Financial Position and Long-Term Planning

June 2018

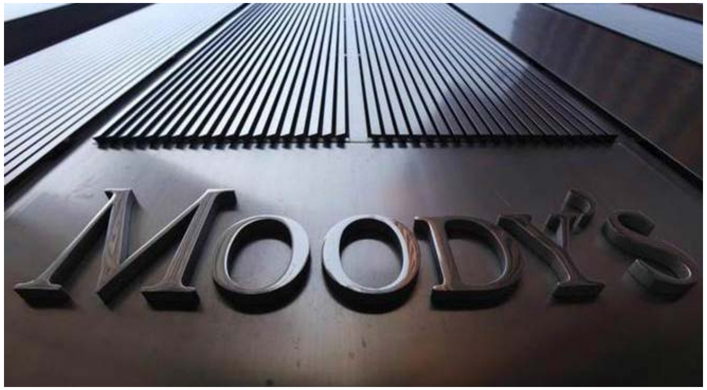
Purpose

- Provide background
- Share analysis of existing debt capacity
- Identify implications of taking on new debt
- Describe next steps

Data sources: Town Accountant, Ad Com Financial Model, South Hingham Study Group Report, 2018 Annual Town Meeting Warrant, 2017 CAFR, Town website

Background: Aaa bond rating from all 3 agencies

- **Only about 6% of Massachusetts communities receive these highest ratings**



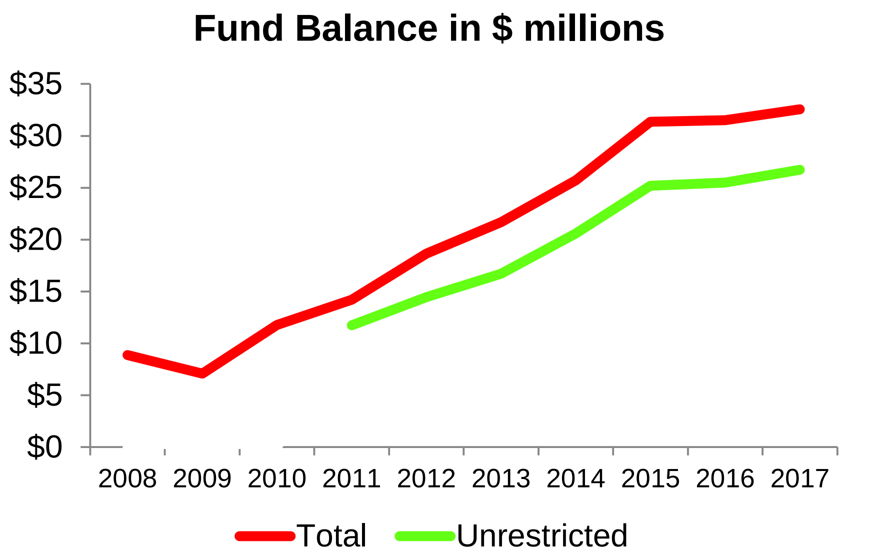
- ***"Strong management"***
- ***"Very strong debt and contingent liability profile"***
- ***"Stable financial position with healthy reserves"***
- ***"Hingham's financial position is expected to remain healthy given its history of structurally balanced operations, maintenance of ample reserve levels, and conservative budgeting practices"***
- ***"Manageable long-term liabilities for pension and OPEB"***

