



# Municipal Bond Buying Program

## Aiding NJ municipalities and stabilizing bond market during COVID-19 crisis and beyond

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Every year, billions of dollars in municipal debt are rolled into municipal Bond Anticipation Notes (BAN) to help ensure the funding and continuation of critical projects such as road improvements, new equipment, and construction in towns and cities across New Jersey.

Historically, the stability of the municipal bond market meant that rolling debt into short-term notes was routine, at least until earlier this year when the impact of the coronavirus pandemic threw the market into turmoil. Many regular investors left the market due to uncertainty, and the few that continued to bid did so at higher interest rates, some hovering over 3%.

### Rolling notes

Anxieties escalated, particularly for towns like the Borough of Ringwood that needed to roll their notes during the height of the pandemic.

“We had a \$6.5 million Bond Anticipation note coming due in early April,” said Scott Heck, Manager of the Borough of Ringwood. “We were concerned whether or not we would get any bids in light of the economic uncertainty, or that the interest rate would be very high, which could seriously affect the community’s budget.”

Mendham Township had \$4.8 million coming due in mid-May. “We were very nervous about what would happen,” said Karen Fornaro, Chief Executive Officer of Mendham Township. “We heard how volatile the market had been and decided to roll our notes a few weeks earlier just in case we didn’t get any bids.”

Finding ways to affordably finance debt became a top priority for municipalities across New Jersey.

### MEL stabilization

Fortunately, the Municipal Excess Liability Joint Insurance Fund (MEL), the largest governmental self-insurance pool for property and casualty in the country, had developed a new program that would prove to be a game changer to aid local municipalities and help to stabilize the market.

The MEL, which serves nearly 65% of municipalities in the state, created the Joint Cash Management and Investment Program (JCMI) to purchase short-term (1 year) Bond Anticipation Notes at fair market prices to save towns money and enable the continuation of important local improvement projects.

“We had been working on getting this program operational when we received a call from the Governor’s office asking what we could do to help and how fast we could do it,” said David Grubb, Executive Director and Co-Founder of the MEL.

With more than \$500 million in funds to invest, the MEL launched the program and entered the municipal bond market. The results were immediately tangible.

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“By entering the market and bidding more appropriate market interest rates, they were able to stabilize the rising interest rates in the market,” explained Dan Mariniello a Principal with NW Financial Group, a financial advisor to the MEL.

MEL has already developed a significant market presence. More than \$95 million in notes for 26 municipalities have been purchased, which represents approximately 9% of the short-term competitive notes sold in New Jersey since April.

The Borough of Ringwood was among the first towns to benefit from the MEL program. “This program saved us directly with a great rate and also took away the financial uncertainty, and I am grateful,” noted Heck.

Mendham Township also found relief. “The MEL bidding on notes stirred some competition out there which was much needed. We received three bids in the same ballpark, and the MEL bid won. It was even better than 2019 which was fantastic, we were really happy,” said Fornaro. “Without the MEL who knows where it would have been.”

The creation of MEL’s JCMI program as made possible after special rules were adopted (NJAC 5:38-1) in 2019 by the

TIPS FOR ISSUING NOTES AND BONDS IN THIS CLIMATE:

- Municipalities should engage a Municipal Advisor to assist them in determining the best financing strategy (i.e. short-term notes vs. long-term bonds).
- For short-term notes, high credit quality issuers should have the notes rated and utilize a Preliminary Official Statement to generate the lowest possible interest rate.
- Municipalities should work with their outside professionals to ensure that they are keeping up with their continuing disclosure requirements and accurately repressing any failures to comply in their offering documents.
- Interest rates remain near historic lows, so this is an advantageous time to access the municipal bond market.
- Given the low interest rate environment, there may be opportunities to refinance outstanding bonds for budgetary savings.



municipalities seeking to finance their short-term debt in New Jersey during this crisis.

“We are always looking for ways to assist our members, but we are also committed to developing programs that positively impact municipalities and the state,” said Joseph Hrubash, Deputy Executive Director of the MEL JIF.

“This is only the beginning,” said Grubb. “We will be able to do even more if bills A-3971 and S-2475 are passed, which would authorize towns to issue ‘coronavirus relief bonds’ to borrow money to cover shortfalls and unanticipated costs that are a direct result of the COVID-19 pandemic.”

Since 1987 the MEL has saved New Jersey taxpayers over \$3 billion dollars, and provided risk management, training, education, resources and guidance to municipalities, public entities and public officials across New Jersey. The MEL also offers a variety of free resources to all municipalities and the public through the website <https://NJMEL.org>.

Department of Community Affairs  
Division of Local Government Services  
to allow Joint Insurance Funds (JIFs) to expand investments to include the purchase of short- and long-term municipal debt.

To date, the JCMI has focused bidding only on short-term debt from municipalities that are affiliated with MEL, which includes 388 municipalities across New Jersey. However, the success of the program has ultimately benefited all

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