

POLICY: Debt Management

(Adopted April 28, 2017)

A. Purpose of policy and goals

The purpose of this policy is to establish written guidelines and restrictions for issuing debt and managing the outstanding debt portfolio, and to provide guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that government maintains a sound debt position and that credit quality is protected.

It is the intent of the Town of Charlemont to establish a debt management policy to:

1. ensure high quality debt management decisions
2. impose order and discipline in the debt issuance process
3. promote consistency and continuity in the decision-making process
4. demonstrate a commitment to long-term financial planning objectives
5. ensure that the debt management decisions are viewed positively by the rating agencies, investment community, and taxpayers

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. Massachusetts General Laws, Chapter, Sec 10 specifies that the debt limit for towns is five (5) percent of Equalized Valuation. Various federal laws, regulations and agencies also have requirements with which the Town must comply.

B. Bond Rating

The community's bond rating directly influences the rate of interest it pays when selling bonds and notes to raise funds as well as the level of market participation (number of bidders) it can expect. Other things being equal, the higher the bond rating, the lower the interest rate. Bond analysts including Moody's, Standard & Poor's, and Fitch typically look at the following four 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, and 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 (CIP), the quality of accounting and financial reporting, etc.

The Town of Charlemont shall continually strive to maintain the highest bond rating through prudent debt management, sound financial procedures, healthy reserve levels and strong management practices.

C. Debt Guidelines

General Fund Debt Service: The Town recognizes that maintaining debt levels within supportable standards signifies a commitment to maintaining and improving its infrastructure, to controlling taxpayer burden and favorably impacts credit ratings. Due to Proposition 2 1/2 constraints it is important to limit debt service costs as a percentage of the town's total budget. Therefore,

1. It shall be the Town's policy to establish a debt service ceiling of 10 percent. The annual debt service payable on issued General Fund debt, including school capital assessments, including debt exclusions net of all subsidies, reimbursements and offsets shall not exceed 10 percent of the annual operating budget.
2. If by vote of the Selectboard, an emergency or significant unforeseen circumstance is declared which can only be addressed through borrowing, the Town may exceed the debt service ceiling.
3. In order to help stabilize the desired ceiling, the Town will make efforts to schedule future, new debt service to coincide with reduced principal and interest obligations due to maturing debt.
4. Debt financing for projects supported by General Fund revenue shall be reserved for capital projects and purchases which either cost in excess of \$250,000 or have an anticipated life span of five years or more.
5. Total outstanding general obligation debt shall not exceed 2.5 percent of the total assessed value of taxable property.
6. It shall be the Town's policy that bond maturities will not exceed the estimated useful life of the capital purchase or project being financed; that the target average maturity of all debt shall be 10 years or less; and that at least 60% of the outstanding debt (principal net of debt exclusion and enterprise fund amounts) shall mature within 10 years.