THE FINCOM DEBT SUB-COMMITTEE

- Members:
  - Dee Ortner
  - Parashar Patel
  - Christine Reynolds
  - Mary Hartman
- Formed in October 2020 to gain a better understanding of debt from several perspectives in anticipation of impact from Middle School Project.

TOPICS

- Definitions
- Why is debt and debt service important?
- Debt Management
  - Types of Debt
  - Approval Processes
  - Practices and Policies
- Recent Trends for Concord and other towns
- Impact of Middle School
- Other Findings

DEFINITIONS

- **Operating Expenditure**: purchase of goods and services relating to one fiscal year, e.g., salaries

- **Capital Expenditure**: purchase of goods and services costing at least $5,000 and having a useful life of two or more years; <u>Can be paid with cash or debt</u>.
  - Capital expenditures <u>financed with Debt</u> must cost at least $100,000 and have a useful life of five or more years

- **Debt:** legal obligation resulting from borrowing money to fund capital projects.

- **Debt Service:** annual payments owed on borrowed money. These costs are included in the annual budget.

WHY IS DEBT AND DEBT SERVICE IMPORTANT?

Amount of debt directly impacts town's bond rating and cost of borrowing

Debt service expenditures reduce funds available for other priorities/needs

Too much debt can limit ability to borrow in the future for other priorities/needs

FinCom is obligated by vote of annual town meeting to provide a 5-year property tax forecast and this should include debt service. Note: current forecast includes (future) debt service for approved projects but does not include estimates for anticipated projects.

HOW CAN CAPITAL SPENDING BE FINANCED?

- **Pay-Go**: cash expenditure authorized by Town Meeting
- **Debt**: financed with borrowed funds over a period of two or more years
  - Within levy: debt service is paid within the Proposition 2 ½ levy limit
  - Excluded: debt service is paid outside of Proposition 2 ½ levy limit

TYPES OF DEBT

- **Short-term**- 2 years or less; typically for cash flow purposes
  - BAN- bond anticipation note (interest only)
- **Long-term**- permanent financing
  - General Obligation- backed by the full faith and credit of the municipality; less risk = lower interest rate
  - Revenue- backed by a specific source of revenue; more risk = higher interest rate
- ***Town of Concord issues all debt as General Obligation Bonds***

