

BACKGROUND

The Town has a history of long-range capital planning and establishes a Five-Year Capital Plan that is reviewed annually as part of the budget process. That Five-Year Capital Plan is reevaluated every year to consider proposed additions and timing changes as part of the budget process. All boards and departments are invited to submit capital requests, which are analyzed by the finance team. Submissions are evaluated in discussions with department heads and considered according to the hierarchy outlined in the Budget Preparation Manual (attached Appendix A). The finance team then provides a revised Five-Year Capital Plan for consideration by the Select Board. After Select Board deliberation, the finance team recommends a funding strategy for the Five-Year Capital Plan. The Five-Year Capital Plan is included as an appendix to the Town-Wide Financial Plan. The Select Board then votes on the funding strategy set out in the Town-Wide Financial Plan to bring to Town Meeting for approval. After Town Meeting approval is secured, a town-wide vote is required if excluded debt is a source of funding.

PURPOSE

The purpose of the Capital Financing Policy is to manage the portion of the Town's annual budget dedicated to capital expenditures, and to establish a predictable funding stream for capital expenditures without negatively impacting annual operating budgets. Managing these capital costs is imperative to ensure that the Town maintains its capital infrastructure while allowing sufficient funds for operations. Adhering to this policy allows the Town to maintain a Moody's Aaa bond rating, which enables the Town to obtain the most favorable rates on borrowing. The policy includes guidance on capital financing within the levy limit ("inside the levy") and through exempt debt issuance ("debt exclusion").

APPLICABILITY

This policy is applicable to all capital expenditures financed inside the levy and with exempt debt. This includes items financed with cash when possible, other sources that may be available (grants, gifts, or the Community Preservation Act surcharge, etc.), and projects that are financed through borrowing.

POLICY

- 1. Departmental Budget Submissions:** Each year, all departments shall submit their capital budget requests and five-year capital plans to the Finance Department. Departments shall engage in conversations with the finance team about capital priorities, considering the capital needs hierarchy and guidance in the Town's budgeting manual. Departments shall work with the finance team to reduce or reprioritize capital budgets where necessary based on available funding and to meet the Capital Financing Policy or other town objectives.
- 2. Five-Year Capital Plan:** The Town's Five-Year Capital Plan will identify potential capital projects, initial estimated costs, and may indicate potential financing pathways. The capital

plan is *always* subject to review and revision. Financing strategies *will* be subject to change depending on the Town's available funding sources. Timing of projects is subject to change depending on the hierarchy of capital needs, the approval of Town Meeting and, when necessary, a Town-wide vote for exempt debt.

3. **Capital Financing Sources:** The Select Board has sole jurisdiction in deciding the means of funding. The Select Board will consider the finance team's guidance concerning the most fiscally prudent method of financing a project. Considerations will include (but are not limited to) interest rates, availability of reserves, pending capital projects, and the capacity of the community to bear the costs associated with any given project's funding strategy. The Town attempts to avoid issuing debt by financing capital needs with cash, or with other sources, including grants, gifts, and the Community Preservation Act surcharge.
4. **Capital Spending Range:** Capital Spending Range is defined as appropriations within the annual operating budget dedicated to capital expenditures funded with cash and inside-the-levy debt. This range does not include capital funded by other sources such as Free Cash, gifts, grants, Community Preservation Act, and exempt debt. In order to best manage resources inside the levy, the Capital Spending Range shall be 6.2% to 6.8% of budgeted recurring operating revenues. Exceeding the maximum percentage of 6.8% will negatively impact the funds available for departmental operating budgets.
5. **Debt Duration:** Massachusetts General Law (M.G.L.) governs the types of projects that may be financed through borrowing and limits the maximum duration of the amortization. The Town typically chooses an amortization period shorter than the maximum allowed under M.G.L. Debt may be issued for assets having a life longer than three to five years. Debt is used in part to smooth the financial impact of capital projects on the tax rate and to assign costs to the period that the asset is in service.
6. **Debt Exclusions:** Debt exclusions are utilized to temporarily add a direct funding source to the Tax Levy, thereby avoiding a negative impact upon the operating budget. As of June 30, 2023, 86% of the Town's outstanding general fund debt has been financed through debt exclusions, primarily to fund major school building projects. The Town may continue to find it necessary to finance large capital asset replacements and significant renovations to municipal buildings and assets through debt exclusions. It is the responsibility of the finance team to inform Town Meeting of the potential cost of a project, through modeling the potential tax impact to an average household. Ultimately, any debt exclusion must be approved by a town-wide vote. Consequently, taxpayer votes will determine the amount of exempt debt issued by the Town subject to M.G.L. limits.
7. **Debt Amortization:** It is the policy of the Select Board 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 issued is on non-depreciating assets such as land purchases.

