

Falmouth, Massachusetts

GFOA Budget Implementation Support

September 2017

Edward J. Collins, Jr. Center for Public Management

McCORMACK GRADUATE SCHOOL OF POLICY AND GLOBAL STUDIES



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INTRODUCTION

Falmouth is a town located on Cape Cod in Barnstable County with a year-round population of more than 31,500 residents (2010 Census) and a summer population that can grow to three times that. The Town provides a full-service range of municipal services with a budget of more than \$142.7 million (FY2017). The municipal budget is one of the Town's most important communication tools, serving a variety of stakeholders including elected officials, Town staff, residents, and businesses. Falmouth has recognized the need to enhance transparency by contextualizing the financial data typically provided and building new content in ways that engage the public.

Town management determined to pursue GFOA Distinguished Budget certification for its FY2019 budget and, through the Community Compact initiative, retained the services of the Edward J. Collins, Jr. Center for Public Management at UMass Boston to support its efforts.

OVERVIEW OF WORK PERFORMED

Collins Center professionals have experience guiding Massachusetts municipalities through the process of implementing GFOA best practices and submitting their budgets for consideration in the GFOA Distinguished Budget Award program. Since the Falmouth financial staff had already familiarized themselves with GFOA requirements, the Center provided much-needed implementation support to the Finance Director and finance team between March and September 2017, which was the beginning of the FY2019 budget process. Per the Town's Charter, the Town Manager shall submit a comprehensive budget to the Board of Selectmen no later than January first, which is earlier than typical for a Massachusetts municipality.

The work included assisting staff in developing templates for departments to submit their budgets, reviewing department submissions, and providing guidance on other budget content. In addition, the Center drafted several new proposed chapters of the budget covering the budgeting process, historical and forecasted revenues, municipal debt, and the Town's capital improvement plan. The Center also provided draft supporting materials, including a community profile and glossary. All told, the Center dedicated 100 hours of implementation support to the Town. The Center project team will also be available to review the Town's final submission to GFOA to assess compliance with guidelines. Since the Town plans to submit its FY2019 budget, this will likely occur during the summer of 2018.

The Town's complete FY2019 budget will be found on the Town's website in early 2018. Appendix A provides a sample of work completed.

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APPENDIX A: DRAFT DEBT CHAPTER FOR FY19 BUDGET

MUNICIPAL DEBT

OVERVIEW

The Town of Falmouth issues debt to finance significant capital projects which maintain or improve the quality of life for residents. Properly managed debt is a key component of an effective financial management strategy and plays an important role in preserving the Town's credit rating. A strong credit rating allows the Town to borrow at favorable rates. The following are the Town's current bond ratings:

