



## **DEBT AFFORDABILITY POLICY**

### **PURPOSE**

This policy provides guidelines for assessing the affordability of potential borrowings to ensure any debt issued by the Town will not adversely affect Hubbardston's long-term fiscal stability,

### **APPLICABILITY**

This policy applies to the financial analysis responsibilities of the Town Administrator, Town Treasurer and Town Accountant. It further applies to the Board of Selectmen, Finance Committee, and Capital Planning Committee in their budget decision-making duties.

### **BACKGROUND**

For any given, highly expensive capital project, a debt issuance may present the most appropriate financing strategy. Not only does it provide funds not otherwise available upfront, but the amortizing of the debt over multiple years equitably distributes the project's cost among taxpayers who may settle in or move out of town over time. Particularly in a small town with a small annual budget and modest local wealth, any decisions around the use of debt must be made in the context of affordability relative to long-term revenue and expenditure forecasts. The Municipal Databank of the Division of Local Services (DLS) provides the data needed for the analyses outlined in this policy.

### **POLICY**

Under state and federal legal provisions, the officials subject to this policy may propose that town meeting vote to authorize a debt issuance to finance the construction, reconstruction, or acquisition of any asset with a minimum cost of \$100,000 and minimum useful lifespan of three (3) years. Any such proposal will be founded upon a favorable analysis of the project's affordability as outlined in this policy. Further, the officials will manage any authorized debt obligation in such a manner as to obtain the best long-term financial advantage and will limit the amount of debt issued so as to minimize the impact on taxpayers.

Debt obligations, which include general obligation bonds, revenue bonds, bond anticipation notes, lease/purchase agreements, and any other debt obligations permitted to be issued under Massachusetts law, will only be issued to construct, reconstruct, or purchase capital assets that cannot be acquired with current revenues.

#### **A. Debt Affordability Factors**

When an expensive capital improvement is under consideration, the Town Accountant, at the direction of the Town Administrator, may calculate a series of ratios to help guide decision making. Taking the sum total of the project's estimated principal and interest costs (i.e., its projected annual debt service), the Town Accountant will combine it with any existing debt and then calculate:

- % Total debt service per capita population
- % Total debt service as a percent of revenue
- % Total debt service as a percentage of per capita personal income
- % Total debt service as a percentage of total assessed property value

The Town Accountant will review historic, multiyear trends in the above variables to make projections against the proposed length of the debt service term.

#### B. Benchmarking

The Town Administrator will use the Town Accountant's debt ratio data to benchmark Hubbardston in comparison to peer communities. Using the DLS Databank's Community Comparison report, the Town Administrator will first determine Hubbardston's peers based on factors such as population, general fund budget, equalized valuation per capita, income per capita, average single-family tax bill, geographic region, and population density. Using the same and other Databank reports, the Town Administrator will then calculate the current debt ratios listed in Section A for each community in the peer group.

#### C. Reporting and Decision Making

The Town Administrator will write a debt affordability report with an analysis summary and recommendation(s) and provide it to the Board of Selectmen, Finance Committee, and Capital Planning Committee. These boards will also review and comply with the separately adopted Debt Management policy before recommending any debt issuance.

#### REFERENCES

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

Hubbardston policies on Debt Management and Capital Planning

DLS Best Practice: *Understanding Municipal Debt*

Government Finance Officers Association Best Practices: *Benchmarking and Measuring Debt Capacity*

#### EFFECTIVE DATE

This policy was adopted November, 2018