

Debt management

Prudent use of debt financing is an important part of the Town's overall fiscal planning. The central objective of any debt management approach is to borrow at the least cost over the term of repayment of the debt. Pursuit of this objective requires clear strategies regarding what purposes to borrow for, when to schedule debt-financed projects and how long to stretch out the repayment. Borrowing is a means of distributing part of a current cost to future taxpayers, and therefore should be utilized only when such cost allocation is deemed equitable and the long-term interest costs do not outweigh the short-term advantages.

All debt of the Town is issued as *general obligation debt*. This means that the full faith and credit of the Town—its promise to repay from any source—is pledged to the bondholder. Debt issued on behalf of the Town's enterprise operations (water, sewer, light) is, however, fully supported by the revenues of the respective enterprise when this is stipulated by the authorizing vote of Town Meeting. The basic rules of debt issuance are set forth in the General Laws of the Commonwealth. Municipalities have no independent authority to develop their own rules or innovations.

Capital financing and debt management policy for town debt supported by taxation *within* the levy limit is subject to the following guidelines:

- the total budget allocation for capital needs should be in the range of 7% to 8% of the total budget (town and K-8 schools);
- approximately one-third of capital needs should be met from current resources; the repayment of principal and interest, together with related issuance costs and short-term financing costs (i.e., debt service) should be capped at approximately 5% of the total budget;
- a rapid debt repayment schedule should be maintained, with a goal of 60% principal repayment within five years and 90% repayment within 10 years.

These guidelines are modified for major projects supported by debt exclusion votes. For example, the Alcott School bond was issued in Sept. 2004 as a 20-year level-principal maturity schedule.

The guidelines for debt to be financed within the levy limit serve several important purposes:

- capital needs are not displaced by the fiscal demands of current operations;
- the Town's approach to borrowing decisions is disciplined;

- the amount of debt service dollars expended for interest cost is minimized (less than 16% of the total current year debt service will be expended for interest) ;
- the capacity to address ongoing capital needs is quickly and continuously restored.

Revenue-supported debt (water, sewer, light) is subject to different guidelines that consider the useful life of the project and the current interest rates in the marketplace (generally, debt issued for longer periods bears a higher interest rate).

Feb. 9, 2006, Moody's Investors Service reaffirmed the Town's credit rating of Aaa, its highest rating category. This rating had first been obtained in Nov. 1987. Concord is one of 13 Massachusetts municipalities to hold Moody's highest rating. The Town's credit rating is a measure of its overall fiscal health. It is, however, only an expression of the relative ease with which the town can be expected to support its debts, not a statement about the quality of life in Concord. The benefit of a strong credit rating is realized in lower interest costs on the Town's long-term debt issues. Thus, to the extent that the Town plans to borrow in support of its capital needs, a strong credit rating is a benefit to the taxpayers.

