

9/21/2016

From: Solveig Overby, soverby@burlingtontelecom.net

Re: 10 Year Capital Plan bond payment proposal. Recommendation to not use "interest only for first 5 years" payment plan. It's not fair to push expenses to future taxpayers by using "interest only for first 5 years" payment plan for these bonds.

\$833,242.43 extra Interest must be paid by future taxpayers on the first bond alone, FY 2017 \$5.9 million, if committed to under a first 5 year, "Interest Only" / "IO" repayment method. This is a 35% increased interest expense for just that first bond. There will be a similar impact for later year bonds.

The interest expense to city taxpayers is significantly increased if any of the bonds are "interest only" for 5 years. The 10 Year Capital Plan document represents costs to the public by presenting average monthly tax increase to taxpayers each year using the two different bond payment methods. This does not reveal the significantly higher costs to the taxpayers overall by using the "interest only for 5 years" payment method.

Using just one bond example: the first FY 17 \$5.9 million bond borrowing proposal:

Using the 10 Year Capital Plan projections and interest rates:

Here's how I calculated this:

\$5,971,568 bond borrowing for 20 years at %3.5 Interest

Total interest paid by taxpayers for borrowing \$5.9 million over 20 years is \$2,340,277.20

Compare that to paying "Interest Only" for first 5 years:

\$5,971,568 bond borrowing for 20 years at %4 With Interest only payment for the first 5 years:

Principal not paid: during first 5 years is \$1,079,433.79

$(198,997.63 + 207,105.10 + 215,542.88 + 224,324.43 + 233,463.75)$

"Interest only" paid first 5 years: \$1,194,313.60 (\$238,862.72 per year * 5)

Add that to:

Interest paid during last 15 years: \$1,979,206.03

Total interest paid by taxpayers on \$5.9 million 4% bond over 20 years paying no principal during the first 5 years: \$3,173,519.63

Extra Interest expense laid upon future taxpayers by using "Interest Only" payments first 5 years on just this one \$5.9 million FY 17 bond is \$833,242.43.

This is a 35% increased interest expense for just that first bond.