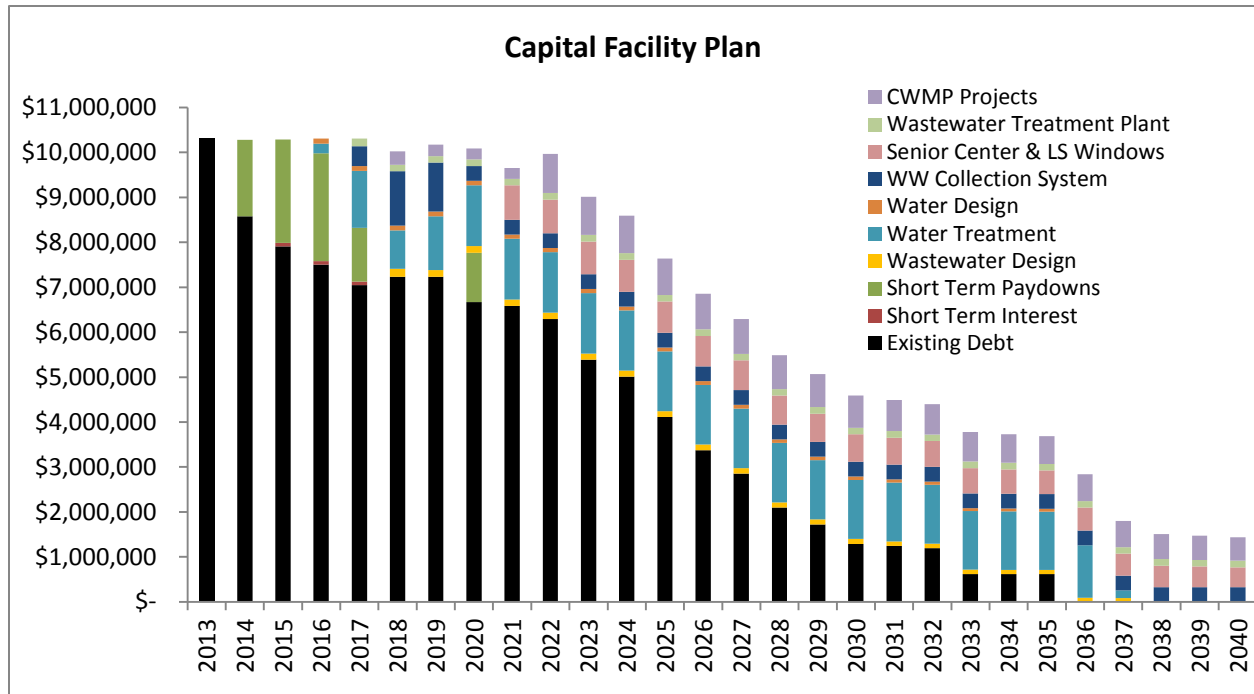
Rating Agency	2016 Credit Rating	Explanation
Moody's	Aa2	Bonds that are rated Aa are judged to be of high quality with low credit risk. Together with the Aaa group they comprise what are generally known as high-grade bonds. The modifier 2 indicates that the issue is in the mid-range of its category.
Standard & Poor's	AA+	An obligation rated AA differs from the highest-rated obligations only in small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong. Ratings from AA to CCC may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

Massachusetts General Laws authorize a municipality to issue debt under certain circumstances and for various durations. Debt is typically used to finance capital projects or those that require significant cash outlays. The most commonly used method is general obligation bonds, which are supported by the full faith and credit of the municipality. They are issued for a period of time ranging from 5 to 30 years, during which time principal and interest payments are made. Making payments over time has the advantage of allowing the capital expenditures to be amortized over the life of the project. In recent years, the Town has used GO bonds to finance Lawrence School Windows project, design of the Little Pond Sewer Service Area and Water Filtration Plant Project. There are other types of financing methods that the Town may also use in certain circumstances, including various advantaged State programs. For instance the construction of the Water Filtration Plant and Little Pond Sewer Service Area borrowed through the Clean Water Trust at 2% and 0% respectively. Properly structured municipal debt is tax-exempt, which is attractive to many investors who, in turn, require less interest than they would from non-tax-exempt investments.

For a deeper explanation of municipal debt, see the State DOR DLS's primer on municipal debt (May 2016): <http://www.mass.gov/dor/docs/dls/mdmstuf/technical-assistance/best-practices/understandingmunicipaldebt.pdf>

DEBT MANAGEMENT POLICY

- I. Debt Policy
 - a. Long term debt and debt exclusions will be issued for purposes authorized by M.G.L. Chapter 44 sections 7 and 8.
 - b. Excluded debt and debt exclusions will be issued in a manner that stabilizes the tax levy over a number of years. The Finance Director will maintain a financing plan that calculates the current and future debt capacity.



- c. The Town will attempt to vote all significant debt ballot questions (over \$1,000,000) exempt from the limits of proposition of 2 ½.
- d. General fund debt service, exclusive of debt funded from dedicated revenue sources, shall not exceed 5% of expenditures.
- e. The Town will continually pursue opportunities to acquire capital by means other than conventional borrowing such as grants and low-or-zero interest loans from State or Federal agencies.
- f. The Town will maintain good communications with bond rating agencies, the Town’s financial advisor and bond counsel and work closely with them 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.

