

# Town of Cohasset

## Debt Policy Statement

### A. Introduction

The use of long-term debt is a common and often necessary way for a municipality to supplement fund balances and current appropriations in financing major infrastructure and equipment needs over a period of years. However, when a local government incurs long-term debt, it establishes a fixed obligation for many years. Accumulation of such fixed burdens, left unmanaged, can become so great that a local government finds it difficult to pay both its operational costs and debt service charges. Great care and planning must therefore be taken when incurring long-term debt to avoid placing a strain on future revenues.

### B. Objective

Debt management policies provide written guidelines and restrictions that affect the amount and type of debt issued by a local government, the issuance process, and the management of a debt portfolio. It improves the quality of decisions, provides justification for the structure of debt issuance, and demonstrates a commitment to long-term financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and will likely meet its obligations in a timely manner.

### C. Bond Rating

A municipality's bond rating is important because it determines if the municipality has any access to the debt market and the rate of interest it pays when selling bonds and notes. Other things being equal, the higher the bond rating, the lower the interest rate. See APPENDIX for the current bond analyst and their rating criteria for the Town of Cohasset.

### D. Debt Guidelines

- Debt Purpose:
  1. The Town may consider issuing debt for any purpose consistent with Massachusetts General Laws.
  2. Borrowing for capital improvements, in general, will be confined to those greater than \$25,000 and with a useful life of five (5) or more years. In general, the Town will attempt to finance smaller purchases with operating or other revenues.
  3. The Town shall not issue debt to fund current or ongoing operations of the Town or schools, except in the form of Tax Anticipation Notes (TANs) when applicable; in compliance with Federal Massachusetts laws and regulations.
- Debt Amounts:
  1. The Town will keep total debt under five percent (5%) of Equalized Valuation (EQV) pursuant to MGL Chapter 44 Section 10.
  2. The Town will endeavor to keep total Tax-Supported debt service (i.e. net of debt exclusions and self-supporting debt) to 10 percent (10%) of total general fund revenues or less. See APPENDIX for debt revenue estimates.
  3. The Town will ensure that enterprise rates and community preservation receipts are sufficient to cover associated self-supporting debt. Enterprise fund rates will be adjusted accordingly.
  4. The Town will limit annual increases in any and all debt service to a level that will not materially jeopardize the Town's credit rating.
  5. The Town will consider if bank qualification is in the best interest of the Town and if so, will attempt to maintain bank qualification and thereby receive lower interest rates on bonded debt.
- Debt Structure:
  1. The Town will not exceed the maximum maturity schedules set by Massachusetts General Law Chapter 44 Sections 7 & 8. However, the Town may choose to borrow for periods less than the statutory limit.