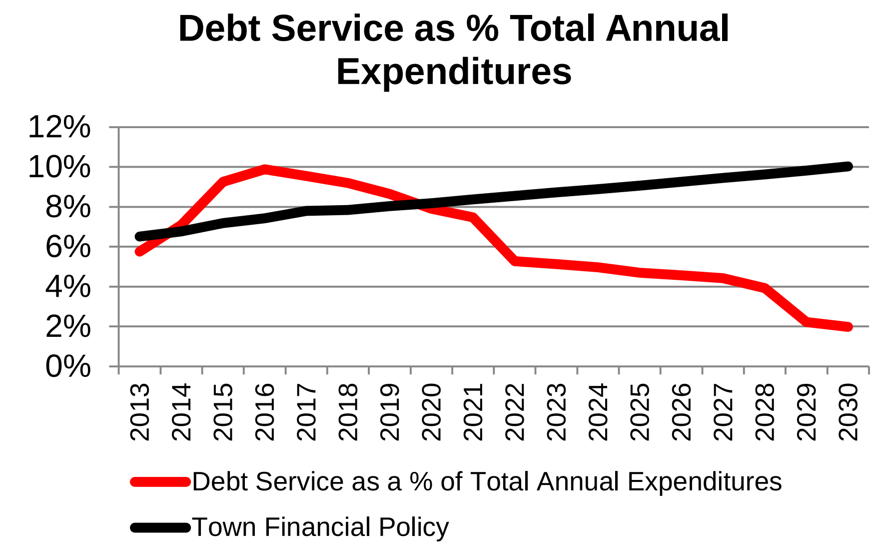
Background: Strong Internal Controls and Reporting

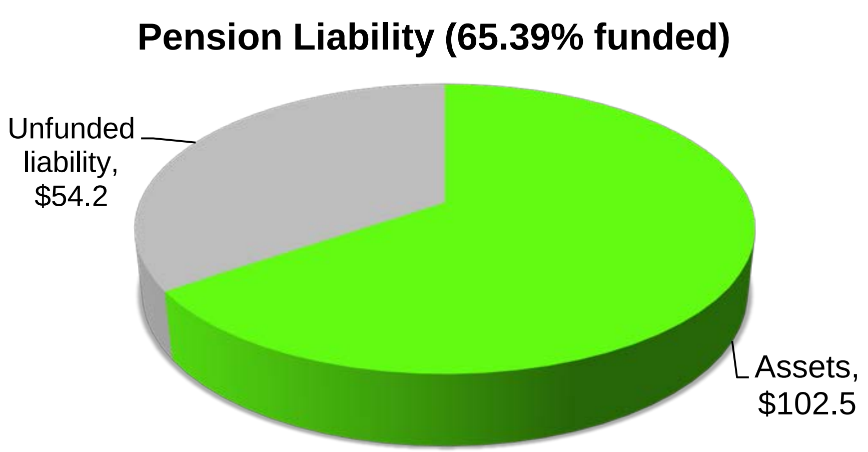
2017: 21st consecutive year Hingham has received this certificate

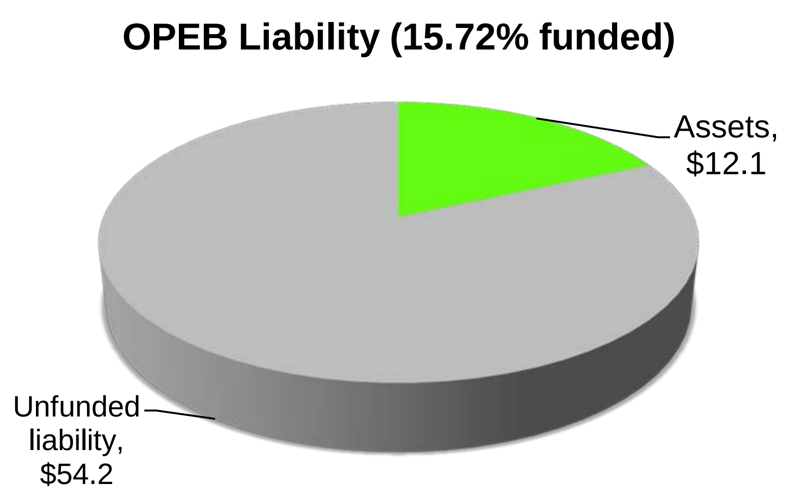
- **Financial statements for the year ended June 30, 2017 received an "unmodified opinion" from the independent auditors**
  - **Best opinion a government unit can receive**
  - **Indicates that financial statements were prepared in accordance with generally accepted accounting principles and that they are fairly presented in all material aspects**

