

Debt

INTRODUCTION

Debt financing has long been one of the main methods of financing capital projects in the Town of Lexington. The use of debt allows the Town to afford large-scale capital projects today and be able to plan a systematic and structured method of paying for them.

The information contained in this section is intended to accomplish the following goals:

- Describe the laws governing the issuance of debt;
- Describe the types of debt Lexington issues
- Acknowledge the interrelationship between Capital Investment and Debt Policy;
- Recognize the importance of multi-year planning for debt management;
- Explain the current debt situation of the town.

LAWS GOVERNING THE USE OF DEBT

The Town of Lexington is governed by several ways in how it can use its debt privileges: the limit of debt and bond authorization

Bond Authorization Process

The Town of Lexington is authorized to issue debt pursuant to Massachusetts General Law, Chapter 44, Sections 7 and 8. General Obligation Bonds are secured by a pledge of revenues through property taxes and are authorized at Town Meeting by a two-thirds vote. Bond Anticipation Notes (BAN's) are utilized prior to the permanent issuance of bonds and are shown in this budget as Temporary Borrowing (Element 2230). Historically, the Town does not put in a call provision for bond refunding when selling bonds, as the Town is an Aaa rated community and as such enjoys competitive interest rates.

Debt Limits

Chapter 44, Section 10 of Massachusetts General Law limits the authorized Indebtedness to 5% of the Town's equalized valuation. The most recent State-determined Equalized Valuation is \$4,841,620,900 as of December 2, 2002. While this provides a limit to debt issuance for the Town, it is not realistic that the Town will come near this limit in the foreseeable future. Outstanding debt currently

absorbs 39.1% of the allowable \$304,178,680 in debt issuance.

RELATIONSHIP BETWEEN CAPITAL INVESTMENT AND DEBT POLICY

Large capital projects, generally costing over \$1 million and having useful lives of ten years or more, are typically funded with debt to spread the cost out over many years. In order to prevent debt service costs from absorbing all the capital investment resources, Lexington's capital policy anticipates excluding large capital project debt service from the limits of Proposition 2-1/2. Voter-approved debt exclusions provide for repayment of debt on specific projects outside of the tax levy limit, thus freeing up tax levy funding for smaller capital projects. These smaller projects can typically be funded with cash because the cost can be absorbed in one year. Cash capital projects may include replacement of or reinvestment in existing assets, such as replacing a fire engine, renewing a playground, or rehabilitating a building. Finally, the Town's current capital policy seeks to maintain the proper balance between the operating and capital budgets. An appropriate capital investment strategy will take into consideration the need for sufficient ongoing maintenance funding in the operating budget to keep assets in serviceable condition over their expected useful lives.

TYPES OF DEBT

Lexington has several types of debt. Debt comes in two formats: Exempt debt (debt which is not within the tax-levy) and non-exempt, or within-levy debt. The difference is that exempt debt is paid for outside of the tax levy limit, or with taxes raised in addition to the property tax levy limit as identified by proposition 2 1/2. Projects which are exempt require a public vote. Within-levy debt must be raised and paid for within the tax levy.

FY 2004 Debt Service

Each year the Town of Lexington sets aside money for servicing (paying down) the debt. A breakdown of the debt service is provided on the next page. The total debt service for FY 2004 is \$3,800,957.

Figure 1: Fiscal Year 2004 Appropriated Budget Debt Service

Program	Item	Principal	Interest	Total
Education	Schools	\$ 2,245,000	\$ 203,338	\$ 2,448,338
Public Safety	Central Dispatch	\$ 160,000	\$ 16,000	\$ 176,000
Community Services	Building Envelope	\$ 200,000	\$ 27,950	\$ 227,950
	DPW Equipment	\$ 53,000	\$ 3,718	\$ 56,718
	Street Resurfacing	\$ 50,000	\$ 1,125	\$ 51,125
Culture & Recreation	Cary Library	\$ 480,000	\$ 289,464	\$ 769,464
General Government	Augusta Property	\$ 15,000	\$ 2,862	\$ 17,862
	Fiber Optics	\$ 50,000	\$ 3,500	\$ 53,500
Grand Total		\$ 3,253,000	\$ 547,957	\$ 3,800,957

Debt Process

Nearly all of the debt Lexington issues exists in one of three forms: authorized, temporary and permanently issued. All debt which the Town of Lexington has is authorized – that is it has been approved by a vote of 2/3rds of Town Meeting. If the amount of debt is large enough, then the proposed debt goes to the voters for a debt exclusion vote.