PROCEDURE

- Establishing Annual Capital Spending Guideline:** The Select Board sets a guideline within the Capital Spending Range using initial revenue forecasts. The Select Board also considers the prior year Five-Year Capital Plan, on-going projects, and projected reserve levels.
- Capital Spending Guideline Compliance:** The finance team works with all departments and reviews capital requests to reduce or reprioritize capital budgets where necessary based on available funding to meet the Capital Spending Guideline. The Board is informed by the Executive Director of movements in the Capital Plan during this process.
- Financing Strategy:** The finance team will recommend to the Select Board a financing strategy that includes a combination of cash and inside-the-levy borrowing that falls within the Capital Spending Guideline set by the Board. The finance team may also recommend exempt debt for major capital expenditures.
- Debt Authorization:** Town Meeting must authorize all debt-funded projects through a two-thirds vote.
- Debt Approval:** The Select Board must approve all debt at a posted public meeting.
- Issuing and Structuring Debt:** Under M.G.L., the Treasurer is responsible for issuing and structuring all debt. The Treasurer and finance team, under the direction of the Select Board, will finance projects voted by Town Meeting and/or by referendum in a fiscally prudent and affordable manner. The finance team may also seek advice from an outside financial advisor specializing in municipal debt.
- Feasibility/Engineering/Architectural Studies:** Funds necessary to conduct feasibility/engineering/architectural studies on projects slated to be considered for debt exclusion funding may be borrowed on a temporary basis. If the project is eventually authorized, the funds may be rolled into the debt exclusion. If the project fails, the feasibility/engineering/architectural funds must be borrowed inside the levy with a shortened amortization period of up to five years (M.G.L. c.44 § 7).
- Rescinding Debt:** The Town may pursue grant funding, receive cost reimbursement (e.g. from the Massachusetts School Building Authority), or apply debt issuance premiums that may result in a smaller issuance of debt than had been authorized. Upon completion or abandonment of a project, any remaining balance of authorized and unissued bonds may be rescinded by Town Meeting.
- Reallocation of Debt:** Upon the completion or abandonment of a project, debt issued but not fully utilized may be applied to like projects with Town Meeting approval.

DEFINITIONS

- Inside-the-levy capital spending:** Inside-the-levy capital spending refers to financing capital expenditures using cash or through borrowing that is paid for within the Town's levy limit.
- Debt exclusion:** Also referred to as "exempt debt," a debt exclusion is a temporary tax increase approved by voters to finance capital expenditures as allowed by M.G.L. Exempt debt is excluded from the limits of Proposition 2 ½.

3. **Total debt:** Total debt is limited by M.G.L. to 5% of the Equalized Valuation (\$723.6 million as of 6/30/23). The Town's outstanding general fund debt is \$243.5 million, or about 33.65% of this limit as of 6/30/23. Equalized Valuation is an estimate of the full and fair cash value of all Town property.
4. **Budgeted recurring operating revenue:** Budgeted recurring operating revenue comprises taxes, state aid, and local receipts used for the operating budget. Traffic and parking receipts reserved for appropriation, Community Preservation Act funds, enterprise funds, and excluded items (exempt debt and funding exclusions, if any) are not included in the budgeted recurring operating revenue total.
5. **Level principal basis:** Level principal basis refers to an amortization schedule in which the principal payment remains constant while the interest portion is reduced over the term of the loan, resulting in a total payment that declines over time.
6. **Level debt service:** Level debt service refers to an amortization schedule in which the combined annual amount of principal and interest payments remains constant over the life of the debt.
7. **The finance team:** This team includes, but is not limited to, the Executive Director, the Chief Financial Officer and the Treasurer.
8. **Rescinded debt:** Debt that is authorized but is not issued may be rescinded by a vote of Town Meeting.

REGULATORY / STATUTORY REFERENCES:

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

APPROVED BY THE SELECT BOARD ON

Original date: JANUARY 30, 2018

Ellen F. Gibbs, Jack Morgan, Marjorie R. Freiman, Thomas H. Ulfelder, Elizabeth Sullivan Woods

Revised date: FEBRUARY 27, 2024

Thomas H. Ulfelder (Chair), Colette E. Aufranc (Vice Chair), Elizabeth Sullivan Woods (Secretary), Lise M. Olney, Ann-Mara S. Lanza