Background: Financial Indicators





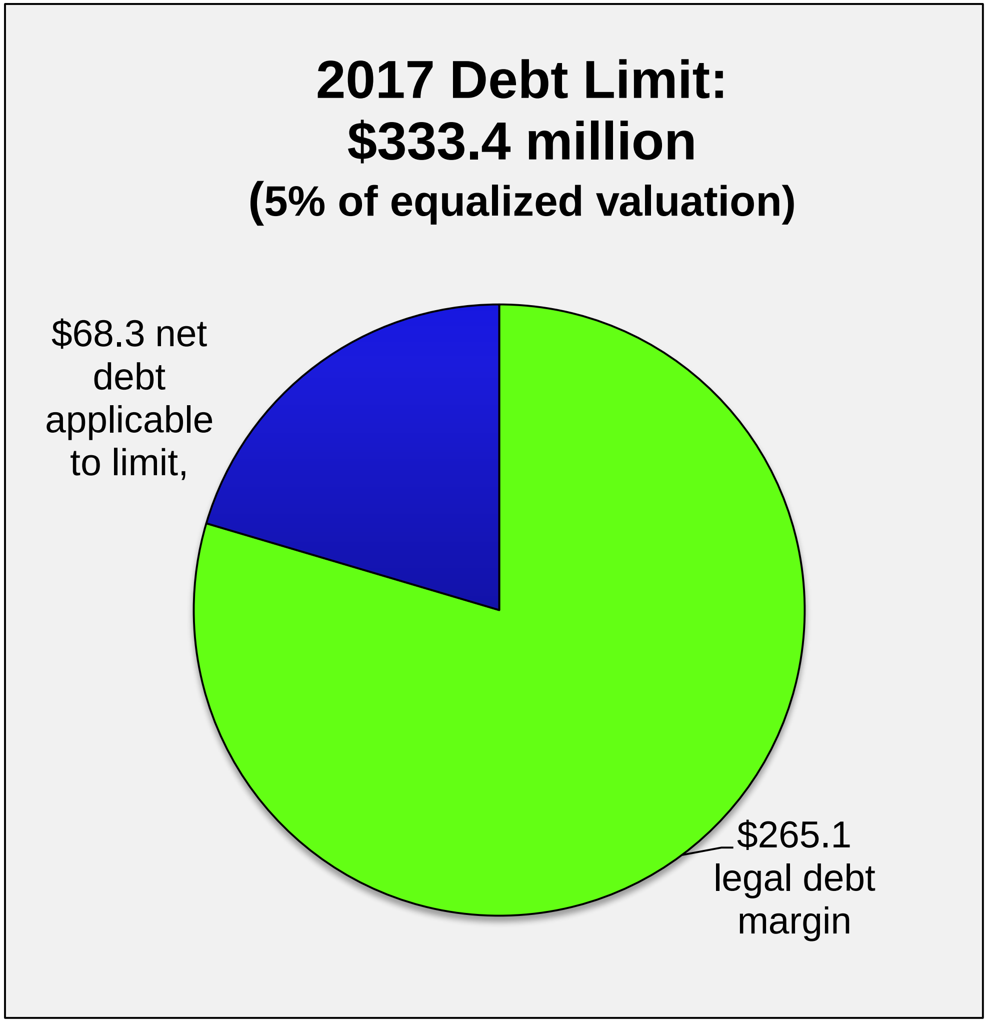




Source: 2017 CAFR, Town Accountant

Background: Town Legal Debt Margin

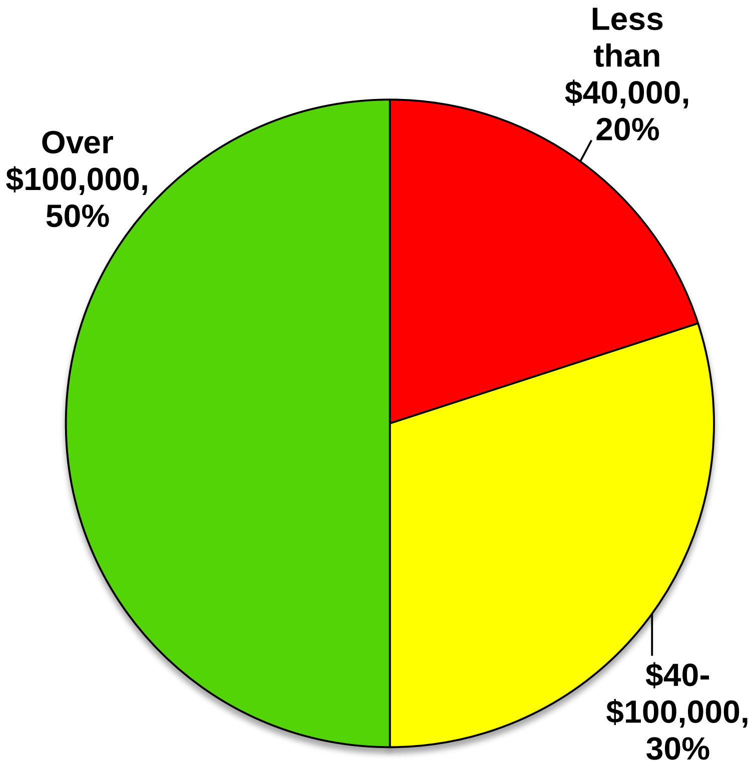
- **Mass General Law (Chapter 44 Section 10):**
  - A town shall not authorize indebtedness to an amount exceeding five percent (5%) of the town's equalized valuation as determined by the Commissioner of Revenue
    - Hingham's most recent equalized valuation = $6.7 billion



