

TOWN OF DEDHAM  
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 the debt limit for towns as a percentage of Equalized Valuation. There are two "annual" limitations applicable to municipal debt. First, if a municipality borrows \$5 million in a fiscal year, it may be subject to a federal arbitrage penalty, unless the money raised by borrowing is spent within certain time periods (10% within 6 months; 45% within 12 months; 75% within 18 months; 100% within 2 years-5% contingency allowed). If a borrowing is over \$10 million (in one calendar year), it is considered not to be "bank qualified." (N.B. These limitations do not apply to loans from a state agency, such as the MWRA and MCWT.) "Non-qualified" issues prohibit some banking and underwriting institutions from bidding on the Town's debt, since the bidder, if holding the security in portfolio, will not be allowed to deduct the interest expense (IRS Code 1986 Section 265

Massachusetts General Law allows communities, subject to voter approval, to exclude certain debt from the limits imposed by Proposition 2 1/2 ("excluded debt"). 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 a viable option of 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

It is the goal of the Town to provide a safe, pleasant and sustainable physical environment for its residents and businesses. The Town will establish and maintain a five (5) year Capital Improvement Plan (CIP), which will support that goal and which will include all proposed projects and acquisitions that meet the Town's criteria for capital items. Projects and acquisitions within the CIP will be prioritized as to the needs of the Town, the ability to fund them and foreseeable circumstances. The Town will establish policies for the verification of costs and schedules, for the addition and removal of items, for the review of long-standing low priority items, and other procedures that will ensure long-term foresight, stability and fairness.

For the purposes of the CIP, "capital items" are assets or improvements to assets acquired through construction or purchase, each of which is non-recurring and has a useful life greater than three years. Design or feasibility studies directly related to such assets may be included in the CIP. The funding of capital items should reflect the prioritized needs of the departments, the financial circumstances of the Town, and the economic environment of the region. However, the following are the recommended guidelines.

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C. Capital Improvement Financing

Capital items costing less than \$10,000 each need not be included in the CIP and should be funded in the annual operating budget.

Capital items costing more than \$10,000 but less than \$250,000, including improvements of a scheduled and recurring nature, such as safety equipment and vehicles, may be funded from available funds (i.e. free cash,) unless they are improvements to buildings.

Improvements to buildings and capital items costing more than \$250,000, such as large vehicles and roofs, roads and sidewalks, should be paid by borrowing. The debt service for that borrowing would be paid from the operating budget until the maturity of the bonds.

Large building projects, such as new, replacement or major improvements to buildings may be funded by borrowing paid for from debt exclusions, regularly budgeted debt service or town reserves, including the Robin Reyes Major Capital Facilities Stabilization Fund, The Reyes Fund was established for the express purpose of funding all or a portion of large building projects

Lease-purchase agreements may be authorized to allow the Town to take advantage of special conditions or circumstances, where the terms are advantageous to the Town.

Short-term debt may be used to provide necessary cash flow prior to bond sales, in order to start capital projects on optimal construction or acquisition schedules. However, when possible and economic, the Town will use interfund advance borrowing as a temporary source of funds until bonds are issued.

The scheduling of bond issues will be arranged to provide the necessary on-going funds for each capital project.

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 1/2 constraints on the 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 will observe a debt service "ceiling" of 10% for non-excluded debt service, meaning that annual debt service payable on non-excluded bonded debt should not exceed 10% of the annual operating budget. The ceiling of 10% is calculated based on the Town Operating Budget (which does not include Total Operating Capital) as stated in Article 3 of the Annual Town Meeting. The Operating Budget excludes Total Operating Capital. The ceiling should be calculated as an average using the most recent 5 years. The Town will also plan for a debt service "floor" of 5% as an expression of support for continued investment in the town's roads, , storm drains, public facilities and other capital assets, including equipment. Debt service for sewer projects is paid with revenues raised by the Sewer Enterprise Fund and therefore should be excluded from calculations of the debt service ceiling.

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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 balances the need to continually address capital improvements. The Town will, by policy, establish a goal of issuing debt for shorter periods than the maximum allowable when the statutory limit exceeds 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 Massachusetts Clean Water Trust (MCWT), Massachusetts School Building Authority (MSBA) or the Massachusetts Water Resources Authority (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. This includes preparation of the 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. The Town will obtain the lowest possible interest rate on its debt through the use of competitive bidding, unless in the opinion of the Treasurer and the Financial Advisor a lower rate can be settled in a negotiated sale.

**F. Debt Monitoring**

The Town will maintain adequate internal controls to monitor the use of borrowed funds so as to provide reasonable assurance as to compliance with appropriate laws and regulations and covenants associated with the debt. The Town Manager's annual budget message will include a detailed analysis of outstanding debt and authorized and unissued debt. This detailed analysis can also be found in the Town's Comprehensive Annual Financial Report.

**G. Bond Rating**

The community's bond rating is important because it influences the rate of interest the Town 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 the following 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 and other post-employment benefits liabilities.

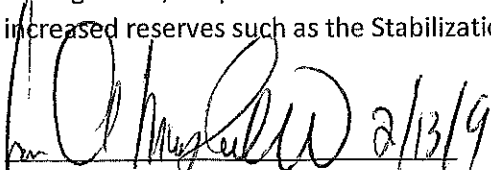
Economic and Demographic Factors: property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates and population growth.

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

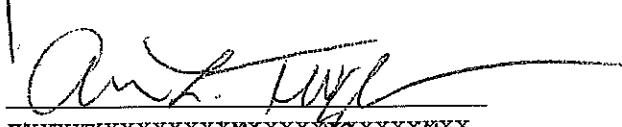
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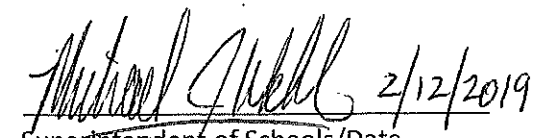
Reserve Levels: existence of stabilization funds and amounts held in those funds

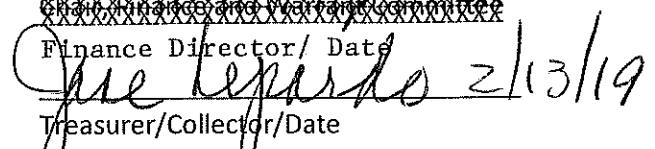
The town will continually strive to maintain the highest bond rating through sound financial management, improved receivables management, accounting and financial reporting, and increased reserves such as the Stabilization Fund. Policy Endorsement

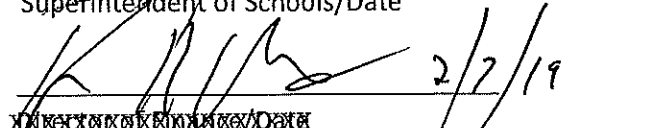
  
Chair, Board of Selectmen/Date  
2/13/19

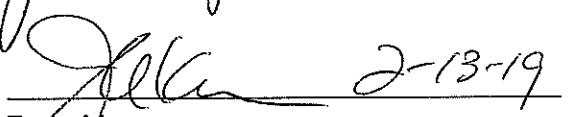
  
Chair, School Committee/Date  
2/13/19

  
Finance Director/ Date

  
Superintendent of Schools/Date  
2/12/2019

  
Treasurer/Collector/Date  
2/13/19

  
Chair, Finance and Warrant Committee/Date  
2/7/19

  
Town Manager  
2-13-19

Revisions: Rev 0: August 18, 1998  
Rev 1: February 5, 2003  
Rev 2: May 2, 2012