CITY OF NORTHAMPTON
CAPITAL IMPROVEMENT AND DEBT POLICIES

Guidelines for Funding the Capital Improvement Program

The following guidelines have been developed by the City to guide the funding plan for the Capital Improvement Program and to schedule the required long-term debt for projects recommended for bonding.

- The City will strive to provide sufficient funding for adequate maintenance and orderly replacement of Capital Improvement Program and equipment.

- All assets will be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs.

- All equipment replacement and maintenance needs for the next 5 years will be projected and the projection will be updated each year. A maintenance and replacement schedule based on this projection will be developed and followed.

- Premiums and surplus proceeds from the issuance of long-term debt will be used in accordance with MGL c. 44 sec 20 as amended by the Municipal Modernization Act passed in 2016. Premiums received on bonds will be used to pay project and issuance costs and to reduce the amount of the borrowing authorization. Surplus proceeds will be used in accordance with MGL c. 44 sec. 20.

- Long-term borrowing will be confined to capital improvements too large to be financed from current revenues and reserves.

- Bonds will be paid back within a period not to exceed the expected useful life of the capital project. The term and amounts of the bonds will also not exceed statutory limits outlined in Massachusetts General Laws.

- Before bonded long-term debt is issued, the impact of debt service on total annual operating costs will be analyzed.

  Capital projects may increase future expenses, decrease future expenses, or may be cost-neutral. The funding of capital projects may fall within available revenues (taxes or fees) or new revenue sources (debt or capital exclusions). It is important to project the impact that the proposed capital project has on the operating budget so that operating budget funding sources can also be identified or new funding sources recommended.

- Where possible, special assessments, revenues, or other self-supporting bonds will be used instead of general obligation bonds.

  When specific benefits accrue to property owner(s) (i.e. sidewalks, sewer extensions), betterments may be assessed in accordance with state statutes and local policies. This funding source will contribute all or a portion of the costs associated with a capital project. Water, sewer, solid waste, and parking system capital needs will be financed from revenues generated from those enterprise funds even though they are technically still considered general obligation bonds.

- Good communication with bond rating agencies will be maintained, and a policy of full disclosure on every financial report and bond prospectus will be followed. Debt service and other capital investments will be managed in ways to maintain or enhance the City's credit rating.

- Overall net direct debt will not exceed 10% of assessed valuation (credit industry benchmark).

  Net direct debt is direct debt minus self-supporting debt (debt that the City has pledged to repay from a source separate from its general tax revenues, such as water and sewer utility fees and charges). An increase in net direct bonded debt as a percentage of assessed valuation can mean that the City's ability to repay is diminishing. Long-term debt dependent on other revenues, such as water, sewer, solid waste, and parking system debt, should be calculated as a percentage of the revenue sources on which it depends. In FY19 net direct debt for the General Fund as a percentage of assessed valuation is 1.7%.

- Total General Fund general obligation debt service and capital spending (including debt exclusion and capital exclusion overrides) will not exceed 10% of General Fund operating revenues.

  The credit rating agencies, such as Standard and Poor's consider debt service on net direct debt (i.e. non-self-supporting) exceeding 20% of net operating revenues as a potential problem. Dramatic increases in debt service can also indicate potential problems unless revenue sources increase to keep pace with these additions to fixed costs. The 10% benchmark provides a policy to apply to new projects and the growth of revenues to finance such projects. In FY19 net direct debt as a percentage of General fund operating revenues is 6.2%.

- Levy-supported General Fund general obligation debt service and capital spending (exclusive of dedicated revenue sources such as debt exclusion and capital exclusion overrides, state reimbursements, parking system receipts, etc.) will move to a goal of 5% of net General Fund operating revenues.

  In FY 2002, levy-supported general obligation debt service and capital spending was 1.6% of net General Fund operating revenues. In FY19 levy-supported general obligation debt service is 4.3% of general fund revenues and combined with cash capital spending of another $315,000, the levy supported debt and capital spending was 4.6%. The goal of increasing the City's annual capital spending and levy-supported debt to a minimum of 5% of net operating revenues is being pursued over a multi-year period.

- The City will attempt to maintain a long-term debt schedule so that at least 50% of outstanding principal will be paid within 10 years.

  Debt service costs include principal and interest payments. Debt service costs are also a significant portion of fixed costs. A reasonable maturity schedule not only reduces interest costs, but recognizes that capital needs will continue to be identified and recommended. Credit rating bureaus review these maturity schedules and future capital needs. By the end of FY2028, the city will have retired 90.5% of current outstanding principal. This percentage also includes the issuance of additional bonds planned for in the future.

Adopted by:

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