Source: 2017 CAFR

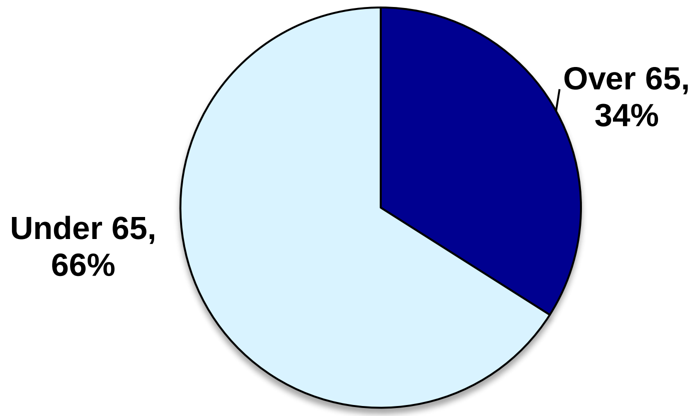
Background: Hingham Demographics

Annual Household Income

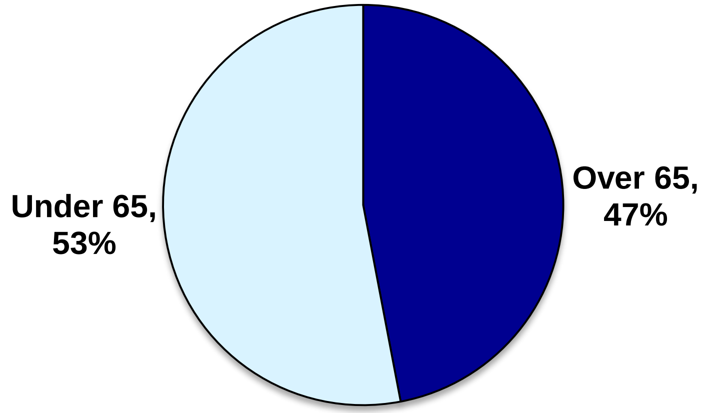


Households by Age

2010



