

Capital Market Advisors



CMA

CAPITAL MARKETS ADVISORS, LLC
Independent Financial Advisors

- Independent financial advisory firm
- 450 years of collective experience
- Consistently ranked by Reuters as one of the Top 10 Financial Advisory Firms in the United States
- 2017: Advised on over 350 issuances with a par value of \$5.3 billion

***Capital Markets has advised the Town
for the past 20 years***



Water Company Acquisition

Financing

August 2018

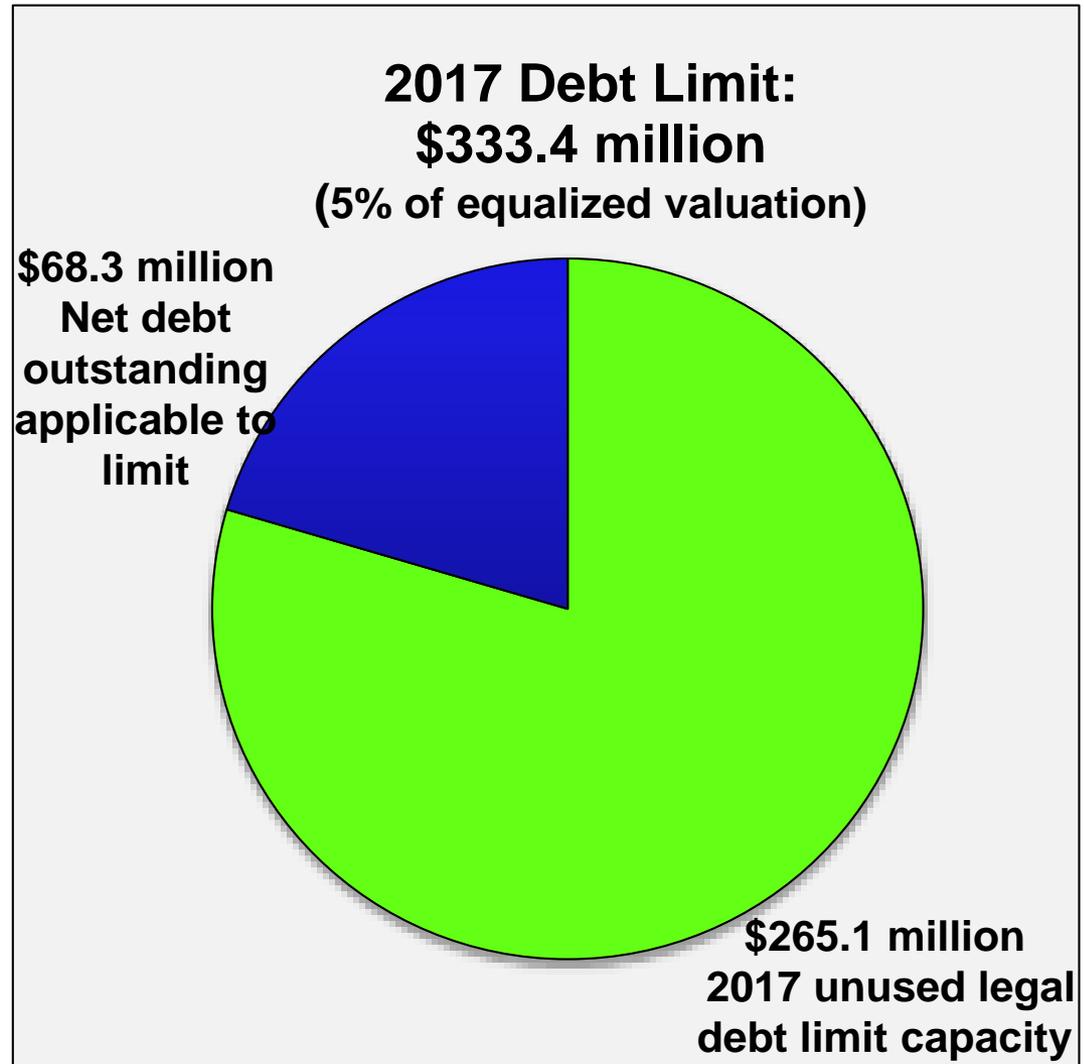


Town Legal Debt Margin

- **Mass General Law (Chapter 44 Section 10):**

- A town shall not authorize indebtedness to an amount exceeding five percent (5%) of the town's equalized valuation as determined by the Commissioner of Revenue
 - Hingham's most recent equalized valuation = \$6.7 billion