Debt is then either temporarily or permanently issued. Temporary borrowing is utilized both for smaller-scale projects and large-scale projects when the Town attempts to secure a better interest rate, state reimbursement or other fiscal advantage. In recent years, cash capital projects, including minor building renovations, equipment purchases and other facilities maintenance have been financed through short-term (three to five year) borrowing. The Town is trying to reduce its

reliance on short-term debt financing of maintenance projects. A more in depth discussion of this issue is provided for in the Capital Investment section of the budget.

The Town of Lexington has recently issued both temporary and permanent debt. Effective of February 1, 2003, \$51,448,000 of permanent debt was issued for a duration of 20 years. This is shown in Figure 2. Also effective February 1, 2003, \$38,135,000 of Bond Anticipation Notes were issued for a two-year duration. This is shown as “Lot B” in Figure 3. Lot B has been issued for two-years on the anticipation that promised Commonwealth of Massachusetts school building assistance monies will become available to assist in the repayment of the debt. Once that money becomes available, this debt will also be permanently issued. Finally, effective February 14, 2003, \$2,476,000 of BAN’s was issued for a one-year duration. This shown as “Lot A” in Figure 3.

Figure 2: Permanently Issued Debt as of February 1, 2003

Due: February 1, 2004-February 1, 2023

Program	Item	Authorized*	Amount	Category
Education	Secondary School Projects	11/9/98 12/7/98	\$20,000,000	Exempt
Education	Elementary Reconstruction Projects	3/25/02 5/13/96	\$14,000,000	Exempt
Culture & Recreation	Cary Library	10/22/97 5/16/01	\$ 7,150,000	In-Levy
Culture & Recreation	Lincoln Park Fields	4/1/02 3/29/00	\$ 3,400,000	Exempt
Community Services	Water Infrastructure	3/28/01 4/2/01 5/6/02	\$ 1,680,000	Enterprise

Figure 2: Permanently Issued Debt as of February 1, 2003 (Con't)

Due: February 1, 2004-February 1, 2023

Program	Item	Authorized*	Amount	Category
		4/3/00		
Education	School Remodeling	4/4/01	\$ 1,150,000	In-Levy
		3/25/02		
Community Services	Street Improvements	3/25/02	\$ 1,000,000	Exempt
Community Services	Sewer Infrastructure	4/9/97	\$ 830,000	Enterprise
		4/15/98		
Education	School Technology	4/3/00	\$ 800,000	In-Levy
Community Services	Building Remodeling	3/29/00	\$ 450,000	In-Levy
Education	School Technology	4/27/98	\$ 250,000	In-Levy
Education	Portable Classrooms	3/23/98	\$ 200,000	In-Levy
		3/29/00		
Community Services	DPW Equipment	4/2/01	\$ 158,000	In-Levy
Community Services	Fiber Optics	3/29/00	\$ 150,000	In-Levy
Community Services	Street Improvements	4/2/01	\$ 50,000	In-Levy
Grand Total			\$51,268,000	

*Note: Authorized means that a vote was taken on the date shown either by Town Meeting or the voters which authorized the future issuance of the debt.

Figure 3: Bond Anticipation Notes (Temporary Borrowing)

Program	Item	Authorized	Amount	Category
Lot A Issued: February 14, 2003 Due: February 12, 2004				
Education	School Technology	04/04/01	\$800,000	In-Levy
Community Services	Building Envelope	05/06/02	\$685,000	In-Levy
Community Services	Building Envelope	02/15/02	\$566,000	In-Levy
General Government	Financial Software	02/15/02	\$425,000	In-Levy
Total			\$2,476,000	
Lot B Issued: February 1, 2003 Due: February 1, 2005				
Education	Secondary School Projects	11/9/98	\$35,035,000	Exempt
		12/7/98		
		4/10/00		
Education	School Athletic Fields	4/12/99	\$1,700,000	In-Levy
Education	Acoustic Modifications	3/25/02	\$1,100,000	In-Levy
Education	School Technology	4/27/98	\$300,000	In-Levy
Total			\$38,135,000	
Grand Total			\$40,611,000	

On the following pages, the debt schedule for the Town of Lexington appears. It is arranged showing the individual projects, principal and interest amounts for the next five fiscal years individually and a

summary of all years after FY 2008 where debt payments remain. The intent is to show the continual amount of debt which Lexington has already committed itself to.