2. Bonds will be paid back within a period not to exceed the expected useful life of the capital project or equipment.
- Debt Issuance:
    1. The Town will work closely with the Town's Financial Advisor and Bond Counsel to ensure that all legal requirements are met and that the lowest possible interest rate can be obtained. This includes preparation of the official statement, preparation of all required documents and compliance with reporting requirements.
    2. The Town will maintain good communications with bond rating agencies about its financial conditions, and exercising full disclosure on every financial report and bond prospectus.
    3. The Town will strive to use competitive bidding whenever possible and negotiate sales of bonds only when competitive bidding is not feasible.
  - Debt Management:
    1. Alternative Financing Strategies:
      - a. The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing; such as grants, federally subsidized loan programs, Massachusetts School Building Authority program and low or zero-interest loans from state agencies, such as the Massachusetts Water Pollution Abatement Trust (MWPAT) and any other appropriate state or federal financing program.
      - b. Town will assess the feasibility and appropriateness of funding its capital projects from free cash balances, capital stabilization, general stabilization, or special revenue funds before it considers bonding.
      - c. The town will consider if it is appropriate to establish user fees to cover the capital costs of enterprise type services or activities to avoid imposing a burden on the property tax levy.
    2. Debt Refunding:
      - a. The Treasurer, relying on the advice of financial advisors and bond counsel will generally seek such refunding when the potential for interest savings is significant to offset the costs of doing so. Massachusetts General Law Chapter 44, Section 21A gives the Treasurer with the approval of the Town Manager the authority to issue refunding bonds in order to reduce interest costs.
      - b. Advanced refunding opportunities will be regularly reviewed and considered for their merits as they become available and compared to other alternative strategies.
    3. Debt Residual Balance:
      - a. Projected cash flow estimates will be required prior to borrowing to make sure that funds are available when needed.
      - b. Post-Issuance Tax Compliance Procedures will be followed to ensure that previously issued bonds do not lose their tax-favored status and the Town does not need to pay any arbitrage rebate. See APPENDIX for Post Issue Compliance Policy.
      - c. For those previously authorized bonded projects with residual balances, the Town Manager shall propose the reallocation of these balances for other capital projects in conformance with Massachusetts General Law Chapter 44, Section 20.
      - d. For those previously authorized projects funded with available revenue (tax levy or reserves), that have residual balances in excess of \$5,000, the Town Manager shall propose the reallocation of these balances for other future capital projects in conformance with Massachusetts General Law Chapter 44 Section 33B. This practice will avoid abnormally inflating general fund surplus with one-time surplus.
      - e. For those previously authorized projects funded with available revenue (tax levy or reserves), with residual balances of less than \$5,000, the Town Accountant shall be authorized to close these balances to the appropriate fund surplus.

## **E. Ethics**

The Treasurer/Collector, Deputy Treasurer/Collector and Assistant Treasurer/Collector shall refrain from any personal activity that may conflict with the proper execution of the debt program or which could interfere with what is in the best interest of the Town.

## F. Reporting and Review Requirements

- The Statement of Indebtedness is a form listing all authorized debt and is required annually by the Bureau of Accounts (BOA) from each municipality.
- Municipal debt information from all municipalities is summarized in the Debt/Financial Indicators section of the Databank Reports <http://www.mass.gov/dor/local-officials/>
- Each bonding will require an Official Statement. The Treasurer will provide all necessary information to the Town's Financial Advisor in order to complete the Official Statement.
- The Town's Debt information is also provided in the Consolidated Annual Financial Report (CAFR). Annual debt service requirements are budgeted as part of the annual budget approval process.
- A debt model will be presented at Annual Town Meeting reflecting debt as of December 31<sup>st</sup> of preceding year.
- This policy will be reviewed at least annually.

## G. Legal References

- Massachusetts General Law, Chapter 44, Section 7; Cities and towns; purposes for borrowing money within debt limit
- Massachusetts General Law, Chapter 44, Section 8; Cities and towns; purposes for borrowing money outside debt limit
- Massachusetts General Law, Chapter 44, Section 10; Debt limit
- Massachusetts General Law, Chapter 44, Section 20; Proceeds from sale of bonds; restrictions on use; disposition of premiums
- Massachusetts General Law, Chapter 44, Section 21A; Refunding bonds; issuance; present values

## H. Definitions

Bank Qualified Bond – A bond that banks are allowed to deduct 80% of their carrying costs of the debt. This occurs when a municipality issues no more than \$10 million dollars in a calendar year.

Continuing Disclosure – Continuing disclosure consists of important information about a municipal bond that arises after the initial issuance of the bond.

Debt Limit – the amount a city or town can borrow. The debt limit is set at 5% of the equalized valuation (EQV) pursuant to MGL Chapter 44 Section 10. The debt limit can be raised up to 10% with the approval of the Municipal Finance Oversight Board (MFOB)

Direct Debt – debt payable from general revenues including capital leases.

Equalized Valuation (EQV) – the full and fair cash value of all taxable property for a municipality reported by the commissioner of revenue to the general court.

Municipal Finance Oversight Board (MFOB) – is an entity authorized to oversee the issuance of certain debt by municipalities. It is made up of the attorney general, the state treasurer, the state auditor, and the director of accounts in the department of revenue or their designees.

