

# Town of Lynnfield

## Debt Management Policy

### A. Introduction

The use of long-term debt is a common and often necessary way for a community to address major infrastructure and equipment needs. It is also a means of spreading the cost of large capital projects over a larger, changing population base. However, when a local government incurs long-term debt, it establishes a fixed obligation for many years. Accumulation of such fixed burdens can become so great that a local government finds it difficult to pay both its operational costs and debt service charges. Great care and planning must therefore be taken when incurring long-term debt to avoid placing a strain on future revenues. The purpose of this policy is to establish guidelines governing the use of long-term debt and demonstrate our commitment to full and timely repayment of all debt issued.

Massachusetts General Laws, Chapter 44, Sections 7 & 8 regulate the purposes for which municipalities may incur debt, and the maximum maturity for bonds issued for each purpose. MGL Ch 44, Sec 10 specifies that the debt limit for towns is 5% of Equalized Valuation.

Massachusetts General Law allows communities, subject to voter approval, to exclude certain debt from the limits imposed by Proposition 2 ½. A voter-approved exclusion for the purpose of raising funds for debt service costs is referred to as a debt exclusion. The Town considers this to be an important component its debt management program. All references to debt service ceiling limits and debt strategies which follow are exclusive of such voter approved exclusions.

### B. Capital Improvement Plan

The Town will establish and maintain a five (5) year Capital Improvement Plan (CIP), including all proposed projects and major pieces of equipment that may require debt financing. The town's long-term debt strategies will be structured to reflect its capital needs and ability to pay.

### C. Bond Rating

The community's bond rating is important because it determines the rate of interest it pays when selling bonds and notes as well as the level of market participation (number of bidders). Other things being equal, the higher the bond rating, the lower the interest rate. Bond analysts (Moody's, Standard & Poor's, Fitch) typically look at four sets of factors in assigning a credit rating:

Debt Factors: debt per capita, debt as a percentage of equalized valuation, rate of debt amortization and the amount of exempt versus non-exempt debt.

Financial Factors: operating surpluses or deficits, free cash as a percent of revenue, state aid reliance, property tax collection rates, unfunded pension liability.

Economic Factors: property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.

Management Factors: governmental structure, the existence of a capital improvement plan, the quality of accounting and financial reporting, etc.

The town will continually strive to improve its bond rating through sound financial management, improved receivables management, accounting and financial reporting, and increased reserves such as the Stabilization Fund.

#### **D. Debt Guidelines**

General Fund Debt Service: A limit on debt service costs as a percentage of the town's total budget is especially important because of Proposition 2 ½ constraints on town's budget. At the same time, the community's regular and well-structured use of long-term debt signifies the municipality's commitment to maintaining and improving its infrastructure. Municipal credit analysts often use 10% as a maximum benchmark for financial soundness. The Town of Lynnfield will, by policy, establish a debt service "ceiling" of 10%, meaning that annual debt service payable on bonded debt should not exceed 10% of the annual operating budget. The Town will also, by policy, establish a debt service "floor" of 2% as an expression of support for continued investment in the town's roads, sewers, public facilities and other capital assets.

Debt Maturity Schedule: As previously stated, Chapter 44 of the General Laws specifies the maximum maturity for bonds issued for various purposes. A town may choose to borrow for a shorter period than allowed by the statutory limit. A reasonable maturity schedule not only reduces interest costs but balance the need to continually address capital improvements. The Town of Lynnfield will, by policy, establish a goal of issuing debt for shorter periods than the maximum allowable when the statutory limit exceed 10 years. Exceptions may be made when grants, reimbursements or other situations warrant.

#### **E. Debt Strategies**

Alternative Financing Strategies: The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants, and low-or zero- interest loans from state agencies such as the Mass. Water Pollution Abatement Trust (MWPAT) School Building Assistance (SBA) or the MWRA.

Debt Issuance: The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. This includes preparation of the all-important disclosure document (official statement), as well as preparation of the required documents to be signed by the Board of Selectmen and the Treasurer, and signed and notarized by the Town Clerk.

Adopted February 11, 2013