” is a function of the state bond law. The renovation of an existing building is set at a maximum bond life of 10 years. The bond life for a class c building (standard construction) is 20 years. The “average bond life” we are using is 13.3 years. The final calculation will be made by the Bond Attorney. I am pursuing with the Construction official and bond attorney the possibility that the building may meet the class b schedule which would be a 30-year bond which would allow for a longer-term bonds (however the interest rates may be higher for this issue). (Class B construction = incombustible exterior walls which may increase projected construction costs)
5. By using a combination of BAN’s which includes a principal payment and 13-year Bonds we achieve a 15-year payback. It may be possible to increase this term by using BAN’s with principal payments for additional years thereby stretching out the payback schedule. This should be considered in consultation with the Auditor and Bond Attorney in 2024 and the methodology selected will be partially a function of the long term versus short term interest rates at that time.

6. The projected debt plan remains in place: the existing bonds retire in 2024 opening a window for the new bond minimizing the impact on the annual budget. The projected policy for transitioning to “pay as you go funding” after 2024 remains. The new bond ordinance is layered on top of these existing policies.
7. The resultant increase in tax requirements starts in 2024 at \$75,000 and increases / decreases over the term of the bonds (bottom line on the debt schedule).
8. At the bottom of the chart is a summary of the tax impact in 2024. It shows the Township Assessed Valuation (no increase over existing amount); the “average homeowner” assessed value (\$900,000); the estimated increase to the existing municipal tax rate; the estimated property tax cost increase of \$35 per year

Supplemental Comments: (October 15,2020)

It must be emphasized that the debt projection is for the budget impact tax rate impact of the proposed bond ordinance. As shown on the top portion of the spread sheet, the existing Township Debt significantly decreased after 2023 (Open Space) and 2024 (Bond Principal and Interest). The existing debt plan then increased payments for the Temporary Notes the Township issues for capital improvements (mainly road resurfacing / reconstruction) plus financing more annual capital improvements on a “pay as you go basis”. The proposed bond ordinance is factored on top of this existing debt plan.

In essence the existing debt plan anticipated a tax decrease in 2024 and thereafter whereas the projected revised debt plan shows a projected tax increase as noted above.