From:	David Eisenthal
To:	Tim Carroll; Melanie Becker
Subject:	Financing Options
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Attachments:	Financing Options - October 27, 2022.pdf

Tim and Dawn,

As we discussed, we have looked at options for the financing of the remainder of the borrowing authorization for the Fire/Ambulance facility. The four options we have analyzed are

1. Issuing $4,170,000 bond anticipation notes with disclosure, legal, and rating in January 2023 with a bond issue in January 2024,
2. Issuing $4,170,000 "State House" notes in January 2023 with bonds in January 2024,
3. Issuing $2,000,000 "State House" notes in January 2023 and $2,170,000 in April 2023 with bonds in January 2024, and
4. Issuing general obligation bonds in January 2023.

I have attached analysis of these four options.

As we have discussed, interest rates have increased since the first issuance of bonds this summer. We project that a twenty year financing of general obligation bonds in January 2023 would have an "all-in" cost of approximately 4.19 percent. (We define "all-in" cost as including all costs of issue.) We show this as option 4. In comparison, the "all-in" cost of the first issue, which sold on June 28 and settled on July 13 was approximately 3.63 percent. There is no guarantee that interest rates will decrease during calendar 2023, but we see that as being more likely than not. We would expect to see such decreases, if they happen, toward the end of calendar 2023 into 2024.

A 0.50 percent overall reduction in the interest rate of a bond issue repaid over twenty years, which is what we assume in options 1, 2, and 3, would reduce overall debt service by as much as $400,000 over the term of the financing.

Options 1 and 2 would both have the Town issuing bond anticipation notes in January 2023 and general obligation bonds in January 2024. Option 1 would have the issue sold with a disclosure, legal opinion, and note rating. Option 2 would have the Town issuing "State House" notes, with which the Town is familiar. Option 3 is a variation on option 2, with the Town issuing $2,000,000 BANs in January and $2,170,000 in April

The advantages of option 1 are –

1. Likely multiple bids
2. Likely lower overall cost

The main disadvantage of option 1 is that the activity involved in selling notes with disclosure, legal opinion, and rating resembles that for a bond issue. The Town may decide that the cost savings, which is projected to be less than $20,000, does not justify the staff effort and resources to be put into such an issue.

A summary of the cost of BANs issued under option 1 would be as follows:

Interest payable at maturity (assumes 4.00% coupon)	$166,800.00
Less projected premium (reduces debt service impact at maturity)	(39,406.50)
Plus issuance costs	21,355.00
Net cost	$148,748.50

Option 2 is more familiar to the Town, with the Town issuing "State House" notes to temporarily finance the remaining authorization for the project. One drawback of this approach is that there will be fewer bidders for a $4 million issue – possibly as few as two full bids. The overall cost is likely also to be higher.

Interest payable a maturity (assumes 4.00% coupon)	$166,800.00
Plus issuance costs	550.00
Net cost	$167,350.00

Option 3 would have a lower net interest and issuance costs than options 1 and 2 as follows:

Interest payable a maturity (assumes 4.00% coupons)	$145,100.00
Plus issuance costs	1,100.00
Net cost	$146,200.00

Because each issue would be smaller, it is possible that there would be more bidders on each issue. The main risk of this option is that if interest rates continue to increase during the first half of 2023, the interest costs could be higher than what is projected here.

On a "cost of capital" basis, option 3 is very similar to option 2 because the Town would be receiving a portion of the proceeds ninety days later.

None of these options consider the financing of the Chilmark School HVAC. A decision on that financing could affect how you look at these options.

I look forward to walking through this with you during our Zoom tomorrow.

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