<u>Massachusetts Municipal</u> <u>Association</u>

Your Community's

# Credit and Bond Rating

Association of Town Finance Committees

and

Mass. Government Finance Officers Assn.

January 25, 2013 Ira Miller, Moderator

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. 2<sup>1</sup>/<sub>2</sub> (5% of EQV)
  - Useful life IGR 10-101 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

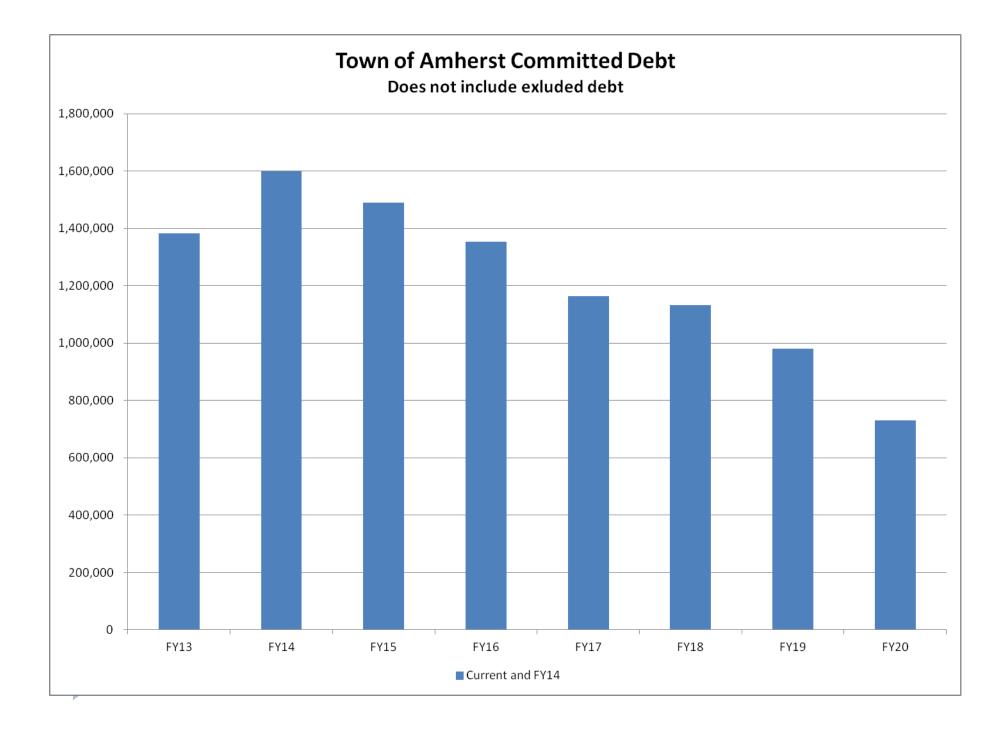
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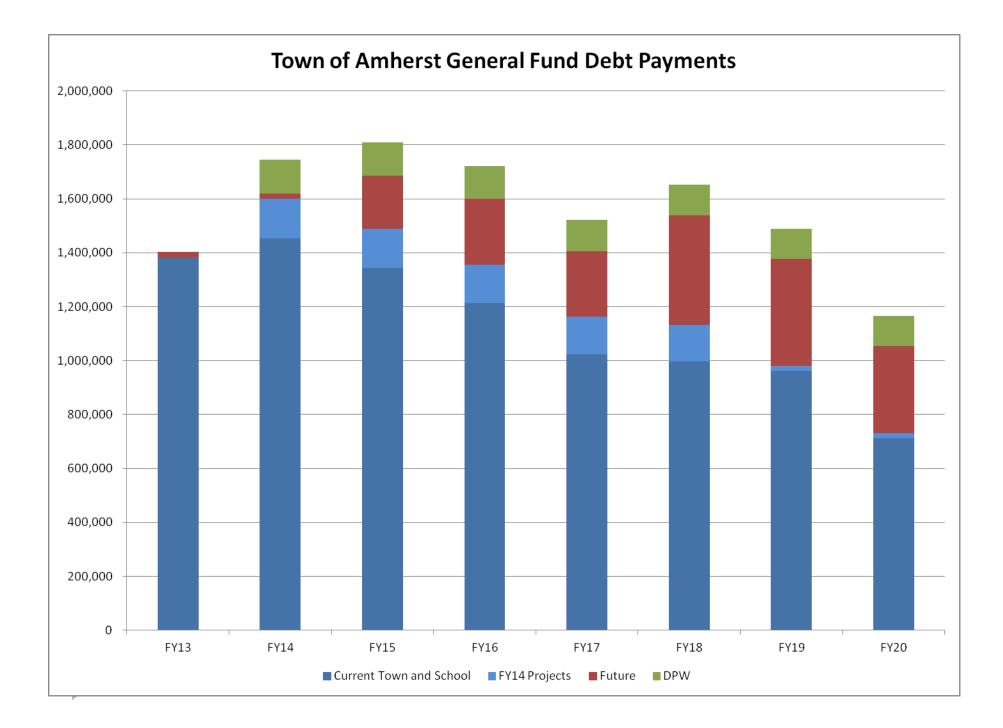
Use of Reserves to Balance Budget

