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Local Finance Notice

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Distribution

Municipal/County Clerks
Chief Financial Officers
School Business Officials
All Local Contracting Units

Hurricane Sandy-5
Special Notice on Protecting Access to Financial Markets (Essential for Cash Flow Stability and Rebuilding)

This notice provides direction to help ensure that we all do our part to ensure New Jersey municipalities protect their access to financial markets to maintain operations and rebuild in the face of challenges posed by Hurricane Sandy.

New Jersey and its municipalities recognize that payment of debt service is, along with protecting life and property and assisting those in need, the highest priority of government. This tradition in New Jersey and our financial regulatory system have ensured no municipality has declared bankruptcy or defaulted on a debt payment in 80 years. The result has been that when local governments need to borrow money for cash flow purposes or capital improvements, the financial community has been comfortable making loans at rates that are some of the most advantageous in the country, if not the world. The Department of Community Affairs will do what we must to protect that trust.

Certain municipalities will be financially stressed in the period ahead due to a loss of ratables. Concerns by some investors as to how we meet the challenges posed by Hurricane Sandy may restrict access to financing. It is important that we all take actions to show the investment community we will do what we must - as we always have - to keep their confidence.

By working together, we can ensure that: (1) municipalities needing to issue Tax Anticipation Notes (TANs) to maintain operations have the ability to do so; (2) municipalities that have outstanding Bond Anticipation Notes (BANs) can either renew them when they come due or convert them to long term debt; and (3) municipalities needing to borrow to rebuild storm-damaged infrastructure have access to loans at excellent rates that make rebuilding possible.

While all of our efforts are first and foremost to protect life and property and to assist those in need in the aftermath of Hurricane Sandy, below you will find direction about what you can do to protect our access to financial markets.

1. ENSURE TIMELY DEBT PAYMENTS:

While priorities shift during this period of challenge, keep your eye on your financial obligation to make timely debt payments. As noted above, there has not been a bankruptcy or default on a debt obligation in New Jersey in 80 years. Investors and others take confidence in this fact, and a single failure to make timely payment by any local government will impact, not only the entity that failed to make a payment, but other local governments should the failure cause the financial markets to question our financial system's strengths.

2. BE RESEPCTFUL OF, AND RESPONSIVE TO, RATING AGENCIES AND INVESTORS'S CONCERNS:

We have our jobs to do and the professionals who work for rating agencies do too. As unpleasant as it may be, during this time of stress, you may receive inquiries from rating agencies or investors about the impact of Hurricane Sandy on the ability of your local government to make timely debt payments. Be respectful of them and let them know you appreciate their concerns as much as they do. Answer their questions in as timely a manner as you can.

3. NOTIFY THE DIVISION OF LOCAL GOVERNMENT SERVICES AND YOUR COUNTY OF CONCERNS OR PROBLEMS IMMEDIATELY

If your municipality is concerned about its ability to make a debt service payment or its ability to gain necessary financing at reasonable rates, immediately contact the Division and your county. At the Division, our staff of financial professionals will give you guidance on how to manage your cash flow concerns and will do their best to assist you in efforts to gain access to capital from lenders. Counties may be able to assist you by deferring certain payments or, depending on your county, pooled financing programs or assistance may be available. The sooner we know about your concerns, the sooner we can work with you to help find a solution.

4. CONSIDER ENTRY IN THE MUNICIPAL QUALIFIED BOND PROGRAM IF YOU HAVE BANS OR NEED ACCESS TO LONG TERM FINANCING:

   ***** Municipalities that receive significant State Aid (Energy Receipts or CMPTRA) are encouraged to enroll in the program immediately if they have experienced a significant loss of ratables and have BANs maturing in the coming year. This will help ensure a continued ability to issue BANs or convert BANs to permanent financing. *****

For many years, the State has had a program (the Municipal Qualified Bond Program) that greatly increases investors' willingness to lend money to municipalities. This program will not help any municipalities issue TANs, but it will help make sure stressed municipalities are able to issue BANs or long term debt, that they may otherwise have been unable to issue. It may even improve rates for BANs and long term debt for municipalities that are not stressed.

The way the program works to increase the confidence of investors is straightforward and simple. Participants that issue debt under the program will have their debt service payment made on their behalf by the State Treasurer from State Aid to which the municipality is otherwise entitled. Municipalities only benefit if they receive State Aid in excess of annual debt payments.

Participation in the program requires the adoption of various ordinances and application to the Local Finance Board (Board) for approval, so the use of a bond counsel is important. The Board will take action to approve the municipality's participation in the program after a review of the application and a determination that there is sufficient State Aid to enter the program.

The Board has historically imposed certain conditions on participants including, but not limited to: the chief financial officer filing revenue reports on a monthly basis with the Executive Secretary of the Local Finance Board; the Local Finance Board approving future capital authorizations; the chief financial officer certifying at time of closing that the Treasurer of the State of New Jersey has been notified of the details of any bond issued under the Act.

Approved: Thomas H. Neff, Director.