AUTHORIZATION PROCEDURE AND LIMITATIONS

Borrowing authorizations are affirmed on behalf of the Town by vote of two-thirds of all the Town Meeting Members present and voting at an annual or special town meeting, subject to a referendum vote if the borrowing is excluded from proposition 2 ½. Borrowings for certain purposes require state administrative approval. Temporary debt in anticipation of the revenue of the fiscal year in which the debt is incurred or in anticipation of certain state and county reimbursements are generally authorized by majority vote. Provision is made for temporary loans in anticipation of federal grants and for other purposes in certain circumstances without Town Meeting's authorization.

DEBT LIMITS

The general debt limit of the Town consists of the normal debt limit and double debt limit. The normal debt limit is 5% of the valuation of taxable property as last equalized by the State Department of Revenue. The Town can authorize debt up to this amount without State approval. It can authorize debt up to twice this amount (the double debt limit) with the approval of the State Municipal Finance Oversight Board composed of the State Treasurer, State Auditor, Attorney General and Director of Accounts.

Falmouth's normal debt limit is approximately \$594.6 million whereas total outstanding debt inside the limit amounts to approximately \$111.1 million (projected as of June 30, 2017), or less than 19% of the limit.

There are many categories of general obligation debt which are exempt from and do not count against the normal debt limit. Among others, these exempt categories include revenue anticipation notes and grant anticipation notes, emergency loans, loans exempted by special laws, certain school bonds, sewer bonds, solid waste disposal facility bonds and economic development bonds supported by tax increment financing; and subject to special debt limits, bonds for water (limited to 10% of equalized valuation), housing, urban renewal, and economic development (subject to various debt limits), and electric, gas community antenna television systems, telecommunications systems (subject to a separate limit equal to the general debt limit, including the same doubling provision). Revenue bonds are not subject to these debt limits. The normal debt limit and the special debt limit for water bonds apply at the time debt are authorized. The other special debt limits generally apply at the time the debt is incurred.

Revenue Anticipation Notes

The amount borrowed in each fiscal year by the issue of revenue anticipation notes is limited to the tax levy of the prior fiscal year, together with the net receipts in the prior fiscal year from the motor vehicle excise and certain payments made by the Commonwealth in lieu of taxes. The fiscal year ends on June 30. Notes may mature in the following fiscal year, and notes may be refunded into the following fiscal year to the extent of the uncollected, unabated current tax levy and certain other items, including revenue deficits, overlay deficits, final judgments and lawful unappropriated expenditures, which are to be added to the next tax levy, but excluding deficits arising from a failure to collect taxes of earlier years. In any event, the period from an original borrowing to its final maturity cannot exceed one year.

CURRENT DEBT POSITION

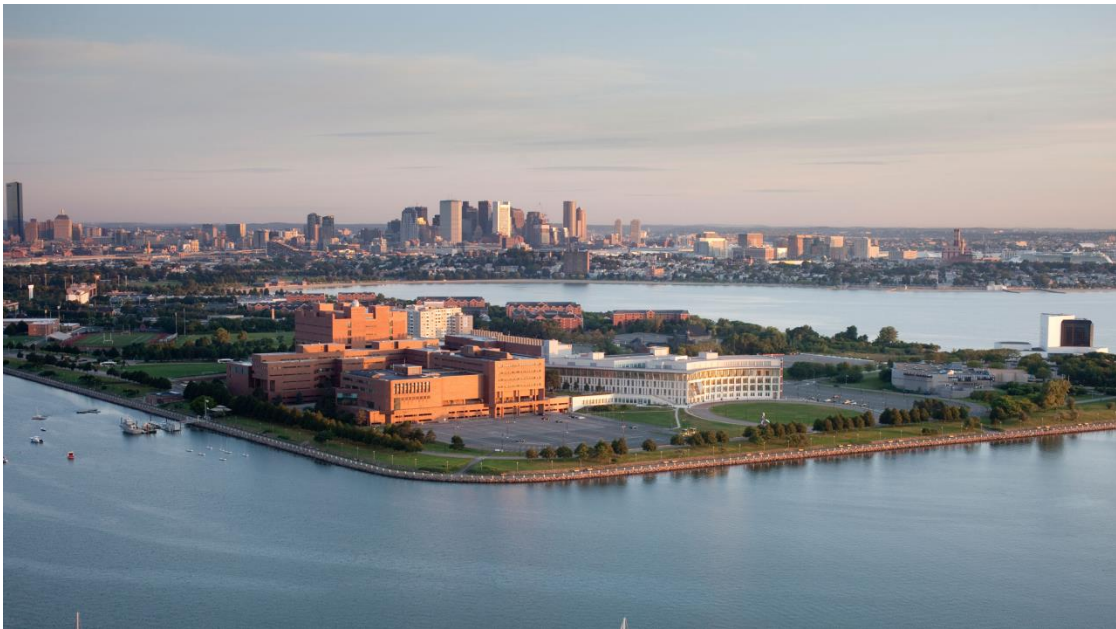
As of June 30, 2017, the Town is projected to have \$196,490,928 of outstanding long-term debt. See table below.