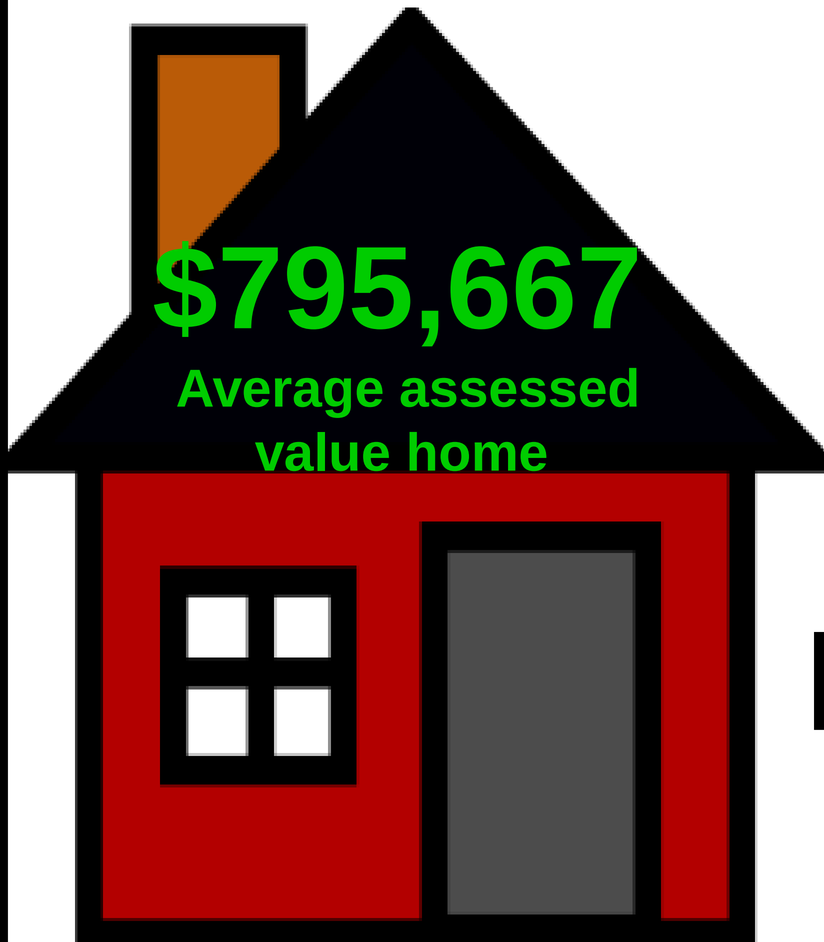
2020 Projected



Source: South Hingham Study Group Report

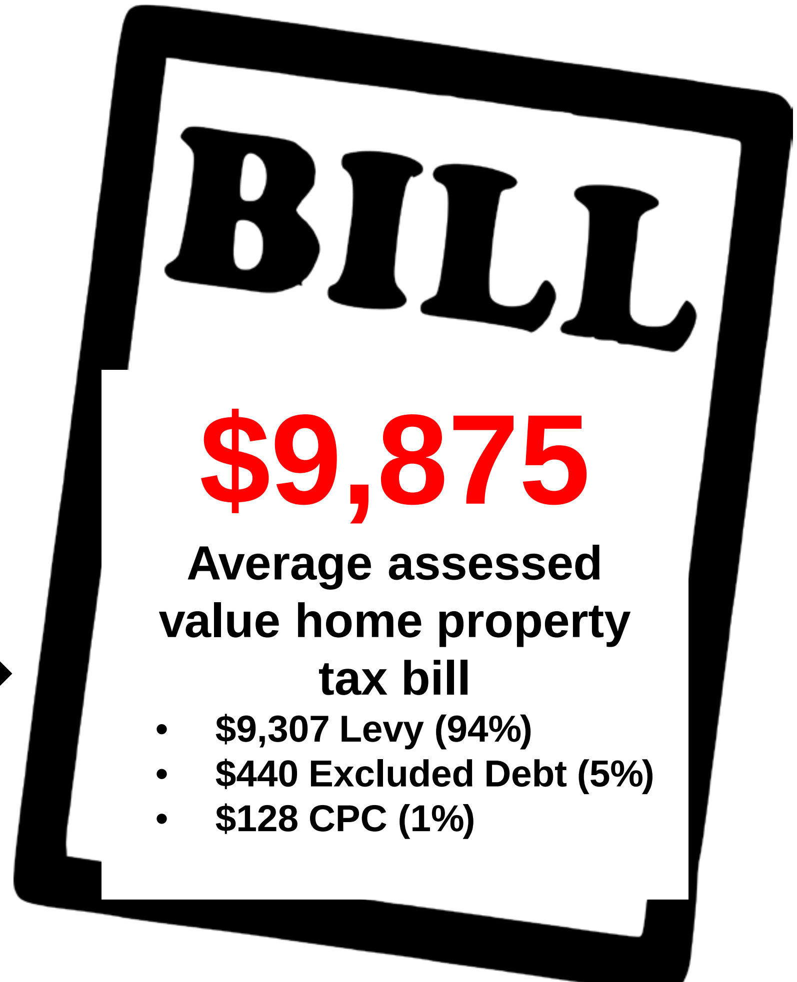
Background: FY18 average assessed value home and property taxes

