

**DOVER TOWNSHIP  
BOARD OF SUPERVISORS  
WORK SESSION MINUTES  
July 24<sup>th</sup>, 2023**

The Dover Township Board of Supervisors Work Session for Monday, July 24<sup>th</sup>, 2023, was called to order at 6:02 PM by Chairperson Stephen Stefanowicz in the Dover Township Board of Supervisors meeting room. Supervisors present were Chuck Richards, Stephen Parthree, Robert Stone, and Michael Cashman. Other Township Representatives in attendance were Laurel Oswalt, Township Manager; Terry Myers, Township Engineer; and Brooke Scearce, Township Secretary. There were 2 members of the public present.

This meeting is being recorded for the purpose of minutes only.

**PRESENTATION BY JAMIE SCHLESINGER ON POTENTIAL FINANCING FOR THE MUNICIPAL BUILDING EXPANSION**

Jamie Schlesinger from PFM Financial Advisors stated that short-term interest rates have gone up. The funds that the Township are investing are now earning up to 5% which is mostly due to how the Federal Reserve has raised interest rates. An interesting dynamic associated with this is, it has not impacted the long-term interest rate environment as much. So, when we look at long-term financing, those interest rates aren't at 5%. This creates what is called an inverted yield curve which is rare. Right now, if the Township should ever go out to borrow, it is more than likely the Township will be borrowing at 3.5-4% range and the money received will be earning more than that. The Township has a unique circumstance given the potential cost of the municipal building expansion. Speaking theoretically, if the total cost of the project is \$7 million, one of the alternatives would be for the Township to borrow \$5 million or less. In this case, the borrowing would fall into a small issuer exemption under the arbitrage rebate rules. This circumstance would allow the Township to borrow that money for the 3-year period and keep all the earnings that were borrowed. We have not had this opportunity in the past because short-term interest rates were usually lower than longer term interest rates. The Township should consider whether it makes sense to borrow a little less and come up with the difference or borrow the full amount and deal with the arbitrage.

C. Richards questioned if the Township were to borrow money but then realized the Township needs more money, can the Township borrow less than \$5 million again and use it on the same project.

J. Schlesinger stated that yes, you can but it's a question of doing multiple transactions as there is a cost to bond issuance. It is also based off the calendar year; the Township and Authority together should not exceed 10 million in a calendar to maintain bank qualification.

S. Stefanowicz questioned if the Township were to borrow \$5 million, the project would then have to be completed in a 3-year period.

J. Schlesinger said the Township would have to have a reasonable expectation to spend the money within 3 years.

J. Schlesinger stated the biggest question for the Township once the decision has been made to move forward with the project is whether to fund the project through one large issue or multiple issues. In the end, it's possible that the Township borrows the \$5 million and short-term rates go down resulting in the value of the arbitrage savings diminishing.

J. Schlesinger noted that based on the municipal market overlooking a 10-year period the yield percentage has been relatively status quo. Historically, related to the Township's debt, the graph shows a breakdown of the borrowings by each fund. There are 3 different scenario types, there is no major magical structure. If the Township were to borrow \$5 million it would be about \$370,000 per year, if you borrowed \$6 million it would be about \$440,000 per year, and if you borrowed \$8 million it would be about \$600,000 per year.

R. Stone questioned if there are any subsets of borrowings that are running a high interest rate, that if the Township were to choose the \$8 million could the Township pay off the other and see an advantage.

J. Schlesinger stated there two methods: refunding and defeasing. Refunding is what has been done in the past, you borrow money at a lower rate to fund higher debt at a savings. Defeasing is when you take cash and pay off principal payments at certain times with the idea of optimizing your cash for reduced debt. Right now, given where the interest rates are, the cash is worth more than it is to pay down the principal. The Township's cash is better off invested with PLGIT and earning liquid rates at 5 over percent.

Manager Oswald stated the Township currently has 3 borrowings issued in 2018, 2020, and 2022. We refinanced the 2017 borrowing with the 2022 borrowing for savings. The 2017 and 2018 borrowings were for the garage, the 2020 borrowing was for bridge work the Dorm, and the 2022 borrowing was for Water System Improvements.

R. Stone questioned how long it would take for the Township to receive the funds.

J. Schlesinger stated it would take about 60-90 days until the money is received.

R. Stone questioned what the percentage of the underwriting cost would be for each borrowing.

J. Schlesinger stated there are some fees that are purely based on the size of the transaction. On a \$5 million issuance the fees are close to \$50,000.

Manager Oswald questioned that due to the current situation of having to potentially pay arbitrage, the arbitrage kicks in after 3 years if the money isn't spent in 3 years.

J. Schlesinger stated the arbitrage rebate calculations being the day you settle. Once you get to the 3<sup>rd</sup> year, and did not spend the money, then your yield is restricted.

Manager Oswald stated that they just started working on the budget for 2024, and preliminary numbers show that there should be funds available to absorb the cost of additional debt service in 2024.

S. Stefanowicz questioned if the Township were to borrow the larger amount of money but not use it all on the Township Building Addition, could the extra money be used elsewhere.

J. Schlesinger stated that the extra money cannot be used for operations, it has to be used towards capital improvements. It also depends on how the ordinance is written. When the ordinance is written the Township can add language to include additional project details beyond the building expansion. Or if that is not done at the time, a change of purpose ordinance can be passed for the funds to be spent on other projects.

**With no further discussion on this matter, Chairperson Stephen Stefanowicz adjourned the Work Session at 6:45 PM to be followed by the regular Board of Supervisors meeting at 7:00 PM.**

Respectfully submitted by: Brooke M. Searce

Brooke M. Searce, Township Secretary