



# TOWN OF ERVING

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Policy

## DEBT MANAGEMENT

Approved: \_\_\_\_\_

*Selectboard Chair, Scott Bastarache*

Date: \_\_\_\_\_

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#### .01 Issue Date / Effective Date

This policy is issued and effective on April 08, 2019.

#### .02 Purpose

To provide for the appropriate issuance and responsible use of debt, this policy defines the parameters and provisions governing debt management. Policy adherence will help the Town to responsibly address capital needs, provide flexibility in current and future operating budgets, control borrowing, sustain capital investment capacity, and maintain or enhance the Town's bond rating so as to achieve long-term interest savings.

Under the requirements of federal and state laws, the Town may periodically issue debt obligations to finance the construction, reconstruction, or acquisition of infrastructure and other assets or to refinance existing debt.

#### .03 Applicability

This policy applies to the Board of Selectmen, Town Administrator, and Finance Committee in their budget decision-making duties, the Treasurer's debt management responsibilities, and the Town Accountant's budget analysis and reporting duties.

#### **.04 Debt Financing**

In financing with debt, the Town will:

1. Issue long-term debt only for purposes that are authorized by state law and qualify for tax-exempt bonds and only when the financing sources have been clearly identified.
2. Use available funds to the greatest extent possible to reduce the amount of borrowing on all debt-financed projects.
3. Confine long-term borrowing to capital improvements and projects that cost at least \$100,000 and that have useful lifespans of at least 10 years or whose lifespans will be prolonged by at least 10 years.
4. Refrain from using debt to fund any recurring purpose, such as current operating and maintenance expenditures.
5. Consider using revenue bonds, special assessment bonds, or other types of self-supporting bonds instead of general obligation bonds whenever possible.
6. Set user fees to cover capital costs for the water and sewer enterprise operations to the extent practicable.

#### **.05 Debt Limits**

The Town will adhere to these debt parameters:

1. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10% percent of general fund revenues, with a target balance of 5% percent.
2. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation, as verified by the Board of Assessors.

#### **.06 Structure and Term of Debt**

The following shall be the Town's guidelines on debt terms and structure:

1. The Town will attempt to maintain a long-term debt schedule such that at least 50 percent of outstanding principal will be paid within 10 years.
2. The term of any debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed the maximum allowed by law.
3. The Town will limit bond maturities to no more than [10] years, except for major buildings, sewer and storm water facility projects, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
4. Any vote to authorize borrowing will include authorization to reduce the amount of the borrowing by the amount of the net premium and accrued interest.
5. The Town will work closely with its financial advisor to follow federal regulations and set time frames for spending borrowed funds to avoid committing arbitrage, paying rebates, fines and penalties to the federal government, and jeopardizing any debt issuance's tax-exempt status.

#### **.07 Bond Refunding**

To achieve potential debt service savings on long-term, tax-exempt debt through bond refunding the Town will:

1. Issue debt with optional call dates no later than 10 years from issue.
2. Analyze potential refunding opportunities on outstanding debt as interest rates change.
3. Use any net premium and accrued interest to reduce the amount of the refunding.
4. Work with the Town's financial advisor to determine the optimal time and structure for bond refunding.

#### **.08 Protection of Bond Rating**

To obtain and maintain a favorable bond rating, the Town will:

1. Maintain good communications with bond rating agencies, bond counsel, banks, financial advisors, and others involved in debt issuance and management.
2. Follow a policy of full disclosure on every financial report and bond prospectus, including data on total outstanding debt per capita, as a percentage of per capita personal income, and as a percentage of total assessed property value.

#### **.09 Reporting**

1. The Treasurer will report to the Board of Selectmen, Town Administrator, and Town Accountant on the Town's debt status at least annually.
2. The Town Accountant will include an indebtedness summary as part of a report on receipts and expenditures in Erving's Annual Town Report.
3. Town Accountant, with the Town's financial advisor, will file the annual audit and official disclosure, if applicable, statement within 270 days of the end of the fiscal year.

#### **.10 Statutory Compliance**

This policy is issued in compliance with the following Massachusetts General Laws and regulations.