Source: 2017 Ad Com financial Model



$795,667

Average assessed value home



$9,875

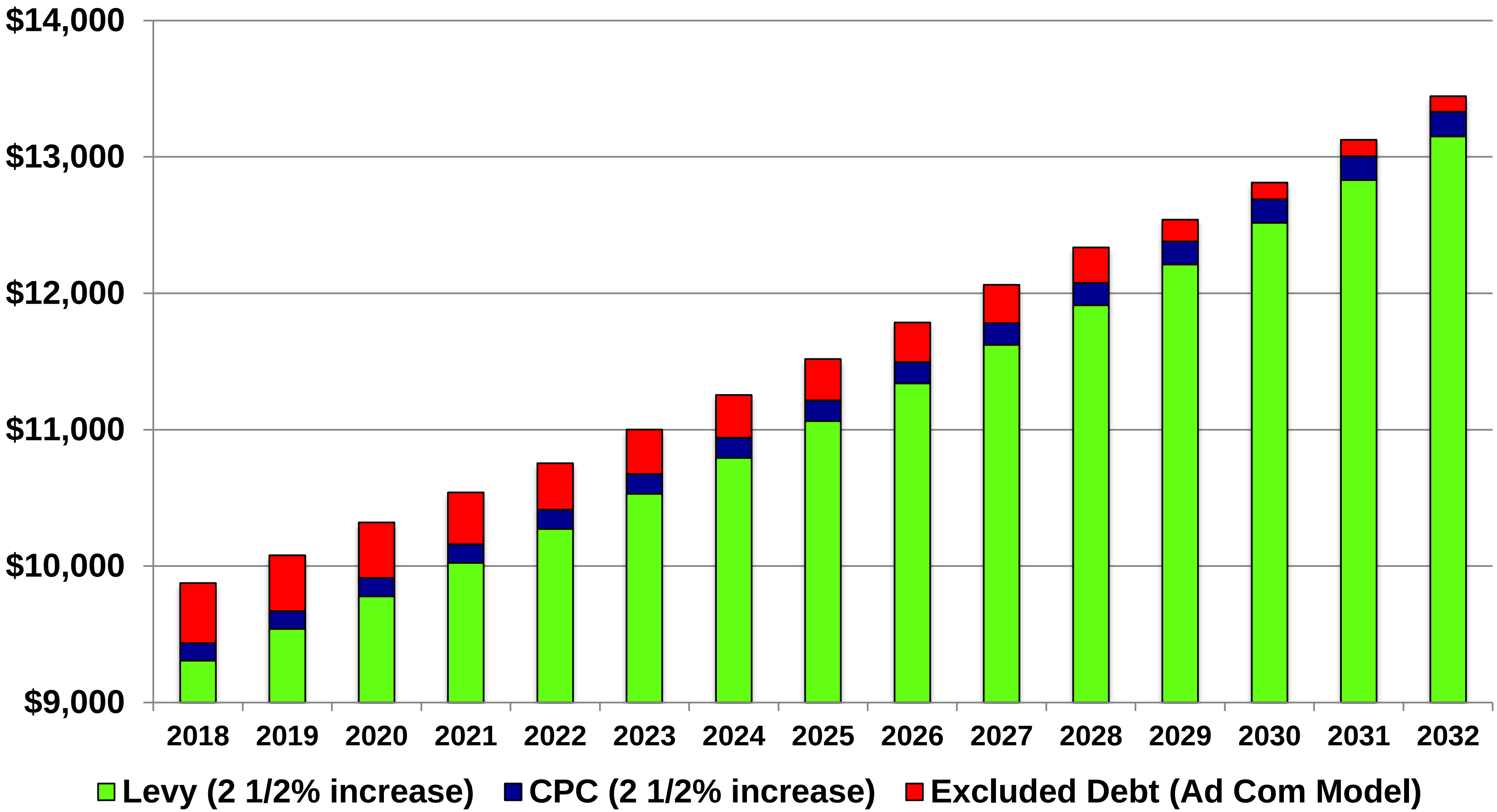
Average assessed value home property tax bill

