Town of Norwell
Debt Management Policy

A. **Purpose of policy and goals**

The purpose of this policy is to establish written guidelines and restrictions for issuing debt and managing the outstanding debt portfolio, and to provide guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that government maintains a sound debt position and that credit quality is protected.

It is the intent of the Town of Norwell to establish a debt management policy to:

- ensure high quality debt management decisions
- impose order and discipline in the debt issuance process
- promote consistency and continuity in the decision making process
- demonstrate a commitment to long-term financial planning objectives
- ensure that the debt management decisions are viewed positively by the rating agencies, investment community, and taxpayers

Massachusetts General Laws, Chapter 44, Sections 7 & 8 regulate the purposes for which municipalities may incur debt, and the maximum maturity for bonds issued for each purpose. MGL Ch 44, Sec 10 specifies that the debt limit for towns is 5% of Equalized Valuation. Various federal laws, regulations and agencies also have requirements with which the Town must comply.

B. **Capital Improvement Plan**

The Town shall establish and maintain a five (5) year Capital Improvement Plan (CIP), including all proposed projects and major pieces of equipment that may require debt financing. The town's long-term debt strategies shall be structured to reflect its capital needs and ability to finance.

C. **Bond Rating**

The community's bond rating is important because it determines the rate of interest it pays when selling bonds and notes as well as the level of market participation (number of bidders). Other things being equal, the higher the bond rating, the lower the interest rate. Bond analysts including Moody's, Standard & Poor's, and Fitch typically look at the following four factors in assigning a credit rating:

Debt Factors: debt per capita, debt as a percentage of equalized valuation, rate of debt amortization, and the amount of exempt versus non-exempt debt.

Financial Factors: operating surpluses or deficits, free cash as a percent of revenue, state aid reliance, property tax collection rates, and unfunded pension liability.

Economic Factors: property values, personal income levels, tax base growth, tax and economic base diversity, unemployment rates, and population growth.

Management Factors: governmental structure, the existence of a capital improvement plan (CIP), the quality of accounting and financial reporting, etc.

The Town of Norwell shall continually strive to maintain the highest bond rating through sound financial management, improved receivables management, accounting and financial reporting, and increased reserves such as the Stabilization Fund and the Capital Expenditure Stabilization Fund.

D. **Debt Guidelines**

General Fund Debt Service: The Town recognizes that maintaining debt levels within supportable standards favorably impacts credit ratings and ensures the community will have an affordable re-payment obligation on residents. Due to Proposition 2 1/2 constraints it is important to limit debt service costs as a percentage of the town's total budget. At the same time, the regular and well-structured use of long-term debt signifies commitment to maintaining and improving its infrastructure. Municipal credit analysts often use 10% as a maximum benchmark for financial soundness. In order to stabilize the desired ceiling, it will be necessary for the Town to schedule future debt service to coincide with maturing debt service.

1) It shall be the Town's policy to establish a debt service ceiling of 10%. The annual debt service payable on bonded general fund debt including debt exclusions net of all subsidies, reimbursements and offsets shall not exceed 10% of the annual operating budget.
2) It shall also be the Town's policy to establish a debt service floor of 2% as an expression of support for continued investment in the town's roads, public facilities, and other capital assets.
3) Debt financing for projects supported by General Fund revenue shall be reserved for capital projects and expenditures which either cost in excess of $250,000 or have an anticipated life span of five years or more.
4) Total outstanding general obligation debt shall not exceed 2.5% of the total assessed value of property.

Debt Maturity Schedule: As previously stated, Chapter 44 of the General Laws specifies the maximum maturity for bonds issued for various purposes. However, with a reasonable maturity schedule, a Town may choose to borrow for a shorter period than allowed by the statutory limit in order to reduce interest costs. Except for major buildings and water, sewer, and community preservation projects, it shall be the Town's policy that bond maturities shall be limited to no more than ten years or a maturity that is consistent with the life of the asset financed. Exceptions may be made when grants, reimbursements or other situations warrant. The Town's goal is aggressive amortization of new debt service and shortening terms for existing debt when there is an opportunity to refinance a bond at a lower cost. Bond maturities shall not exceed the anticipated useful life of the capital project being financed. It shall be the goal of the Town to maintain bond maturities so that at least 60% of the outstanding debt (principal net of debt exclusion and enterprise fund amounts) shall mature within 10 years.