APPROVAL PROCESS

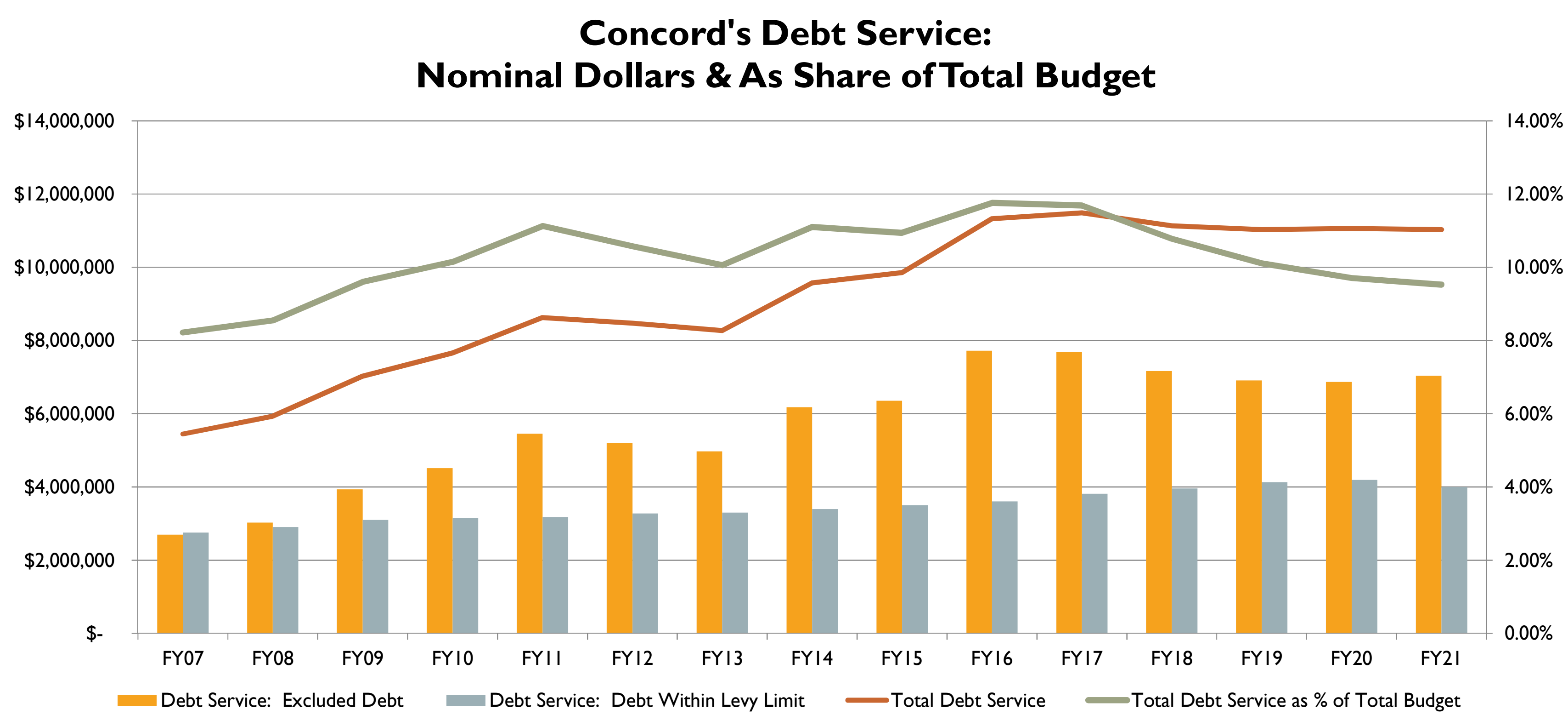
Type	Vote(s) required	Frequency
Pay-Go	Majority Town Meeting vote	Annual article on TM Warrant
Debt within Levy Limit	2/3 Town Meeting vote	Annual article on TM Warrant
	No Ballot vote	
Excluded Debt	2/3 Town Meeting vote	Special article on TM Warrant, as needed
	Majority Ballot vote	