# Amherst Long-term Debt Schedule

#### - Principal and Interest Payments for Issued Debt

	FY 2013	FY 2014	FY 2015	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
ssue	Budget	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	28,5
DPW - Roads Reconstruction	558,000	546,750	536,625	525,375	513,563	500,625	487,125	473,6
Bangs Community Center Roof/HVAC	46,421	40,219	39,274	56,244	55,069	53,708	52,223	50,4
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	16,0
Subtotal Municipal Debt	1,278,460	1,186,563	1,086,164	1,053,884	869,732	845,313	815,138	568,7
<u>Schoo</u> l:								
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	143,3
Subtotal School Debt	363,062	478,874	429,386	283,459	237,643	188,058	147,053	143,3
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	712,1 <sup>°</sup>





### 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)
Fotal 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
Fotal 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%	<u>6.50%</u>	6.50%	6.50%	6.50%	
(Over) / Under		0 (180,943)	(456,161)	(655,607)	(408,407)	(1,701,119)
f INCREASE % of Levy to:	6.50%	<b>%</b> 7.00%	7.50%	8.00%	8.50%	
ncrease Available for Capital	<b>-</b>	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	FY 13	FY 14	FY 15	FY 16	FY 17
	Projected	Variance	Projected	Projected	Projected	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
x 10.0% (Long-Term Funding Goal)	4,147,183	1,451,514	4,290,863	4,448,134	4,609,338	4,774,571
x 9.5%	3,939,824	1,244,155	4,076,320	4,225,728	4,378,871	4,535,843
x 9.0%	3,732,465	1,036,796	3,861,777	4,003,321	4,148,404	4,297,114
x 8.5%	3,525,106	829,437	3,647,233	3,780,914	3,917,937	4,058,386
x 8.0%	3,317,747	622,077	3,432,690	3,558,508	3,687,470	3,819,657
x 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
x 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

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 <u>\$25,000</u> and a useful life of <u>five</u> <u>years</u> 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 <u>expected useful life</u> of the capital asset being financed.
  Long-term debt shall not be incurred without a <u>clear</u> <u>identification of its financing sources</u>.

- 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 <u>Chapter 44 §§ 7 & 8</u>.
- <u>General Fund debt service</u>, exclusive of debt funded from dedicated revenues raised via voter-approved debt exclusions, will not exceed <u>10% of General Fund</u> <u>revenues</u>.
- The Town will attempt to maintain a long-term debt schedule so that at least <u>50%</u> of outstanding principal will be paid within <u>10 years</u>.

#### 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.