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, and sustain capital investment capacity. It can also help the Town to maintain or enhance a favorable bond rating so as to achieve long-term interest savings.

APPLICABILITY AND SCOPE

Applies to:	▪ Board of Selectmen, Town Administrator, Financial Advisory Committee, and Capital Programs Committee in their budget decision-making roles ▪ Treasurer's debt management responsibilities ▪ Town Accountant's budget analysis and reporting duties
Scope:	▪ All short- and long-term debt obligations as permitted to be issued under state law, including general obligation bonds, revenue bonds, bond anticipation notes (BANs), revenue anticipation notes (RANs), grant anticipation notes (GANs), and lease/purchase agreements

POLICY

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 meet short-term cash flow needs. The Town may also refinance existing debt. The Town will issue and manage debt obligations so as to obtain the best long-term financial advantage and will limit the amount of debt to minimize the impact on taxpayers. The Town will not issue debt obligations to construct, reconstruct, or purchase capital assets that can be acquired with current revenues.

The Town may issue short-term debt (by a BAN, RAN or GAN) when it is necessary to fund immediate cash requirements, as bridge financing in advance of receiving the anticipated funding. Short-term financing also makes sense when it allows the Town to take advantage of a lower interest rate, when savings are to be had from aggregating issuances, or when market conditions are such that postponing the issuance of long-term debt for the greater portion of a project's cost may be a prudent option.

A. 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 projects that cost at least $100,000 and have at least 10 years of useful life or whose useful 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. Use special assessments, betterment assessments, and similar dedicated revenues to fund long-term debt.
7. Retire any debt obtained through a BAN no later than six months after the date that its associated capital project is completed. If there is a financial advantage to deferring the issuance of permanent debt, the Town will make annual reductions to the outstanding principal as if the permanent debt had been issued. This will prevent the Town from carrying any BAN beyond the period in which it is necessary, reduce the interest rate risk the Town will face, and help ensure the timely close out of capital projects.

B. Debt Limits

The Town will adhere to these debt parameters:

1. As a control for maintaining consistent capital investment, the Town will seek to replace maturing debt obligations with new issuances so that year-to-year debt service is maintained at a target level representing four to six percent of general fund revenues. The Town will also seek to fund a greater proportion of its debt obligations from within the base annual tax levy, as opposed to using debt exclusions, with the goal of eventually achieving a consistent level of annual, nonexcluded debt service equivalent to three percent of general fund revenues.
2. Total debt service, including debt exclusions and any self-supporting debt, shall be limited to 10 percent of general fund revenues.
3. As dictated by state statute, the Town's debt limit shall be five percent of its most recent equalized valuation.

C. 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, land acquisitions, and other purposes in accordance with the useful life borrowing limit guidelines published by the Division of Local Services (DLS).
4. The Town will seek to maintain an average maturity of Town’s total outstanding long-term debt at less than 10 years.
5. For new long-term debt, the Town will pursue net direct debt service schedules with annual principal and interest payments (net of any reimbursements or dedicated revenue sources) that are sustainable using recurring revenues.
6. 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.
7. 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.

D. Bond Refunding

To achieve potential savings on long-term, tax-exempt debt service 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.

E. 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.

F. Reporting

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

REFERENCES

M.G.L. c. 41, §§ 59, 61 M.G.L. c. 44, §§ 4, 6, 6A, 7, 8, 17, 19, 20, 21A, 53J 26 USC § 148

Edgartown policies on Annual Budget, Capital Planning, and Financial Management Team

DLS Best Practice: *Understanding Municipal Debt*

DLS guidelines matrix: *Asset Useful Life Schedules and Maximum Borrowing Terms*

DLS Informational Guideline Releases 17-21: *Borrowing* and 17-22: *Premiums and Surplus Proceeds for Proposition 2½ Excluded Debt*

Internal Revenue Service guidance: *Arbitrage Guidance for Tax-Exempt Bonds*

Government Finance Officers Association Best Practice: *Refunding Municipal Bonds*

EFFECTIVE DATE

This policy was adopted on April 20, 2021.