

**PURPOSE:**

To manage the portion of the Town's annual budget spent on cash capital and long-term debt financed within the Town's levy limit so as to provide a predictable funding stream for capital expenditures without negatively impacting annual operating budgets. Managing these costs will help insure that the Town maintains its Aaa bond rating which enables it to obtain the most favorable rates when money is borrowed for such projects.

**APPLICABILITY:**

This policy is applicable to all capital expenditures financed "inside the levy". This includes items financed with cash when possible, and other sources that may be available (grants, gifts, or the CPA surcharge), and projects that are borrowed but paid for inside the Town's levy. Debt that is issued as a result of a voter-approved debt exclusion is not applicable to this policy.

**POLICY:**

1. In order to best manage resources inside the levy, the Town's policy is to provide for a combination of cash capital and inside the levy debt to between 6.2% and 6.8% of recurring operating revenues (the combination of the (inside) levy, State revenues, and Local receipts). Any increase in this percentage will negatively impact the funds available for departmental operating budgets.
2. Inside the levy debt is intentionally structured to be of short average duration. The Town attempts to avoid issuing debt by financing capital needs with cash, when possible, or with other sources, including grants, gifts, and the CPA surcharge.
3. Debt may be issued for assets having a life longer than three to five years. Massachusetts Municipal Law governs the type of projects that may be borrowed and limits the maximum duration of the amortization, although the Town typically chooses a shorter life. Debt is used in part to smooth the financial impact of capital projects on the tax rate and assign costs to the period that the asset is in service.

**IMPLEMENTATION PROCEDURE:**

1. It is the policy of the Board of Selectmen to continue to support the longstanding practice of amortizing debt on depreciable assets on a level principal, rather than level debt service, basis. Level principal amortization is a conservative practice which allows rapid reduction of debt. The only level debt service debt issued is on non- depreciating assets such as land purchases.
2. Issuing and structuring debt is the responsibility of the Treasurer under Mass General Law. The Treasurer and financial team, under the direction of the Board of Selectmen, will finance projects voted by Town meeting or by referendum in a fiscally prudent and affordable manner. The financial team may also seek advice from an outside financial advisor specializing in municipal debt.

3. The Financial Team will recommend to the Board of Selectmen a combination of cash capital and borrowed debt that falls within the guideline set by the Board in order to appropriately finance the projects prioritized by the Town in each budget year.
4. Town Meeting must authorize all debt funded projects through a two-thirds vote at Town Meeting.
5. The Board of Selectmen must approve all debt at a posted public meeting.
6. Funds necessary to conduct feasibility studies on projects slated to be considered for exclusion may be borrowed on a temporary basis. If the project is eventually authorized, the funds may be rolled into the exclusion. If the project fails, the feasibility funds must be borrowed inside the levy with a shortened amortization period (G.L. c.44 § 7).

**EXCLUDED DEBT GUIDANCE:**

Debt exclusions (exempt from limits of Proposition 2 ½) are utilized to temporarily add a direct funding source to the Tax Levy, thereby avoiding a negative impact upon the operating budget. At present, 89% of the Town's outstanding general fund debt has been financed in this manner, primarily attributable to major school building projects. The Town has not established specific limits for excluded debt at this time, but it is expected that the Town will continue to find it necessary to finance large school replacements and significant renovations to other buildings in the foreseeable future. It is the responsibility of the financial team to inform the legislative body as they consider the potential cost of a project, through modeling the potential tax impact to an average household as ultimately taxpayer votes will determine the amount of exempt debt – subject to MGL limits.

**DEFINITION:**

1. Inside the levy debt is defined as items financed with cash and projects that are borrowed but paid for inside the Town's levy.
2. Total debt is limited by MGL to 5% of the Equalized Valuation (\$587.5 million at 6/30/16) and the Town's outstanding general fund debt is about 27% of this limit as of 6/30/16.

**REGULATORY / STATUTORY REFERENCES:**

This policy is subject to the requirements set forth in G.L. c.44 § 1-20.

APPROVED BY:

*Board of Selectmen, Chair: Ellen F. Gibbs*

*Board of Selectmen: Jack Morgan*

*Board of Selectmen: Marjorie R. Freiman*

*Board of Selectmen: Thomas H. Ulfelder*

*Board of Selectmen: Elizabeth Sullivan Woods*

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Revised dates: .....