

Town of North Attleborough, Massachusetts
Debt Management Policy
Office of the Treasurer

Adopted by the Board of Selectmen – June 19, 2014

Policy Statement

The Town borrows money to finance its Capital Improvements Program and other capital assets. The Town's ability to achieve the lowest possible financing costs is tied directly to its fiscal management, including the existence and adherence to formal fiscal policies. Because of the significant annual cost of debt service, and to assure both taxpayers and bond rating agencies that debt levels and ability to pay debt service are actively managed, the Town of North Attleborough adopts this policy.

Purpose

The purpose of this policy is to provide the Town with a guide to manage debt levels by evaluating the need for capital investment against the capacity to pay for financing the costs of meeting that need. The primary focus of this policy is to measure debt secured by the full faith and credit of the Town (a general obligation, or GO), for which the debt service is supported. The goal of this policy is to equip the tax and rate payers, the Board of Selectmen, the Town Administrator, the Treasurer, other administration personnel, the Finance Committee, and Representative Town Meeting members with guidelines and information that can inform good decisions on borrowing money to accomplish the fiscal and operational mission of the Town.

Governing Factors

With respect to debt the Town must adhere to Massachusetts General Law, Chapter 44 – Municipal Finance, which, as Section 10 states, limits the indebtedness of the Town to an amount not exceeding 5% of the equalized valuation of the Town (see Section 7). In specific cases the Town may authorize indebtedness in excess of 5% but not in excess of 10%, of the aforesaid equalized valuation (see Section 8).

The Massachusetts Department of Revenue's (DOR) Division of Local Services (DLS) also promulgates regulations regarding the issuance and limitations of debt for the Town.

The By-Laws of the Town also reference debt as part of the Capital Improvements Program.

It bears mentioning that School Department capital investment financing is included in this policy as it is also a GO (general obligation) of the Town and its debt service is supported by tax dollars.

Other Town departments with special conditions covered by this policy are those established by M.G.L. Chapter 44, Section 53F½ as Enterprise Funds, namely the Electric, Landfill/Solid Waste, Sewer, and Water departments. While their capital investment financing is also a GO (general obligation) of the Town, their debt service is supported by rate payer dollars, not taxpayer dollars, and thus is not included in a "Net Debt Service" total.

All calculations within this policy include debt service that is all or partially reimbursed or subsidized from such sources as the Massachusetts Water Pollution Abatement Trust (MWPAT) and others.

Massachusetts General Laws do not allow the Town to issue debt to fund current or ongoing operations in any of the Town departments, except in the form of Revenue Anticipation Notes (RANs) or Tax Anticipation Notes (TANs) when applicable; in compliance with State law (M.G.L. Chapter 44, Section 4) and in conformance with Internal Revenue Service (IRS) regulations.

Massachusetts General Laws do not allow the Town to lend its borrowing capacity to or guarantee the debt of any other entity.

Maturity of debt obligations must be no more than the useful life of the capital investment being financed, or than the final maturity of refunded debt; pursuant to M.G.L. and DOR DLS regulation and not exceeding thirty (30) years from issuance.

Refunding opportunities will be evaluated annually to examine the possibility of future interest cost savings.

Rules of borrowing and this Policy also cover capital lease purchases, as they are secured by the general obligation of the Town.

Debt Limitations

The Town's Capital Improvements Program (CIP) is based on the capital needs of Town departments. The CIP includes projections for replacement of assets as well as anticipating investment in new assets that may be needed. The CIP is updated annually, at a minimum, to reflect additions, deletions, and other changes in assets or circumstances. When applicable, investment in operating equipment, fleet, and technology will be transitioned such that these types of acquisitions will be made through annual budget appropriations.

Borrowing capacity will be evaluated first by Governing Factors and then using a number of guidelines, specifically:

1. *Demand* – what is the need for borrowing
 - a. Demand is measured by the CIP – Capital Improvements Program. It may also be based on opportunities or circumstances that arise from time to time which require capital investment by the Town.
2. *Capacity* – what is the maximum amount to borrow
 - a. The maximum amount to be borrowed at any given time will be determined by evaluating the following factors:
 - i. Current and projected annual debt service level, based on current outstanding debt.
 - ii. Market conditions (ability to assess the financing market, interest rates, etc.)
 - iii. Economic conditions, including the cost of construction.
 - iv. Opportunity for participation in low interest financing programs, debt service reimbursement, grant opportunities, or other situations beneficial to the Town.
3. *Affordability* – what is the fiscal impact
 - a. A projection of the annual debt service impact for each borrowing will be done, incorporating the elements of Capacity. It will include budgetary impact, as well

as a projection of tax impact. Debt service will be calculated as the annual amount needed to satisfy principal, interest, and, if applicable, administration payments, net of any applicable revenue, including subsidies.

