# Massachusetts Municipal Association Your Community's Credit and Bond Rating Association of Town Finance Committees and Mass. Government Finance Officers Assn. <br> January 25, 2013 <br> Ira Miller, Moderator <br> Presenters: 

Sandy Pooler, Town of Amherst and
Cinder McNerney, FirstSouthwest

## Why a Debt Policy?

- Communication
- Credit Rating
- Capital Planning
- Prioritization
- Management Tool


## Developing, Adopting, and Reviewing Written Policies

- Adoption by Select Board, Finance Committee, City Council
- Capital planning committee - review policies annually
- Long-term
- Short and simple
- Written
- Tie to other financial policies
- Review periodically


## Debt

- Projects Eligible for Debt Chapter 44
- Section 7 (Projects within the 5\% of EQV debt limit)
- Building construction
- Public Ways
- Equipment
- Recreational facilities
- Section 8 (Projects outside the 5\% EQV debt limit)
- Water and Sewer
- Electric lighting plants
- Golf courses
- Remediating landfills


## Debt

- Debt versus Cash
- Effect on Free Cash balances vs. backlog of projects
- How much debt to issue
- Legal limits under Prop. 21/2 (5\% of EQV)
, Useful life IGR I0-IOI October 2010.
- http://www.mass.gov/dor/docs/dls/boa/dlsassetusefullifeschedulesmaximumborrowingterms.pdf
- Practical limits - budget impacts
- You have to pay to annul debt service
- Debt as a \% of budget
- Excluded debt (override)
- Payment type - level payment or level principal
- General Fund or Enterprise Fund


## Debt Indicators

- Per capita debt
- Debt service as a percentage of budget
- Total Authorized Debt
- Length of Debt Terms
- Short versus long-term debt.
- How Often a Community Sells Debt
- Level of Reserves
- Use of Reserves to Balance Budget


## Amherst Long-term Debt Schedule <br> - Principal and Interest Payments for Issued Debt

| Issue | FY 2013 <br> Budget | FY 2014 <br> Projected | FY 2015 <br> Projected | FY 2016 <br> Projected | FY 2017 Projected | FY 2018 <br> Projected | FY 2019 <br> Projected | FY 2020 <br> Projected |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Municipal: |  |  |  |  |  |  |  |  |
| Town Hall Refunding | 185,000 | 178,600 | 167,200 | 156,000 |  |  |  |  |
| Wildwood School Roof | 61,013 |  |  |  |  |  |  |  |
| Crocker Farm School | 252,000 | 244,000 | 236,000 | 228,000 | 220,000 | 212,000 | 204,000 |  |
| Sidewalks (2005) | 70,200 | 67,600 |  |  |  |  |  |  |
| Plum Brook Recreation Area | 17,626 | 17,054 | 16,565 |  |  |  |  |  |
| Town Hall Exterior (General Fund) | 34,370 | 33,390 | 32,550 | 31,815 | 31,150 | 30,380 | 29,540 | 28,560 |
| DPW - Roads Reconstruction | 558,000 | 546,750 | 536,625 | 525,375 | 513,563 | 500,625 | 487,125 | 473,625 |
| Bangs Community Center Roof/HVAC | 46,421 | 40,219 | 39,274 | 56,244 | 55,069 | 53,708 | 52,223 | 50,490 |
| Portable Classrooms | 32,190 | 34,650 | 34,050 | 33,150 | 27,250 | 26,500 | 25,750 |  |
| South Amherst School | 21,640 | 24,300 | 23,900 | 23,300 | 22,700 | 22,100 | 16,500 | 16,050 |
| Subtotal Municipal Debt | 1,278,460 | 1,186,563 | 1,086,164 | 1,053,884 | 869,732 | 845,313 | 815,138 | 568,725 |
| School: |  |  |  |  |  |  |  |  |
| High School Renovations \& Additions | 259,373 | 213,522 | 171,480 | 125,377 | 83,238 | 37,329 |  |  |
| High School Roof | 103,689 | 99,918 | 96,148 |  |  |  |  |  |
| Middle School Windows |  | 165,434 | 161,758 | 158,082 | 154,405 | 150,729 | 147,053 | 143,386 |
| Subtotal School Debt | 363,062 | 478,874 | 429,386 | 283,459 | 237,643 | 188,058 | 147,053 | 143,386 |
| TOTAL Town and School Debt | 1,641,522 | 1,665,437 | 1,515,550 | 1,337,343 | 1,107,375 | 1,033,371 | 962,191 | 712,11 |