Debt Service Schedule - FY 2004-2023

Within Levy (Non-Exempt) Debt

Issued Date	Original Issued Amt	Item	FY 2004		FY 2005		FY 2006		FY 2007		FY 2008		FY 2009-2023		Total Debt - FY 2004-2023		
			Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total	Total
Education																	
	530,000	schools 23/98	107,100	-	-	-	-	-	-	-	-	-	-	-	105,000	2,100	107,100
	1,300,000	schools 1/98 - partial	265,200	-	-	-	-	-	-	-	-	-	-	-	260,000	5,200	265,200
	675,000	schools 25/98 - partial	137,700	-	-	-	-	-	-	-	-	-	-	-	135,000	2,700	137,700
	700,000	schools 23/97 - partial	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
	350,000	schools 17/95	22,515	21,695	20,855	10,215	10,215	10,215	10,215	10,215	10,215	10,215	10,215	10,215	70,000	5,280	75,280
	2,210,000	schools 17/95	22,963	17,247	16,617	15,975	15,975	15,975	15,975	15,975	15,327	15,327	15,327	15,327	80,000	8,129	88,129
	1,155,000	schools 21/96	212,027	204,442	196,672	183,870	183,870	183,870	183,870	183,870	10,218	10,218	10,218	10,218	735,000	62,011	797,011
	2,145,000	schools 22/97	11,908	11,498	11,078	10,650	10,650	10,650	10,650	10,650	10,218	10,218	10,218	10,218	50,000	5,350	55,350
	450,000	schools 19/94	236,500	225,750	225,750	225,750	225,750	225,750	225,750	225,750	225,750	225,750	225,750	225,750	430,000	32,250	462,250
	500,000	schools 19/93	45,968	45,968	45,968	45,968	45,968	45,968	45,968	45,968	45,968	45,968	45,968	45,968	45,000	968	45,968
Feb-00	600,000	schools 1/99	109,600	104,850	104,850	104,850	104,850	104,850	104,850	104,850	104,850	104,850	104,850	104,850	200,000	14,450	214,450
Feb-00	600,000	schools 32/99 - tech	131,520	125,820	125,820	125,820	125,820	125,820	125,820	125,820	125,820	125,820	125,820	125,820	240,000	17,340	257,340
Feb-00	1,505,000	schools 33/99	202,350	195,225	195,225	195,225	195,225	195,225	195,225	195,225	172,950	172,950	172,950	172,950	1,050,000	212,025	1,262,025
Feb-03	250,000	schools 25/98 - partial	255,625	282,575	282,575	282,575	282,575	282,575	282,575	282,575	282,575	282,575	282,575	282,575	250,000	5,625	255,625
Feb-03	800,000	schools 13/00	288,650	218,333	213,990	209,165	209,165	209,165	209,165	209,165	204,340	204,340	204,340	204,340	800,000	37,725	837,725
Feb-03	1,150,000	schools 14/00	222,675	218,333	213,990	209,165	209,165	209,165	209,165	209,165	190,550	190,550	190,550	190,550	1,150,000	109,053	1,259,053
Feb-03	100,000	schools 13/01	19,575	19,193	18,810	18,385	18,385	18,385	18,385	18,385	17,960	17,960	17,960	17,960	100,000	9,373	109,373
Feb-03	80,000	schools 11/02	81,800	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	80,000	1,800	81,800
Feb-03	200,000	schools 1998sm remaining portable	74,663	68,088	68,088	68,088	68,088	68,088	68,088	68,088	68,088	68,088	68,088	68,088	200,000	9,375	209,375