- i. Net Debt Service payments are recommended to not exceed 7.5% of general fund expenditures. Net Debt Service equals budgeted debt service net of Enterprise Funds.
 - ii. Total General Fund debt shall not exceed 1.5% of the equalized valuation of the Town.
 - iii. The Town's authorized indebtedness (including enterprise funds) shall not exceed 5% of the equalized valuation of the Town (see M.G.L. Chapter 44, Section 10), except in specific cases (also M.G.L. Chapter 44, Section 10).
 - iv. For large capital projects (multi-million dollar range) it is recommended to obtain a debt exclusion, if possible.
4. *Term* – length of payback period
- a. Financing shall be secured with the goal of paying back the debt in the shortest term that is economically feasible.
5. *Payment Structure* – how payments are applied
- a. To pay the least amount of interest overall, payments will be structured with level principal and declining interest over the life of the debt, except
 - b. In instances where level debt service payments (principal and interest totals are approximately the same year-to-year) offer an economic and/or budgeting benefit, such as for rate stabilization or planning purposes.
6. *Refundings* – bond issuance used to pay off another outstanding bond, issued at a lower rate
- a. Opportunities for refundings will be reviewed when issuing other GO bonds in order to package issues for best economic savings.
 - b. Opportunities for refundings will be considered independently for issues where the net savings, after costs of issuance, is estimated to be at least \$50,000 annually for the new financing period.

Bond Ratings

Debt issuance is rated by agencies specializing in the analysis of organizations' ability to pay off their debt. The Town is rated for each bond issue and also during a periodic affirmation of ratings. For a given bond issue the ratings agency Standard & Poors considers 65% of the net debt amount maturing over a 10-year period to be a positive component of their ratings criteria.

It is the goal of the Town to maintain this rating, as it allows easy entry into the bond sale market and garners favorable interest rates. This policy, in conjunction with other fiscal policies, such as maintaining a favorable Stabilization Fund ratio, and overall good fiscal management are critical in maintaining a favorable rating.

Debt Issuance

The Town relies on the sale of bonds for a portion of its financing needs. These sales are conducted through the use of a fiscal advisory firm and recognized bond counsel. This allows the Town continued access to the bond market and ensures compliance with all Securities and Exchange Commission (SEC), Municipal Securities Rulemaking Board (MSRB), and IRS regulations.

Each pending issuance of general obligation (GO) debt will be evaluated by the Treasurer to determine compliance with this policy and that pertinent information will be submitted to the Board of Selectmen and Town Administrator as they deliberate on financing recommendations.

Compliance

Tax-exempt bonds are bonds that receive preferential tax treatment. These bonds, issued by or on behalf of state and local governments, are subject to applicable federal tax requirements both at the time of issuance and for so long as the bonds remain outstanding. An issuer or other party's failure to comply with any applicable federal tax requirement with respect to tax-exempt bonds jeopardizes the preferential tax status of those bonds.

Compliance with certain applicable federal tax requirements normally occurs at the closing of the bond transaction, while other federal tax requirements require on-going monitoring after the issuance of the bonds. Issuance related requirements include filing a Form 8038-G and the issuer having expectations of on-going post-issuance compliance.

Reporting

The Town's debt information is part of the Annual Report of the Town and is submitted to the Department of Revenue annually. Annual debt service requirements are budgeted as part of the annual budget approval process. Bond ratings received by ratings agencies are published and available for public review.

The Town is required to provide certain information to investors periodically and financial information annually. This information is filed through the Electronic Municipal Market Access (EMMA) system, provided by the Municipal Securities Rulemaking Board (MSRB). Additionally, filings are made of Continuing Disclosures and Post Issuance Compliance documents.

Administration

This policy is for use in guiding financing decisions of the Town and is to be referenced by the Board of Selectmen, the Town Administrator and other administration personnel, the Finance Committee, and Representative Town Meeting members as part of discussions related to debt issuance. It is administered in conjunction with the Town's other fiscal policies. It may be amended or revised from time to time, as determined by the Town.