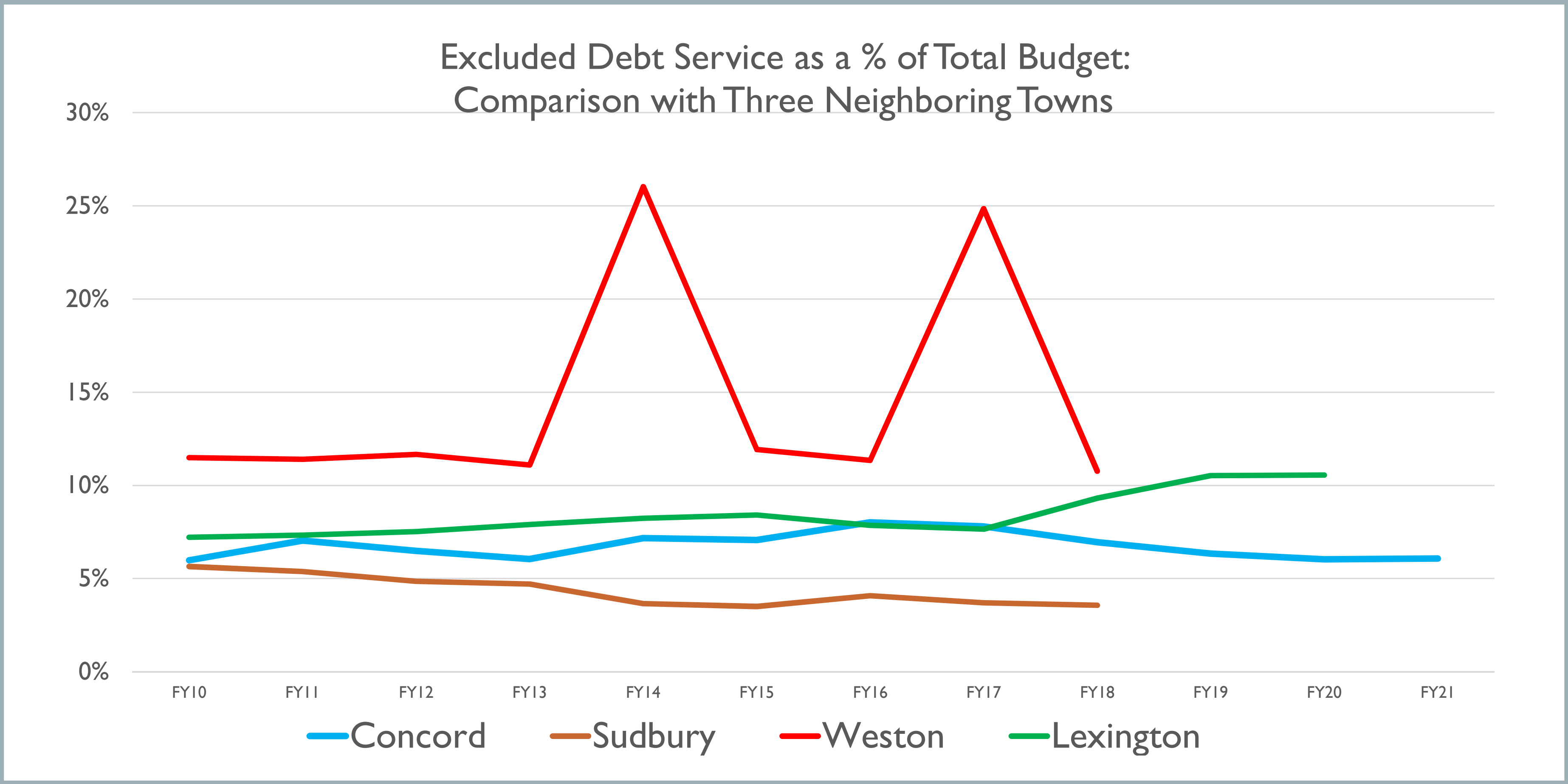
TOWN'S FINANCIAL POLICIES & PRACTICES

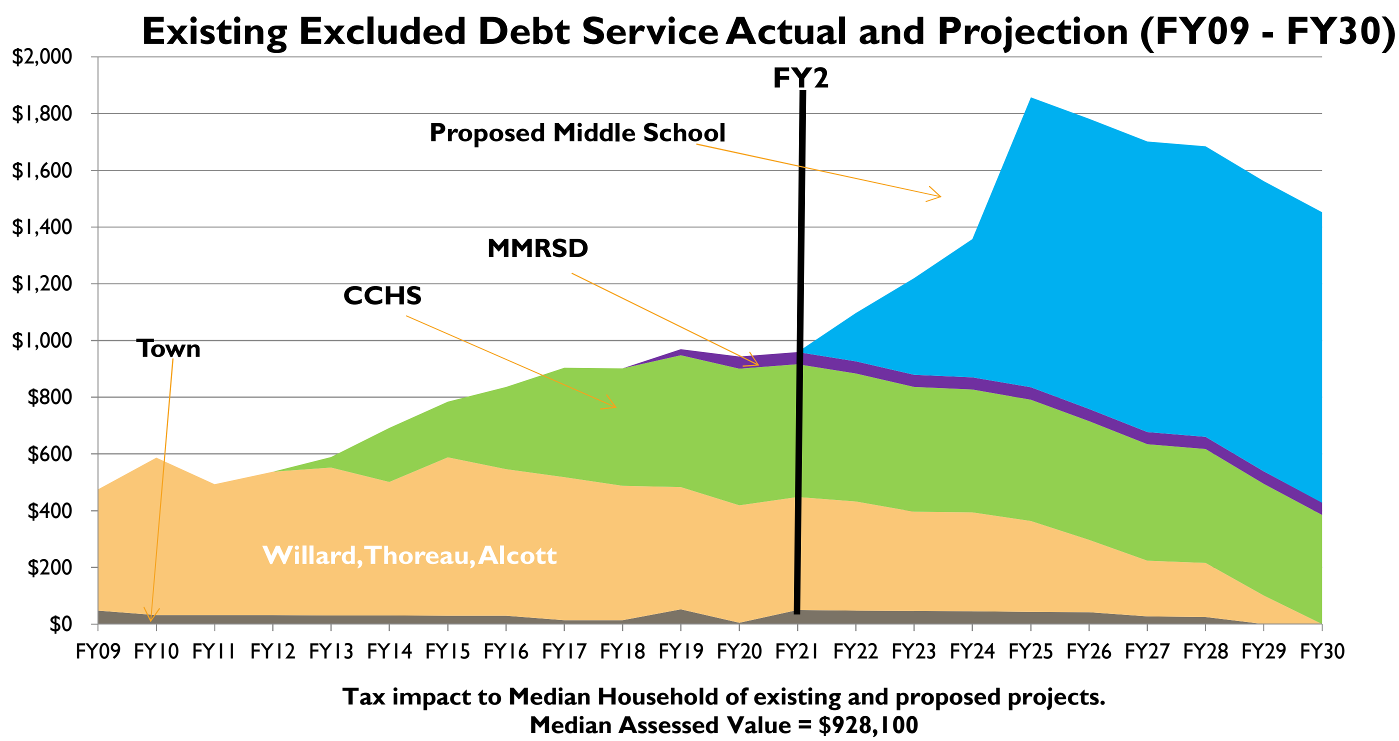
- Debt Within Levy follows a practice whereby 1-2% of the annual budget* is allocated annually to "Pay-Go" capital and another 5-6% of the annual budget* is allocated annually to refresh and renew existing assets and infrastructure.

