

CONSENT

6/14/04 - (34)

John Murray

From: Bill Ryan
Sent: Friday, May 28, 2004 11:57 AM
To: John Murray
Cc: Sharon Summers; Bunny Lawton; George Frost
Subject: Borrowing For Douglas/Heating

Hi John,

Your proposal regarding the Douglas School borrowing is fine.

Thanks,
Bill

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This message has been scanned for viruses
by the APS/ABRSD email system.

NOTE TO BOS:

STAFF SEEKS THE BOARD'S APPROVAL
TO PROCEED WITH THIS PROGRAM, AS
OUTLINED.

Wor

INTEROFFICE MEMORANDUM

TO: THE ACTON SCHOOL COMMITTEE, THE ACTON FINANCE COMMITTEE & BILL RYAN
FROM: JOHN MURRAY
SUBJECT: BORROWING FOR THE DOUGLAS SCHOOL HEATING SYSTEM
DATE: 5/20/2004
CC: THE BOARD OF SELECTMEN

As Board members are aware, Annual Town Meeting authorized the Treasurer, with the approval of the Board, to borrow \$300,000 for the replacement of the Douglas School's fan coil units. The least expensive method of borrowing for those units would be the issuance of "State House Notes." "State House Notes" is a type of borrowing, whereby the Town combines its borrowing with other municipalities and the Commonwealth. The benefit of this means of borrowing is very low issuance costs. The drawbacks are: (1) a higher interest rate by 75 to 100 basis points and (2) preferred term of five years or less (one may, in a good market, extend the term to seven years vs. a statutory term of ten years). I have met with Bill Ryan and Mary Ann Ashton and said I would comply with their wishes to use State House Notes and we set a budget of \$17,000 as the School's first year cost.

Upon further reflection, I believe there is a better way to proceed. That method would be the direct retail sale of the bonds from Town Hall. The drawback to this method is the cost of climbing the learning curve and a higher cost of issuance (\$10K - \$15K). The benefits include, but are not limited to, a lower interest cost by capturing the underwriter's spread, and extending the term to the statutory limit. In combination, these two items will reduce the annual carrying cost of the debt issue for the Schools. The most significant benefit in my mind is stopping the exporting of tax dollars. Under a normal bond issuance methodology and State House Notes, the taxes collected to pay the debt service leave Town. Under a retail sale issuance, the taxes would flow back to the citizens of Acton as interest and principal payments. I said in theory because Bond Counsel has opined that we cannot limit the sale to citizens of the Town. However, he agrees we can limit the advertising of the sale as we see fit. An additional benefit to the bond purchaser is that bonds issued by the Town are exempt from both State and Federal income taxes. A secondary benefit for the Town is to determine if there is a significant in-town market for the retail issuance of future securities.

Two possible political issues for the Board to consider in weighing this matter are:

- (1) The issue of conflict of interest. I believe Board members, Don Johnson, Steve Barrett and I, as architects and approvers of the issue of the bond issue, are prohibited by State Law from purchasing any securities from a direct retail issuance.
- (2) Bond Counsel has opined that the issuance should be on a first-come, first-serve basis. In theory, the first person in line could purchase the entire offering and others who had been waiting would go home empty-handed.

My suggestion is that the Town picks up any additional costs beyond the \$17,000 amount agreed upon for FY05 (expected in the \$10K - \$15K range) and that the Town benefit from any future year savings which are generated. My hope is to obtain formal feedback from the Board at its June 7, 2004 meeting.

Both The Board and I are interested in your views concerning the proposal. Please have your written comments submitted to Christine Joyce by June 4. This date will allow us to provide the Board with your comments in their packet.