Town of Falmouth, Massachusetts Total Long-Term Debt Outstanding Projected as of June 30, 2017 Aggregate Debt Service			
Date	Principal	Interest	Total P+I
06/30/2017	-	-	-
06/30/2018	12,165,725.73	4,283,578.15	16,449,303.88
06/30/2019	12,415,753.73	3,763,740.75	16,179,494.48
06/30/2020	11,815,528.73	3,385,721.12	15,201,249.85
06/30/2021	11,637,023.72	3,021,225.75	14,658,249.47
06/30/2022	11,582,890.00	2,627,494.13	14,210,384.13
06/30/2023	10,520,462.00	2,198,416.21	12,718,878.21
06/30/2024	10,048,707.00	1,894,943.26	11,943,650.26
06/30/2025	9,262,638.00	1,666,751.60	10,929,389.60
06/30/2026	8,337,268.00	1,423,267.16	9,760,535.16
06/30/2027	8,015,152.00	1,204,130.63	9,219,282.63
06/30/2028	6,635,877.00	1,009,516.86	7,645,393.86
06/30/2029	6,377,343.00	849,237.12	7,226,580.12
06/30/2030	5,705,814.00	701,717.33	6,407,531.33
06/30/2031	5,443,808.00	568,645.51	6,012,453.51
06/30/2032	5,502,589.00	439,828.16	5,942,417.16
06/30/2033	4,402,179.00	328,271.43	4,730,450.43
06/30/2034	4,467,591.00	239,099.86	4,706,690.86
06/30/2035	4,413,844.00	150,100.15	4,563,944.15
06/30/2036	3,540,957.00	79,730.55	3,620,687.55
06/30/2037	2,576,148.00	26,352.03	2,602,500.03
06/30/2038	1,220,532.00	-	1,220,532.00
06/30/2039	1,222,364.00	-	1,222,364.00
06/30/2040	1,224,199.00	-	1,224,199.00
06/30/2041	1,226,037.00	-	1,226,037.00
06/30/2042	1,227,877.00	-	1,227,877.00
06/30/2043	1,229,720.00	-	1,229,720.00
06/30/2044	1,231,566.00	-	1,231,566.00
06/30/2045	1,233,414.00	-	1,233,414.00
06/30/2046	1,235,266.00	-	1,235,266.00
06/30/2047	710,886.00	-	710,886.00
Total	\$166,629,159.91	\$29,861,767.76	\$196,490,927.67

The Town is well-positioned with regards to its debt. Debt is managed under a strong policy and within the framework of a comprehensive financial strategy. In FY2018, net general fund debt service represented approximately 3.1% of total FY2018 appropriations, well within the policy limit of 5% as set by the Board of Selectmen. Non-general fund debt service is paid by dedicated revenue sources rather than the tax levy. Debt service does not impinge on the Town's ability to deliver high-quality municipal services on an annual basis.

ABOUT THE CENTER

The Edward J. Collins, Jr. Center for Public Management in the McCormack Graduate School of Policy and Global Studies at the University of Massachusetts Boston was established in 2008 to improve the efficiency and effectiveness of all levels of government. The Center is funded by the Commonwealth and through fees charged for its services.



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