Net Direct Debt – direct debt plus overlapping debt.

Official Statement – is a statement published by an issuer of a new municipal security describing itself and the issue. It communicates to the potential investor all the information reasonable necessary to make a prudent investment decision.

Overlapping Debt – debt shared with another municipality or entity.

Self-supporting debt – is general obligation debt which has a predetermined funding source. This includes enterprise debt that will be paid for by enterprise rates or fees, Community Preservation debt what will be paid for by community preservation receipts.

I, Paula M. Linhares, Treasurer of the Town of Cohasset have reviewed this Debt Policy and will manage the Town's funds under my control in accordance with this Debt Policy.

I, Christopher Senior, Town Manager of the Town of Cohasset have reviewed this Debt Policy and have endorsed the tenets set forth therein.

I, \_\_\_\_\_, as Representative of \_\_\_\_\_, have reviewed this Debt Policy and will manage the Town's funds under my control in accordance with this Debt Policy.

\_\_\_\_\_  
Treasurer's Signature

\_\_\_\_\_  
Date

Paula M. Linhares  
Treasurer's Printed Name

\_\_\_\_\_  
Town Manager's Signature

\_\_\_\_\_  
Date

Christopher Senior  
Town Manager's Printed Name

## APPENDIX

Cohasset's Bond Analysts, Standard & Poor's, looks at several factors in assigning a credit rating including:

- Institutional Framework score assesses the legal and practical environment in which the local government operates. (10%)
- Economy score assesses both the health of the asset base relied upon to provide both current and future locally derived revenues as well as the likelihood of additional service demand resulting from economic deterioration. (30%)
- Management score assess the impact of management conditions on the likelihood of repayment, which starts with the policies and practices of a local government. (20%)
- Financial Measures
  1. Liquidity score measures the availability of cash and cash equivalents to service both debt and other expenditures. (10%)
  2. Budgetary Performance score measures the current fiscal balance of the government, both from a general fund and total governmental funds perspective. (10%)
  3. Budgetary Flexibility score measures the degree to which the government can look to additional financial flexibility in times of stress. (10%)
- Debt & Contingent Liabilities score starts with two measures: total governmental funds debt service as a percentage of expenditures and net direct debt as a percentage of total governmental funds revenue. (10%)

**Town of Cohasset, Massachusetts**

Fiscal Year	A		B		C	
	Total Existing Tax-Supported Debt Service (Non-Exempt from Prop. 2.1(2))	Total General Fund Revenues (1)	Total Existing Tax-Supported (Non-Exempt) Debt Service as a percent of Total General Fund Revenues (Column A / Column B)	Total General Fund Revenues (1)	Total Existing Tax-Supported (Non-Exempt) Debt Service as a percent of Total General Fund Revenues (Column A / Column B)	
2014	\$ 1,768,359	\$ 42,259,394	4.2%			
2015	1,593,504	43,315,879	3.7%			
2016	1,534,180	44,398,775	3.5%			
2017	1,451,455	45,508,745	3.2%			
2018	1,193,308	40,045,464	2.5%			
2019	1,124,013	47,812,625	2.4%			
2020	923,555	49,007,941	1.9%			
2021	786,944	50,233,140	1.5%			
2022	241,373	51,488,968	0.5%			
2023	231,059	52,778,192	0.4%			
2024	226,035	54,095,597	0.4%			
2025	183,361	56,447,957	0.3%			
2026	156,887	59,834,187	0.3%			
2027	149,832	56,255,041	0.3%			
2028	133,997	59,711,417	0.2%			
2029	133,837	61,204,203	0.2%			
2030	133,877	62,734,308	0.2%			
2031	129,595	64,302,686	0.2%			
2032	75,000	65,910,232	0.1%			
2033	75,000	67,557,988	0.1%			
<b>Total</b>	<b>\$ 12,210,863</b>	<b>\$ 1,079,501,749</b>				

(1) Total General Fund Revenues (figure from 2013 audit plus 2.5% each year.