	14,700,000	Education Subtotal	2,446,338	1,494,714	999,097	628,710	420,795	529,100	578,650	578,650	578,650	578,650	578,650	5,980,000	540,753	6,520,753	
Municipal Services																	
	500,000	building env 26/99	67,450	65,075	62,650	60,150	57,650	57,650	57,650	57,650	57,650	57,650	57,650	57,650	350,000	70,675	420,675
Feb-03	450,000	building env 8a/00	160,500	157,125	153,750	153,750	153,750	153,750	153,750	153,750	153,750	153,750	153,750	153,750	450,000	21,375	471,375
Feb-03	50,000	DPW equipment 8b/00	21,163	15,713	15,375	15,375	15,375	15,375	15,375	15,375	15,375	15,375	15,375	15,375	50,000	2,250	52,250
Feb-03	108,000	DPW equipment 8b/01	35,555	26,813	26,250	25,625	25,625	25,625	25,625	25,625	25,625	25,625	25,625	25,625	108,000	6,243	114,243
Feb-03	50,000	street imp 8g/01	51,125	51,125	51,125	51,125	51,125	51,125	51,125	51,125	51,125	51,125	51,125	51,125	50,000	1,125	51,125
	1,158,000	Public Works Subtotal	335,793	264,725	258,025	85,775	57,650	107,700	107,700	107,700	107,700	107,700	107,700	1,008,000	101,668	1,109,668	
	1,600,000	dispatch 15/94	176,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	320,000	24,000	344,000
	1,600,000	Public Safety Subtotal	176,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	168,000	320,000	24,000	344,000	
	500,000	library 14/96 - partial	121,410	117,135	112,770	108,270	103,770	103,770	103,770	103,770	103,770	103,770	103,770	103,770	630,000	127,215	757,215
Feb-00	900,000	library 14/96 - partial	648,054	634,279	625,617	615,992	606,367	606,367	606,367	606,367	606,367	606,367	606,367	606,367	7,150,000	2,832,231	9,982,231
Feb-03	7,150,000	library 14/96 remaining & 3/97 carry h	769,464	751,414	738,387	724,262	710,137	704,578	704,578	704,578	704,578	704,578	704,578	704,578	7,780,000	2,959,446	10,739,446
	8,550,000	Culture & Recreation Subtotal	769,464	751,414	738,387	724,262	710,137	704,578	704,578	704,578	704,578	704,578	704,578	7,780,000	2,959,446	10,739,446	
	150,000	land acq 24/96	17,862	17,247	16,617	15,975	15,327	15,327	15,327	15,327	15,327	15,327	15,327	15,327	75,000	8,028	83,028
Feb-03	150,000	Fiber Optic 8e/00	53,500	52,375	51,250	50,125	49,000	47,875	46,750	45,625	44,500	43,375	42,250	41,125	150,000	7,125	157,125
	300,000	General Government Subtotal	71,362	69,622	67,867	66,127	64,387	62,647	60,907	59,167	57,427	55,687	53,947	52,207	225,000	15,153	240,153
	11,608,000	Municipal Services Subtotal	1,352,618	1,253,761	1,064,279	826,012	783,114	715,348	715,348	715,348	715,348	715,348	715,348	715,348	9,333,000	3,100,267	12,433,267
	26,308,000	Within Levy Subtotal	3,800,956	2,748,475	2,063,375	1,454,722	1,203,908	7,682,583	7,682,583	7,682,583	7,682,583	7,682,583	7,682,583	15,313,000	3,641,019	18,954,019	