E. **Debt Strategies**

Alternative Financing Strategies: The Town shall continually pursue opportunities to finance the capital budget by means other than conventional borrowing such as state and/or federal grant funding whenever possible.

Water Fund Operations – Self- supporting: Capital projects for enterprise operations shall be financed solely from enterprise revenues. Debt financing shall be reserved for capital projects and expenditures that cost in excess of $100,000 for projects supported by enterprise fund revenue.

Debt Issuance: The Town shall 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.

Gregg McBride, Chairman
February 27, 2013

TOWN OF NORWELL
RESERVE POLICY

Amended 9/4/13

The establishment and maintenance of adequate financial reserves is essential in providing the Town of Norwell with financial flexibility and security and can be used to finance unforeseen or emergency needs, to hold money for specific purposes, or in some cases, to serve as a revenue source for the annual budget. Levels of reserved fund balance and unrestricted fund balance in the general fund are monitored by credit rating agencies in evaluating creditworthiness that impacts the Town of Norwell's credit rating and consequently, its long term cost to fund major capital projects.

The Town shall establish the following prudent financial goals and reserve policies for funding and maintaining reserves:

• **Reserve Fund** – to provide for extraordinary and unforeseen expenditures, a reserve fund shall be established under the provisions of MGL Chapter 40, Section 6. It shall be the goal of the Town to provide a funding level of between .50% and .75% of annual General Fund 1 expenditures. Any unexpended balance at the end of the fiscal year must revert back to the General Fund toward the calculation of free cash.

• **Unassigned Fund Balance/Stabilization Fund** – It shall be the goal of the Town to maintain a level of unassigned fund balance plus unrestricted stabilization fund balance, as defined in the Town's audited financial statements, equivalent to no less than 5% of annual general fund expenditures with a goal of 10%-15%.

1) **Stabilization Fund** – The stabilization fund shall be established under the provisions of MGL Chapter 40, Section 5B.

    a) The Town will maintain the stabilization fund as its main financial reserve in the event of an emergency or extraordinary need. It shall be the goal of the Town to achieve and maintain a balance in the stabilization fund equivalent to 3% to 5% of the Town's general fund operating budget.

    b) The use of the stabilization fund shall be restricted to non-recurring and/or capital expenditures no greater than 20% in the aggregate of the unrestricted stabilization fund balance in any fiscal year. Non-recurring or one-time expenditures include capital improvements, capital equipment and extraordinary snow and ice removal expenses. New operating costs associated with capital projects should be funded through the operating budget but reflected in the capital improvement plan.

TOWN OF NORWELL
RESERVE POLICY

c) It shall be the goal of the Town to replenish any amount appropriated from the stabilization fund in the prior fiscal year in the subsequent fiscal year. Said funding shall come from free cash.

2) **Free Cash** - Free Cash shall be used for funding the stabilization fund and used primarily as outlay for non-recurring and/or capital expenditures and recurring non-operational expenditures greater than $10,000. If free cash must be used for operations, its use should be restricted as a general revenue source for the ensuing year's budget in an amount no greater than 25% of the total free cash certified for the previous fiscal year. It shall be the goal of the Town to achieve and maintain an annual certification of free cash in the amount of 3 to 5% of the Town's general fund operating budget.

• **Overlay Reserve** – established per MGL Chapter 59, Section 25, the overlay is used as a reserve, under the direction of the Board of Assessors, to fund property tax exemptions and abatements resulting from adjustments in valuation. The Board of Selectmen shall annually request in writing the Board of Assessors to submit the balance in the overlay account in excess of the amount remaining to be collected or abated as certified by the Board of Assessors. Either upon their own initiative or within ten days of the request of the Board of Selectmen, the Board of Assessors shall transfer the declared excess of each fiscal year to a reserve fund to be appropriated for any lawful purpose. It shall be the goal of the Town to appropriate such overlay surplus to fund the senior citizen property tax work-off program, the Town's Capital Improvement Plan (CIP) or for any other one-time expense. Any balance in said overlay reserve fund at the end of the fiscal year shall revert back to the General Fund toward the calculation of free cash.

Ellen H. Allen

Ellen Allen, Chairman