



THE TOWN OF

**STOUGHTON**

MASSACHUSETTS *Welcomes You!*

# Managing Our Debt

## Fiscal 2013/2014

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2013/2014 Annual Town Meeting Debt Presentation.

R. Hill Committee on Finance and Taxation



# Total Town Debt

(As of Jan 1<sup>st</sup>, 2013)

**\$27,134,576.**

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Source: Treasurer/Collector, Town of Stoughton



# Unfunded Borrowing Authorizations

## Authorized and Unissued Debt (Potential Additional Debt Liability)

**\$21,182,105**

(Includes Library Appropriation of \$14,000,000)

Approximate Net Unauthorized and Unissued = **\$13,000,000**

Source: Statement of Indebtedness; FirstSouthwest, June 30 2012.

Authorized and Unissued Debt a/o June 20, 2012

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# Debt Budget FY 2013/2014 Breakdown

<u>Departments</u>	<u>Principle</u>	<u>Interest</u>	<u>Total</u>
Town	\$1,525,530	\$272,954	\$1,798,484
School	\$1,407,400	\$367,763	\$1,775,163
Water	\$1,130,941	\$196,011	\$1,326,952
Sewer	\$361,920	\$103,109	\$465,029
Ambulance	\$119,000	\$15,766	\$134,766
Cedar Hill	\$26,000	\$2,418	\$28,418
CPA	\$162,250	0	\$162,250
<b>Total</b>	<b>\$4,733,041</b>	<b>\$958,021</b>	<b>\$5,561,062</b>

\*Source Treasurer/Collector, Town of Stoughton. Pages 11-16 of the 2013/2014 ATM Warrant



# Retirement of Debt FY 2011-2014

Department	2011 Actual	2012 Actual	2013 Budgeted	2014 Budgeted	Total 4 Year Pay down	AVG. Yearly Pay down
*Town	\$1,307,460	\$1,198,520	\$1,727,080	\$1,525,530		
*School	\$1,305,100	\$1,242,800	\$1,693,739	\$1,407,400		
*Water	\$363,340	\$334,580	\$800,254	\$1,130,941		
*Sewer	\$280,100	\$276,100	\$532,053	\$361,920		
*Ambulance	\$59,000	\$49,000	\$74,070	\$119,000		
*Cedar Hill	\$9,000	\$9,000	\$13,800	\$26,000		
MWRA/MWPA Misc.	\$499,081	\$514,191	NA	NA		
**CPA	-	-	\$128,000	\$162,250		
	<b>\$3,823,081</b>	<b>\$3,624,191</b>	<b>\$4,968,996</b>	<b>\$4,733,041</b>	<b>\$17,149,309</b>	<b>\$4,287,327</b>

\*Source Treasurer/Collector, Town of Stoughton.

\*\*Community Preservation Budget FY 2013 & FY2014 as of April 24, 2013



# Sources and Funding

## ATM Articles - Funding Sources

### Recap

All Articles Requested	\$5,996,150	Includes Cash and Borrow
FINCOM Approved	<b>\$5,148,722</b>	Includes Cash and Borrow

Funding Sources - Fincom Approved Articles	Article Appropriation	*Alternate Funding Sources and Reimbursements	Funding Net of *Reimbursements
General Obligation (GO) Borrowing	\$3,238,974	\$1,235,875	\$2,021,210
Enterprise Fund Borrowing	\$754,688	\$390,000	\$364,688
CPA Funded	\$353,700		\$353,700
Total Fincom Approved Borrowing	\$4,347,362	<b>1,625,875</b>	\$2,721,487
Cash	\$673,249		\$673,249
Total	<b>\$5,148,722</b>		

### \*Alternate Funding Sources and Reimbursements

Retained Earnings Sewer Enterprise	\$390,000
Unexpended Articles	\$229,450
MSBA Reimbursements Schools	<u>\$1,006,425</u>
Total Reimbursements	<b>\$1,625,875</b>



## How Long to Pay Off Our Debt If No Additional Borrowing?

Formula: Total Debt/Pay down Rate = Number Of Years

$$\$27,134,576 / *\$4,287,000 = \mathbf{6.3 \text{ Years}}$$

**Debt w/ Unissued Borrowing:**

$$\$40,134,576 / \$4,287,327 = \mathbf{9.4 \text{ Years}}$$

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\*Pay down Rate Based on 2013/2014 Budgeted Principle Payments



# Town Of Stoughton Bond Rating

## Moody's Investors Service

**Stoughton Bond Rating Jumped last year from A1 to**  
**Aa3**

Legend: “Obligations rated Aa are judged to be of high quality and are subject to very low credit risk”.





# Moody's Rating Criteria

I. Economic Strength

II Financial Strength

III. Management &  
Governance

IV. Debt Profile

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Source: Moody's Rating Methodology. General Obligation Bonds Issued by Local U.S. Governments. October 2012



## Moody's Comment on 2012 Borrowing and Ratings Upgrade

“The Aa3 rating reflects the town’s.....manageable debt burden and satisfactory reserves”.

“The upgrade reflects the return to structural balance after three years of operating surpluses and anticipated surplus in 2012”

“The Town regained structural balance through expenditure reductions, increasing local revenues by adopting the state’s local option taxes for meals and hotel and conservatively budgeting revenues and expenses”.