Debt Service Schedule - FY 2004-2023

Exempt Debt

Issued Date	Original Issued Amt	Item	FY 2004 Total	FY 2005 Total	FY 2006 Total	FY 2007 Total	FY 2008 Total	FY 2009-2023 Total	Principal	Interest	Total
Education											
Feb-02	1,700,000	School 23/97 Arch Services	382,500	371,450	361,250	351,050	-	-	1,360,000	106,250	1,466,250
Feb-03	20,000,000	School 2/98stm Secondary Proj	1,412,813	1,422,625	2,056,875	1,823,125	1,694,375	20,227,750	20,000,000	8,637,563	28,637,563
Feb-03	14,000,000	School 5/02stm harrington	971,225	2,485,538	1,125,538	1,073,413	1,057,163	12,782,702	14,000,000	5,495,577	19,495,577
	35,700,000	Education Subtotal	2,766,538	4,279,613	3,543,663	3,247,588	2,751,538	33,010,452	35,360,000	14,239,390	49,599,390
Municipal Services											
Feb-03	1,000,000	Streets 1/02stm	225,000	220,500	216,000	211,000	206,000	-	1,000,000	78,500	1,078,500
	1,000,000	Public Works Subtotal	225,000	220,500	216,000	211,000	206,000	-	1,000,000	78,500	1,078,500
Feb-03	3,400,000	Lincoln Park 3/02stm	365,200	334,575	329,513	323,888	318,263	2,746,238	3,400,000	1,017,675	4,417,675
	3,400,000	Culture & Recreation Subtotal	365,200	334,575	329,513	323,888	318,263	2,746,238	3,400,000	1,017,675	4,417,675
	4,400,000	Municipal Services Subtotal	590,200	555,075	545,513	534,888	524,263	2,746,238	4,400,000	1,096,175	5,496,175
	40,100,000	Exempt Debt Subtotal	3,356,738	4,834,688	4,089,175	3,782,475	3,275,800	35,756,690	39,760,000	15,335,565	55,095,565

Debt Service Schedule - FY 2004-2023

Enterprise Debt

Issued Date	Original Issued Amt	Item	FY 2004 Total	FY 2005 Total	FY 2006 Total	FY 2007 Total	FY 2008 Total	FY 2009-2023 Total	Principal	Interest	Total
Municipal Services											
May-01	410,680	water thru MWRA-12/97	15,396	15,396	15,396	15,396	15,396	46,187	123,166	-	123,166
Feb-03	153,957	water thru MWRA-8G/00&10/00	226,025	222,088	213,150	208,900	199,650	917,813	1,680,000	307,625	1,987,625
	2,244,637	Water Subtotal	241,421	237,483	228,546	224,296	215,046	964,000	1,803,166	307,625	2,110,791
Feb-03	242,790	sewers thru MWRA-10/98	48,558	36,668	35,408	34,125	81,740	-	48,558	-	48,558
	300,000	sewers 10/97	37,898	-	-	-	-	-	200,000	25,839	225,839
	600,000	sewers 20/91	56,183	-	-	-	-	-	55,000	1,183	56,183
	3,300,000	sewers 20/91	-	-	-	-	-	-	-	-	-
	98,100	sewers thru MWRA-10/98	19,620	-	-	-	-	-	19,620	-	19,620
	995,000	sewer 10/98 & 9/98	204,000	-	-	-	-	-	200,000	4,000	204,000
Feb-00	1,095,000	sewer 10/98 & 9/97	152,583	147,120	136,543	131,043	125,543	209,365	755,000	147,195	902,195
	3,163,303	MWPAT	-	-	-	-	-	-	-	-	-
Feb-03	830,000	sewers 10/98,9/97,9/98	718,675	132,925	171,951	165,168	207,283	209,365	830,000	21,600	851,600
	10,624,193	Sewer Subtotal	1,237,517	316,713	171,951	165,168	207,283	209,365	2,108,178	199,817	2,307,995
	12,868,830	Enterprise Subtotal	1,478,937	554,196	400,496	389,463	422,328	1,173,365	3,911,344	507,442	4,418,786
	79,276,830	Issued Debt Total - FY 2004-23	8,137,358	6,553,046	6,553,046	5,626,660	4,902,036	44,612,638	58,984,344	19,484,026	78,468,369

Outstanding Debt

As mentioned previously in this section, the Town of Lexington is limited to a maximum bonded indebtedness of 5% of the total equalized valuation. As shown in Figure 4, the total outstanding debt of \$119,079,369 is well below the debt limit for the

town. Of that \$119,079,369, \$78,468,369 has been permanently issued and \$40,611,000 has been temporarily issued. Figure 5 shows the percentage breakdown of all debt between within levy debt, exempt debt and enterprise debt.