- Excluded Debt is currently issued on an *ad hoc* basis as projects are approved at Town Meeting
  - All General Fund debt, other than for school buildings, is issued for 10-years or less with 60% paid within the first 5 years and remaining 40% paid in last 5 years; issued level principal
  - School debt has been issued over period of 20 years; issued level payment

*annual budget LESS debt service for Excluded Debt.


Concord's Debt Service:
Nominal Dollars & As Share of Total Budget
$14,000,000
$12,000,000
$10,000,000
$8,000,000
$6,000,000
$4,000,000
$2,000,000
$-
14.00%
12.00%
10.00%
8.00%
6.00%
4.00%
2.00%
0.00%
FY07
FY08
FY09
FY10
FY11
FY12
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20
FY21
Debt Service: Excluded Debt
Debt Service: Debt Within Levy Limit
Total Debt Service
Total Debt Service as % of Total Budget


Excluded Debt Service as a % of Total Budget:
Comparison with Three Neighboring Towns
30%
25%
20%
15%
10%
5%
0%
FY10
FY11
FY12
FY13
FY14
FY15
FY16
FY17
FY18
FY19
FY20
FY21
Concord
Sudbury
Weston
Lexington



Existing Excluded Debt Service Actual and Projection (FY09 - FY30)
$2,000
$1,800
$1,600
$1,400
$1,200
$1,000
$800
$600
$400
$200
$0
FY2
Proposed Middle School
MMRSD
CCHS
Town
Willard, Thoreau, Alcott
FY09 FY10 FY11 FY12 FY13 FY14 FY15 FY16 FY17 FY18 FY19 FY20 FY21 FY22 FY23 FY24 FY25 FY26 FY27 FY28 FY29 FY30
Tax impact to Median Household of existing and proposed projects.
Median Assessed Value = $928,100

FINDINGS

- To date: Debt, and associated Debt Service, is very well managed.
- Going forward: Proposed Middle School project and other municipal capital needs will add Debt Service to the town's budget and put pressure on property taxes.
- A long-term Capital and Debt planning process supports the Select Board goal of sustainable and stable property tax increases.
- Other means to "smooth" debt service include:
  - Debt within the levy limit can be timed to relieve some of the burden imposed via spikes from excluded debt; and
  - Use of stabilization funds.
  - Monetize the resale value or opportunity cost of property left idle or vacant from capital improvement projects, e.g., site of Peabody school.