- $9,307 Levy (94%)
- $440 Excluded Debt (5%)
- $128 CPC (1%)

Average assessed property tax bill close to limit of property tax deduction under new tax law

Background: Estimated average assessed value property tax bill*

Estimated average annual increase FY2019 – 2032 = $255



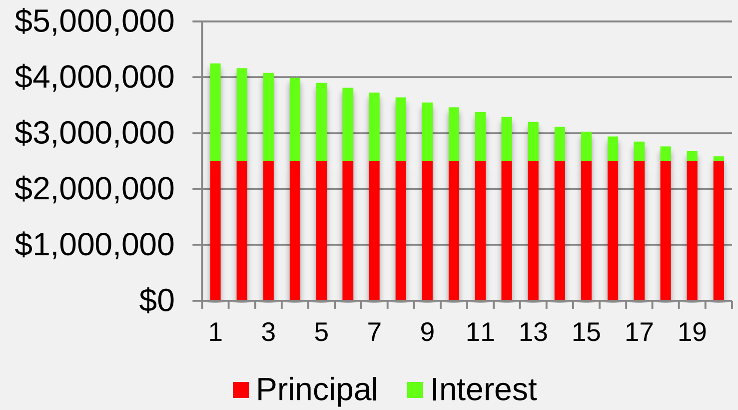
* Does not include application of stabilization funds, meals tax revenue, etc. to reduce tax rate

Background: Level principal borrowing

- Equal principal payments
- Payment declines over life of borrowing due to lower interest costs
- Result: lower interest costs over life of borrowing