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Source: Moody's Rating Methodology. General Obligation Bonds Issued by Local U.S. Governments. June 2012

# Moody's Rating Scale

## Municipal Long-Term Rating Definitions

**Aaa** Issuers or issues rated Aaa demonstrate the strongest creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**Aa** Issuers or issues rated Aa demonstrate very strong creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**A** Issuers or issues rated A present above-average creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**Baa** Issuers or issues rated Baa represent average creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**Ba** Issuers or issues rated Ba demonstrate below-average creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**B** Issuers or issues rated B demonstrate weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**Caa** Issuers or issues rated Caa demonstrate very weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**Ca** Issuers or issues rated Ca demonstrate extremely weak creditworthiness relative to other US municipal or tax-exempt issuers or issues.

**C** Issuers or issues rated C demonstrate the weakest creditworthiness relative to other US municipal or tax-exempt issuers or issues.

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## “What Can Make Ratings Go Up”

- Maintaining structural balance and increase reserves
- Increase in tax base, assessed valuation or demographic profile



## “What Can Make Ratings Go Down”

-Decrease in Reserves



## Fincom Debt Strategy

### **Maintain or Reduce The Town's General Obligation Debt Burden**

- By Managing our Cost of Borrowing
  - By Spending on the Right Projects
  - By Spending Strategically (Cash vs. Borrowing)
  - While Maintaining Town Services and Assets
  - While Providing for Future Capital Asset Needs
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## Objectives to Meet Debt Goals

- Maintain Borrowing at or Below Pay Down Rate
  - Maintain Borrowing Cap @ 3-5% of Revenues
  - Improve Moody's Rating To Obtain the Best Borrowing Rates
  - Revenue Growth
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# Specific Objectives

## Objective I

Maintain Borrowing at or below Pay down Rate.

Pay down Rate FY 2013/2014 = \$4.3 Million

Proposed Borrowing by Fincom = \$2.8 Million\*

\*Net of Sewer Retained Earnings, MSBA Reimbursement  
and Unexpended Articles that reduce amounts to be borrowed

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## Objective II

Maintain Borrowing Cap Range @ 3%-5% of Total Revenues

- Total Revenues (including Enterprise Accounts) = approximately **\$87** Million
- Cap Range = \$2.6 Million to **\$4.4 Million**
- Fincom Proposed Borrowing = **\$2.8 Million\***

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\* Net of Sewer Retained Earnings, MSBA Reimbursement

and Unexpended Articles that reduce amounts to be borrowed

## Objective III

### Improve Moody's Rating To Obtain the Best Borrowing Rates

- In addition to Moody's recommended borrowing caps and debt ranges:
  - Improve Reserves
    - Approve and Fund the New Building Stabilization Fund
  - Improve Revenues
    - 2013 - 32 new building permits-Estimated addition to tax base = \$6.4 Million
    - 60,000 square foot expansion for IKEA
    - Execute recommendations of Master Plan
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# Funding Strategy

- Cost of borrowing money is currently less than 2% (2012 borrowing issue was @ 1.88%). Fund the Building Reserve with cash now and borrow money for articles.
  - In 5-7 years when borrowing rate is 5%-7% then reverse strategy and spend cash
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## Hypothetical Calculation of Borrowing VS. Saving

**If we:** Borrow \$2,000,000 for articles today (instead of paying cash for articles) @ 2% = \$2, 208,240 in 10 years

**Or we:** Borrow \$2,000,000 in 5 years (because we have not saved any money in the building fund account) @ 5% = \$2, 545,560 in the subsequent 10 years

**Conclusion** - Additional cost to town of not putting away \$2,000,000 today and borrowing it in 5 years @ a higher interest rate = **\$337,320** not including interest on money in Building fund account.

If we put \$1 - \$2 million away each year for the next five years we would accumulate between \$5 and \$10 million dollars in cash to defray the cost of borrowing in five years.

### Estimated Building Costs in Five Years :

High School – (\$80 million less 56.7% minimum MSBA reimbursement)	\$35 Million
Fire/Safety Bldg.*	\$20 Million (?)
Library	<u>\$7 Million</u>
Total borrowing in 5 years for buildings	\$62 Million

Result could be \$5-\$10 million less if we save now.

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# Capital Purchase Definitions According to MGL CH 44, §7

Five Primary Debt Purposes (out of 34) Applicable to Stoughton Warrant Articles

**(3A)** For remodeling, reconstructing or making extraordinary repairs to public buildings owned by the city or town, including original equipment and landscaping, paving and other site improvements incidental or directly related to such remodeling, reconstruction or repair, for a term not exceeding 20 years.

**(9)** For the cost of equipment, 5 years.

**(18)** For the payment of charges incurred under contracts authorized by section four of chapter forty for the expert appraisal of taxable property or for the preparation of assessors maps, including charges for aerial mapping in connection with the preparation of such maps, ten years.

**(28)** For the development, design, purchase and installation of computer hardware, other data processing equipment and computer assisted integrated financial management and accounting systems, ten years.

**(34)** For any other public work, improvement or asset not specified in this section, with a maximum useful life of at least 5 years, determined as provided in this paragraph, 5 years



## Average Town Passenger Vehicle Age

Police Vehicles	(35 vehicles/Cycles)	5.2 Years
DPW Vehicles	(47 Vehicles)	13 Years
School Vehicles	(5 Vehicles)	7 Years
Fire Vehicles	(12 Vehicles)	14 Years
Town Depts.	(19 Vehicles)	11 Years

Average Age all Town Passenger Vehicles 10 Years

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STOUGHTON

"The Birthplace of American Liberty"

*“All powers of the Town shall be vested in the Representative Town Meeting...The Representative Town Meeting shall provide for the exercise of the powers of the Town and for the performance of all duties and obligations imposed upon the Town.”*

(Section C7-8 Stoughton Charter)