Note: Chapter 44 § 8 (3), and/or the 1879 statute, permits the issuance of debt outside debt limit for acquisition of water system with maturity not to exceed 30 years.



Source: 2017 Hingham Consolidated Annual Financial Report (CAFR)

Credit Ratings



- **The Town of Hingham enjoys the highest credit ratings offered by each of the three major credit rating agencies: Moody's (Aaa), S&P (AAA) and Fitch Ratings (AAA)**
 - ✓ Higher credit ratings result in lower interest rates and more bids on bonds and notes sold at competitive sale or via negotiation
- **As "self supporting" debt, the water acquisition bonds will not be counted against the Town's debt limit**
 - ✓ Historic revenue generated by the facility should be sufficient to pay ongoing operating expenses as well as projected, annual principal and interest on the acquisition bonds
- **The total amount of additional debt required to fund capital projects planned by the Town is comfortably within the Town's debt limit, and **all other fundamental credit factors held constant**, this should not have a negative impact on the Town's credit ratings**

Debt Structuring and Issuance Decisions



Type of Bond

- General Obligation
- Revenue

Term

- 1 year notes
- 20 year bonds
- 30 year bonds

Payments: Method of Amortization

- Level payment
- Level principal

Method of Sale

- Competitive
- Negotiated

Considerations:

- Market conditions
- Impact on Town bond ratings
- Legal restrictions
- Financial impact (total cost of debt)
- Town practices and standards
- Matching principle (bearing cost vs. receiving services)

Type of Bond



- **General obligation bond:** backed by the “full faith and credit” pledge of the issuer, supported primarily by the issuer’s ability to levy taxes
- **Revenue bond:** supported by dedicated income streams from specific projects.
 - *The Town does not currently have the legal authority to issue Revenue Bonds.*
 - *Issuance of Revenue Bonds would require special legislative action and/or establishment of separate legal entity such as Springfield Water and Sewer Commission, Lynn Water and Sewer Commission or Boston Water and Sewer Commission or water districts such as Sudbury Water District.*



Term of Debt

- Tied to “useful life” of project being financed as prescribed by law
- 1-year notes
 - Used by Town during construction period, selectively used before converting to long-term borrowing based
 - lower interest rates than bonds due to shorter term of debt
 - Interest-only payment during term of note; subject to rollover. May be rolled over for maturity of 5 years with principal amortization beginning at end of 3rd year
- 20-year bonds
 - Typical term for Town projects; creates capacity for additional large projects
- 30-year bonds
 - Term used by many municipalities which purchase utilities or fund long lived assets subject to terms as outlined in legal limits



Method of Amortization

- **Level Payment**

- Substantially equal annual payments of principal + interest (P+I)
- P+I payments remain constant over borrowing term
 - Over term, interest payment decreases as principal payment increases
- Results:
 - Lower P+I payments than Level Principal for ~first half of term
 - Higher total interest cost over borrowing term

- **Level Principal**

- Equal principal amount in principal + interest payments (P+I)
- P+I payments decrease over borrowing term due to decreasing interest costs
- Results:
 - Lower P+I payments than Level Payment for ~second half of term
 - Lower total interest cost over borrowing term

Debt Issuance



- The Town would use the same process and professional services as when it issues municipal debt
- Method of sale
 - **Competitive:** bonds advertised for sale; bonds awarded to bidder offering lowest net interest cost
 - **Negotiated:** underwriter selected to purchase bonds