**Debt Service Schedule
for debt issued through March 1, 2006**

Fiscal Year	Total Annual Debt Service		Total Principal Outstanding at June 30th	Tax Supported Annual Debt Service								Revenue Supported Annual Debt Service							
	Principal Matured	Interest Payment		Town (within levy limit)		Town (outside levy limit)		School (within levy limit)		School (outside levy limit)		Water		Sewer		Bettment (WPAT loans)		Light	
				Principal Matured	Interest Payment	Principal Matured	Interest Payment	Principal Matured	Interest Payment	Principal Matured	Interest Payment	Principal Matured	Interest Payment	Principal Matured	Interest Payment	Principal Matured	Interest Payment	Principal Matured	Interest Payment
2006	4,585,852	871,621	29,542,533	1,530,000	235,998	225,000	50,638	680,000	89,768	1,260,000	261,450	405,000	82,478	0	0	10,852	0	475,000	151,289
2007	4,151,377	1,038,270	25,391,156	1,545,000	243,442	285,810	94,777	690,000	94,473	385,000	234,632	505,000	103,623	100,000	38,100	105,567	80,041	535,000	149,182
2008	3,592,153	855,148	21,799,003	1,205,000	193,815	293,934	69,688	540,000	72,096	350,000	224,613	455,000	82,795	100,000	34,475	118,219	51,671	530,000	125,995
2009	3,000,715	732,042	18,798,288	940,000	154,616	270,326	60,753	455,000	55,271	350,000	214,988	335,000	63,843	100,000	30,725	120,389	49,339	430,000	102,507
2010	2,674,348	631,761	16,123,940	805,000	124,885	171,747	52,675	385,000	40,836	350,000	204,707	310,000	50,890	100,000	26,975	122,601	46,961	430,000	83,832
2011	2,322,818	539,705	13,801,122	595,000	97,417	173,196	48,717	260,000	27,693	350,000	194,425	300,000	39,025	100,000	23,225	124,622	44,534	420,000	64,669
2012	2,121,814	455,630	11,679,308	595,000	74,141	174,675	44,253	120,000	18,841	350,000	183,925	300,000	27,475	100,000	19,475	127,139	42,058	355,000	45,462
2013	1,825,673	383,751	9,853,635	495,000	57,366	176,184	39,631	120,000	14,604	350,000	172,769	100,000	15,725	100,000	15,725	129,489	39,532	355,000	28,399
2014	1,779,609	318,075	8,074,026	445,000	40,116	177,723	34,726	120,000	10,491	350,000	159,863	100,000	12,225	100,000	12,225	131,886	36,955	355,000	11,474
2015	1,443,625	259,785	6,630,401	405,000	23,951	179,293	29,539	120,000	6,206	350,000	146,519	100,000	8,625	100,000	8,625	134,332	34,326	55,000	1,994
2016	1,112,721	209,762	5,517,680	200,000	8,625	180,895	24,067	45,000	1,813	350,000	133,613	100,000	5,000	100,000	5,000	136,826	31,644	0	0
2017	571,901	167,956	4,945,779	0	0	82,529	18,560	0	0	350,000	120,488	0	0	0	0	139,372	28,908	0	0
2018	576,165	151,808	4,369,614	0	0	84,196	16,767	0	0	350,000	108,925	0	0	0	0	141,969	26,116	0	0
2019	580,515	131,132	3,789,099	0	0	85,897	14,939	0	0	350,000	92,925	0	0	0	0	144,618	23,268	0	0
2020	584,953	112,360	3,204,147	0	0	87,632	13,073	0	0	350,000	78,925	0	0	0	0	147,321	20,362	0	0
2021	589,702	93,493	2,614,445	0	0	89,403	11,170	0	0	350,000	64,925	0	0	0	0	150,299	17,398	0	0
2022	583,271	74,528	2,031,174	0	0	91,209	9,229	0	0	350,000	50,925	0	0	0	0	142,062	14,374	0	0
2023	587,984	55,287	1,443,190	0	0	93,052	7,248	0	0	350,000	36,750	0	0	0	0	144,932	11,289	0	0
2024	592,792	35,593	850,398	0	0	94,932	5,227	0	0	350,000	22,225	0	0	0	0	147,860	8,141	0	0
2025	597,697	15,533	252,701	0	0	96,850	3,165	0	0	350,000	7,438	0	0	0	0	150,847	4,930	0	0
2026	252,701	2,716	0	0	0	98,806	1,062	0	0	0	0	0	0	0	0	153,895	1,654	0	0
total	34,128,386	7,135,956		8,760,000	1,254,372	3,213,289	649,904	3,535,000	432,092	7,945,000	2,715,030	3,010,000	491,704	1,000,000	214,550	2,725,097	613,501	3,940,000	764,803

Interest expense as % of total debt service, FY06: **15.97%**
Interest expense as % of total debt service, FY07: **20.01%**
Interest expense as % of total debt service to final maturity: **17.29%**