

Massachusetts Collectors and Treasurers Association

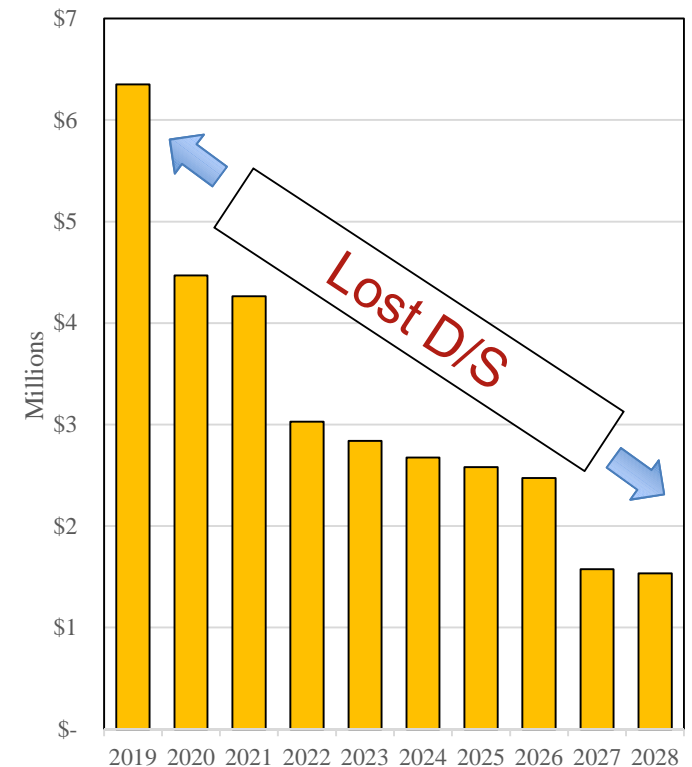
How to Develop Financial Policies, Part I: Debt Management

**68th Annual Educational Conference
Hyannis, Massachusetts**

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How Does Debt and Debt Policy Fit Into the Big Picture?

- Current Debt Profile
 - Existing General Fund vs. Enterprise Fund vs. Prop 2 ½ Excluded Debt
- Future Debt Plans (CIP)
- Multi-year Revenue and Expenditure Forecasts
- Debt Service Capacity
- “Affordability”



From a Credit Perspective

- Having and adhering to financial policies plays a critical role in determining creditworthiness and it is also best practice.
- Areas of focus for a credit rating:
 - ✓ Economy
 - ✓ Finances
 - ✓ Management
 - ✓ Debt
- Management makes up approximately 20% of the credit score, and the existence of financial policies defines management.

Considerations

A debt management policy will provide a guideline for debt issuance

Things to Consider:

- Debt Metrics
- Structure and Term of Debt
- Method and Type of Debt Issuance
- Bond Funded Debt Specifications
- Refinancing Guidelines

Debt Metrics

A way to quantify debt issuance so acceptable levels are not exceeded

- Debt per Capita
- Debt as a % of Equalized Valuation
- Debt as a % of Budget
- How quickly is debt amortizing?
- Unfunded pension and OPEB liabilities are included with debt.

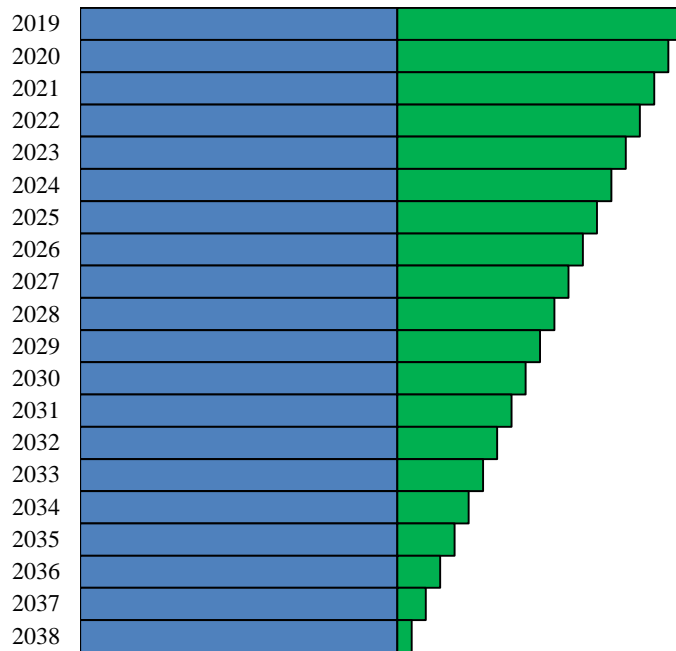
Structure and Term of Debt

What will the pay-back of debt look like?

- Term of Debt
- Equal Principal vs. Level Debt Service

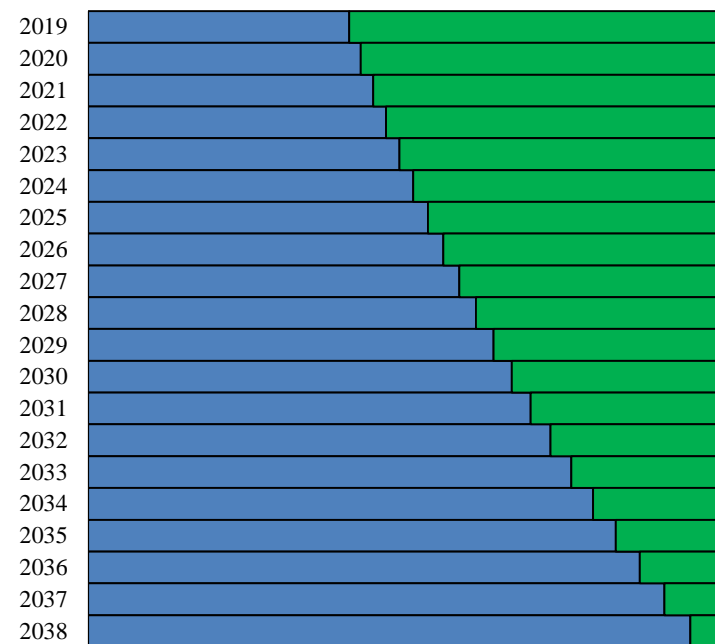
Equal Principal

Principal Interest



Level Debt Service

Principal Interest



Method and Type of Debt Issuance

How will the necessary funds be obtained?

- Competitive vs. Negotiated Issue
- Short-Term Notes vs. Long-Term Bonds
- Cash Flow Projections
- Use of Disclosure

Bond Funded Debt Specifications

What types of projects will be financed with debt?

- Are certain types of projects not considered debt?
- Is there a minimum size for projects financed with debt?
- Is there a maximum term for projects financed with debt?
- Will a certain size or type of project always be subject to a debt exclusion vote?
- Is there any willingness to consider a capital exclusion, CPA, and/or direct capital outlay?

Refinancing Guidelines

Are certain criteria required before refunding debt?

- Minimum level of present value savings?
 - ✓ Industry standard is 3% of the principal amount of bonds refunded
- Savings as a multiple of issuance costs?
- How far away is the call date?
- Negative Arbitrage

Takeaways

Financial Policies are Today's Hot Topic

- Structural Balance
- Flexibility
- Make Vision a Reality

Questions?



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