## Five Year Capital Plan

|  | FY 13 | FY 14 | FY 15 | FY 16 | FY 17 | FY 13-17 Total |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| \% of Levy | 2,695,669 | 2,789,061 | 2,891,287 | 2,996,070 | 3,103,471 | 14,475,558 |
| Less Current Debt | $(1,550,083)$ | $(1,616,003)$ | $(1,504,707)$ | $(1,337,557)$ | $(1,146,832)$ | $(7,155,182)$ |
| Less Proposed Debt | $(19,320)$ | $(243,400)$ | $(296,779)$ | $(343,911)$ | $(335,642)$ | $(1,239,052)$ |
| Total Taxes Available | 1,126,266 | 929,658 | 1,089,802 | 1,314,602 | 1,620,998 | 6,081,325 |
| CPA Funds | 530,834 | 164,088 | 160,637 | 125,591 | 122,695 | 1,103,845 |
| Other Available Funds | 77,100 | - | 250,000 | 250,000 | 45,000 | 622,100 |
| Borrowing | 1,071,000 | 985,000 | 400,000 | - | 4,500,000 | 6,956,000 |
| Debt Exclusion | - | 8,000,000 | 4,000,000 | - | - | 12,000,000 |
| Chapter 90 | 500,000 | 500,000 | 670,000 | 500,000 | 650,000 | 2,820,000 |
| Ambulance | 255,000 | 77,000 | 210,000 | - | 238,000 | 780,000 |
| Total Available For Capital | 3,560,200 | 10,655,746 | 6,780,439 | 2,190,193 | 7,176,693 | 30,363,270 |
| Total Equipment | 1,488,804 | 1,166,189 | 2,059,100 | 1,105,300 | 1,264,600 | 7,083,993 |
| Total Buildings | 446,396 | 9,064,500 | 4,373,000 | 583,500 | 2,327,000 | 16,794,396 |
| Total Facilities | 1,625,000 | 606,000 | 804,500 | 1,157,000 | 3,993,500 | 8,186,000 |
| Total Requests | 3,560,200 | 10,836,689 | 7,236,600 | 2,845,800 | 7,585,100 | 32,064,389 |
| If \% of Levy to capital equals: | 6.50\% | 6.50\% | 6.50\% | 6.50\% | 6.50\% |  |
| (Over) / Under | 0 | $(180,943)$ | $(456,161)$ | $(655,607)$ | $(408,407)$ | $(1,701,119)$ |
| If INCREASE \% of Levy to: | 6.50\% | 7.00\% | 7.50\% | 8.00\% | 8.50\% |  |
| Increase Available for Capital | - | 214,543 | 444,813 | 691,401 | 954,914 | 2,305,672 |
| (Over) / Under | 0 | 33,600 | $(11,348)$ | 35,793 | 546,507 | 604,552 |

