



TOWN HALL
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FOUNDED DECEMBER 15, 1727
CHARTERED JANUARY 1, 1991

TOWN OF NEWMARKET, NEW HAMPSHIRE

STAFF REPORT

DATE: April 20, 2022

TITLE: The issuance of a Refunding Bond – Resolution # 2021/2022-33

PREPARED BY: William Tappan, Director of Finance & Administration

TOWN MANAGER COMMENTS – RECOMMENDATION:

I recommend passage of this resolution.

BACKGROUND:

The town has been engaged in a project for the construction of a new water treatment facility for the MacIntosh and Tucker wells. The project has been funded by the State's Drinking Water Groundwater Trust Fund loan program. The loan is for a maximum of \$3,900,000 and has been accruing interest during the project at a rate of 1% per year. Upon substantial completion the interest rate increased to 3.38%. Substantial completion was achieved at the end of December, and the DWGTF representatives encouraged the town to refinance the loan to reduce the discount rate and the loan repayment burden.

DISCUSSION:

Multiple banks and the NH Municipal Bond Bank were contacted to solicit loan offers. Most banks in the state do not offer municipal loans for periods of 15 to 20 years. The few community banks that do, restrict lending to businesses and municipalities in their local area. Northway Bank was the only bank contacted that would lend the amount required to refinance the NH DWGTF loan for the amortization period desired (20 years). Northway Bank's interest rate of 2.84% (for a 20 year repayment period) is a reduction of .54%, projected to save the town over \$280,000 versus the original NH DWGTF loan terms.

The reason for not engaging with the NH Municipal Bond Bank on this refinancing is time and uncertainty. The federal funds rate was increased in March and is likely to increase again when the Federal Open Market Committee (FOMC) of the Federal Reserve meets in the coming weeks. That meeting will occur prior to the NHMBB going to market with its next bond issuance. Given the current monetary environment, it is likely NHMBB's bond discount rate will be higher than the interest rate offered by Northway Bank, particularly if the FOMC raises rates another 25 basis points (.25%) as anticipated. The NHMBB is anticipating a .50% increase (on a 20 year loan) to its January rate by its July issuance. Given that we ended up with a 2.47% (total interest cost) versus the 2.26% originally projected (a .21% increase), the probability of a similar occurrence with their next issuance is high and would likely result in an equal or higher rate than

STAFF REPORT

Northway's. Even if it were a few basis points lower, the uncertainty is not worth the risk when we already have a guaranteed commitment from a reputable bank with a more streamlined loan process.

The Federal Funds rate is important in this situation as it is the rate at which banks loan money to each other (generally overnight), and one of the pillars on which interest rates on loans to organizations and individuals rest. Another factor (less important) is the Federal Discount Rate, which is currently .50% and was .25% a month ago. It is the discount rate the Federal Reserve charges to banks as a lender of last resort. This plays a less significant role in commercial lending rates, but plays one nonetheless. Given that both are rising and anticipated to continue increasing through the year, a crucial determinant of rates at this moment is time itself.

RECOMMENDATION:

It is recommended that the Town Council approve the loan refunding with Northway Bank.

DOCUMENTS ATTACHED:

Amortization schedules from the original NH DWGTF loan and Northway Bank loan.