Debt Presentation

Board of Selectmen
March 28, 2011
Agenda

- Debt Service Definition
- Proposition 2-1/2
- Within/Outside the Levy Limit
- Common Misconceptions
- Current Level of Debt
- Capital Budget Recommendations
- Effect of FY 2012 Proposals
Debt Service

- Capital Project Budget
- Some projects too large to pay for outright in cash or because cash is scarce
Proposition 2-1/2

- A municipality may only increase the TOTAL property tax levy by 2-1/2% over the prior year excluding new growth
  - New growth is new homes, additions, changes in land use etc…
Project **Within** the Levy Limit

- The principal and interest payments necessary to finance the project are able to be paid within existing Proposition 2-1/2 limits
  - There is no additional tax burden to the taxpayer
Project Outside the Levy Limit

- The principal and interest payments necessary to finance the project are NOT able to be paid within existing Proposition 2-1/2 limits.
- The project must be voted at town meeting and at the ballot box as a debt exclusion allowing the debt service to be added to the tax levy in addition to increases allowed by Proposition 2-1/2.
Project Outside the Levy Limit

- A debt exclusion is a temporary increase to the tax levy until the project costs are paid off.
- Marshfield only has one debt exclusion:
  - The Furnace Brook/Martinson school renovation project will be paid off in 2021.
- The impact of a debt exclusion declines over the term of the repayment.
When is the Effect on the Tax Bill for Projects Outside the Levy Limit

- It can take several years for a MAJOR capital project to be completed.
- Borrowing for major projects is done in increments based on cash flow requirements
  - Only incur short term interest costs until project completed
- Permanent financing is done when project is complete.
  - It is reasonable to expect a 3-5 year delay between authorization of a MAJOR capital project and the first significant impact on the tax bill.
FY 2011 Revenue Sources

- State Aid: 22%
- School Building Assistance: 2%
- Free Cash: 1%
- Other Funds: 2%
- Local Receipts: 8%
- Property Taxes: 65%
“Tax Rate Impact on the Average Taxpayer”

- Used all the time but not appropriate for anything other than a debt exclusion
  - Calculated based on the entire project cost being paid from the property taxes
  - Implies additional burden which does not exist for projects within the levy limit
FY 2011 Property Tax Breakdown

- Education: 56.36%
- Public Safety: 11.66%
- Dept. of Public Works: 4.17%
- Health & Human Services: 0.58%
- Veterans: 0.64%
- Libraries: 0.91%
- Debt Service: 6.61%
- Insurance: 0.98%
- Employee Benefits: 14.11%
- General Government: 3.81%
- Parks & Recreation: 0.11%
- Unclassified: 0.05%
YOUR PROPERTY TAX DOLLAR

<table>
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<tr>
<th>Category</th>
<th>Amount</th>
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<tr>
<td>Education</td>
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<td>Debt Service</td>
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<td>Public Works</td>
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<td>All Others</td>
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<tr>
<td><strong>Total</strong></td>
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<tr>
<td>Fiscal Year</td>
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<tr>
<td>-------------</td>
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FY 2012 Capital Budget Recommendations

- Evaluated all projects for necessity and impact of debt service
- Debt service limit rather than project limit
  - $600,000 limit of new debt service for FY14 in addition to $100,000 in free cash
Estimated Effect of FY 2012 Capital Project Recommendations

Millions

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<th>FY11</th>
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<td>Seawalls - $1.35M</td>
<td>MHS Design - $1.5M</td>
<td>ESCO - $5M</td>
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- Seawalls: $1.35M
- MHS Design: $1.5M
- ESCO: $5M
Summary

- Several significant projects can be supported at this time within the levy limit
- Vast majority of general fund debt will be paid off by 2021
  - Due to rapid amortization of previous authorizations