## \% of Tax Levy for Capital Plan

| \% of Tax Levy Calculation for Capital Plan | FY 13 <br> Projected | FY 13 <br> Variance | FY 14 <br> Projected | FY 15 <br> Projected | FY 16 <br> Projected | FY 17 <br> Projected |
| :---: | :---: | :---: | :---: | :---: | :---: | :---: |
| Prior Year Levy Limit | 40,045,691 | vs 6.5\% | 41,471,833 | 42,908,629 | 44,481,345 | 46,093,378 |
| + 2.5\% Allowable Increase | 1,001,142 |  | 1,036,796 | 1,072,716 | 1,112,034 | 1,152,334 |
| ESTIMATED New Growth | 425,000 |  | 400,000 | 500,000 | 500,000 | 500,000 |
| ESTIMATED Levy Limit | 41,471,833 |  | 42,908,629 | 44,481,345 | 46,093,378 | 47,745,713 |
| $\times 10.0 \%$ (Long-Term Funding Goal) | 4,147,183 | 1,451,514 | 4,290,863 | 4,448,134 | 4,609,338 | 4,774,571 |
| $\times 9.5 \%$ | 3,939,824 | 1,244,155 | 4,076,320 | 4,225,728 | 4,378,871 | 4,535,843 |
| $\times 9.0 \%$ | 3,732,465 | 1,036,796 | 3,861,777 | 4,003,321 | 4,148,404 | 4,297,114 |
| $\times 8.5 \%$ | 3,525,106 | 829,437 | 3,647,233 | 3,780,914 | 3,917,937 | 4,058,386 |
| $\times 8.0 \%$ | 3,317,747 | 622,077 | 3,432,690 | 3,558,508 | 3,687,470 | 3,819,657 |
| $\times 7.5 \%$ | 3,110,387 | 414,718 | 3,218,147 | 3,336,101 | 3,457,003 | 3,580,928 |
| x 7.25\% (FY 09 approved) | 3,006,708 | 311,039 | 3,110,876 | 3,224,897 | 3,341,770 | 3,461,564 |
| x 7.0\% (FY 08 approved) | 2,903,028 | 207,359 | 3,003,604 | 3,113,694 | 3,226,536 | 3,342,200 |
| x 6.5\% (FY 12 @ 6.5\%, FY 10 @ 6.51\%) | 2,695,669 | 0 | 2.789.061 | 2.891.287 | 2.996.070 | 3.103.471 |
| x 6.25\% (FY 11 projected 6.23\%) | 2,591,990 | $(103,680)$ | 2,681,789 | 2,780,084 | 2,880,836 | 2,984,107 |
| $\times 6.0 \%$ | 2,488,310 | $(207,359)$ | 2,574,518 | 2,668,881 | 2,765,603 | 2,864,743 |
| x 5.64\% (FY 11 approved) | 2,339,011 | $(356,658)$ | 2,420,047 | 2,508,748 | 2,599,667 | 2,692,858 |
| Variance vs 6.5\% | 0 |  | 214,543 | 444,813 | 691,401 | 954,914 |

## Capital Planning <br> Capital Improvement Plan (CIP)

- Definition of capital expenditures
- Dollar minimum, e.g., \$25,000
- Useful life, e.g., five years
- Defining how much to spend
- \% of budget
- \% of value of assets
- Examination and evaluation of capital assets, e.g., roof survey
- Criteria for evaluating capital requests
- Public Health and Safety
- Maintain Assets
- Productivities
- Who reviews and recommends projects


## Amherst Debt Policy

- The requirement from debt financing shall be an expenditure of at least $\$ 25,000$ and a useful life of five years for only those projects not able to be financed from current revenue.
- Long-term debt will be issued only for objects or purposes authorized by state law.
- The term of long-term debt shall not exceed the expected useful life of the capital asset being financed. Long-term debt shall not be incurred without a clear identification of its financing sources.
- State law regulates both the purposes for which cities and towns can borrow and the time periods for which these borrowing can occur. Borrowing purposes and maximum loan durations are set out in Chapter 44 §§ 7 \& 8 .
- General Fund debt service, exclusive of debt funded from dedicated revenues raised via voter-approved debt exclusions, will not exceed $10 \%$ of General Fund revenues.
- The Town will attempt to maintain a long-term debt schedule so that at least $50 \%$ of outstanding principal will be paid within 10 years.


## Resources

- ATFC
- Local citizens
- Financial Advisor (hired by Town)
- Rating Agencies
- Town Administrator/Manager
- Town Financial Team:
- Finance Director
- Town Treasurer
- Town Accountant
- Other Towns' Policies
- Summary
- Adopt a debt policy.
- Make it clear and simple.
* Get key players to buy into it.
- Debt can be your ally if you do not abuse it.
- Integrate debt into an overall capital plan.

