

Overview of Redevelopment Finance for the Berkeley Heights Municipal Redevelopment Project



January 10, 2017

What is a Municipal Bond?

- A certificate issued by a governmental entity promising to repay borrowed money at a fixed rate of interest over a specified period of time.

What Can Be Bonded?

- Capital improvements and other long-term obligations such as the Municipal Redevelopment Project, roadways, or equipment such as fire trucks, but not current expenses.
- Targeted expenditures must have a useful life of at least five years. (See N.J.S.A. 40A:2-22)
- Refunding Bonds to lower debt service on previously issued bonds (not applicable here).

Amount of Debt Permitted

- Municipality: 3½% of average equalized property valuation.
- Local Finance Board may approve exceeding this limit based upon request by municipality.
- Self-liquidating purposes (e.g., water utility) deductible from gross debt since paid for with dedicated user revenues and not general taxation.

Bond Ordinance

- Creates appropriation to allow contracts and spending on a project, including redevelopment projects.
- Authorizes issuance of bonds and notes to fund appropriation.
- Authorizes spending on the project itself (e.g., building improvements).
- Also allows for spending on soft costs such as design, engineering and professional fees.

Bond Anticipation Notes (BANs)

- Short term debt instrument; Must mature within one year.
- May be negotiated or sold at competitive sale.
- Can be renewed, but must mature by fifth month following tenth fiscal year.
- Paydowns required beginning on 3rd anniversary.
- Lower interest rates than bonds, reflective of short duration of loan.

Issuance of Bonds

- Long term financing; typically 10-30 years.
- Public sale generally required; Sold by electronic auction.
- Must award to low bidder or reject all bids.
- Maturity schedule parameters; Amortizes principal quickly (unlike a mortgage).
- Fixed interest rates with known debt service schedule.
- Requires a bond rating.

Project Specific Financing

- The Municipal Redevelopment Project would be financed through a combination of BANs and long-term bonds.
- Amount authorized to be bonded would not be borrowed all at once; Money would be borrowed as needed, similar to a home equity line of credit.
- Decisions on when/how much should be “withdrawn” would be based on the timing of project needs and current/future interest rates, all in consultation with the Business Administrator, CFO and other outside Professionals and as approved by the Governing Body.

MS&B

McMANIMON • SCOTLAND • BAUMANN

Matthew D. Jessup, Esq.
McManimon, Scotland & Baumann, LLC
75 Livingston Avenue, Roseland, NJ 07068
(973) 622-4850
www.msbnj.com