Example: $50 million debt issuance; 20 years at 3.5%

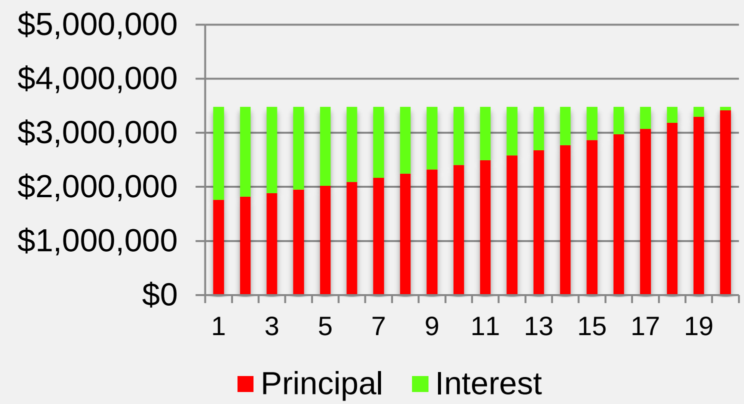
Level Principal



Principal	**$50,000,000**
Interest	**$18,375,000**

Total Cost	**$68,375,000**

Level Payment

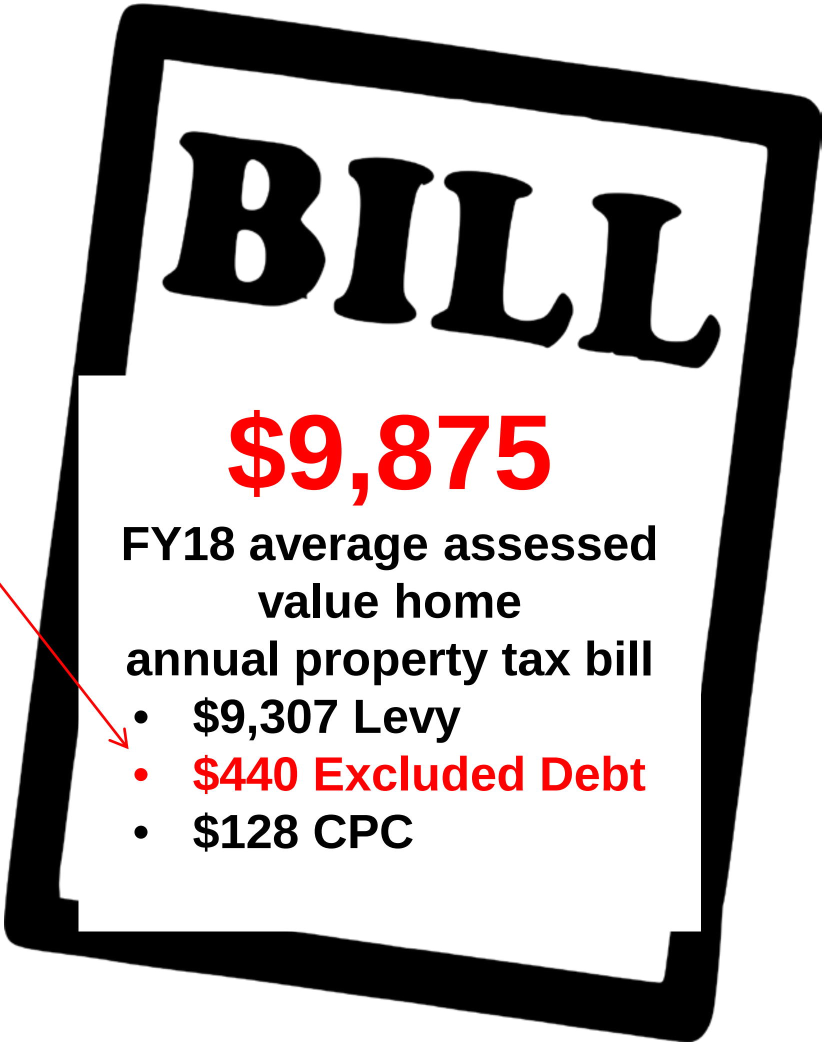


Principal	**$50,000,000**
Interest	**$19,595,166**

Total Cost	**$69,595,166**

What is excluded debt?

- **Excluded Debt**
  - Funds that are **outside** (“excluded from”) the Proposition 2 1⁄2 levy limit used to pay debt service costs
  - Is a *temporary increase* in the levy limit; additional property taxes are removed from the levy when the financing term ends
  - Requires 2/3 vote of Town Meeting and a majority ballot vote

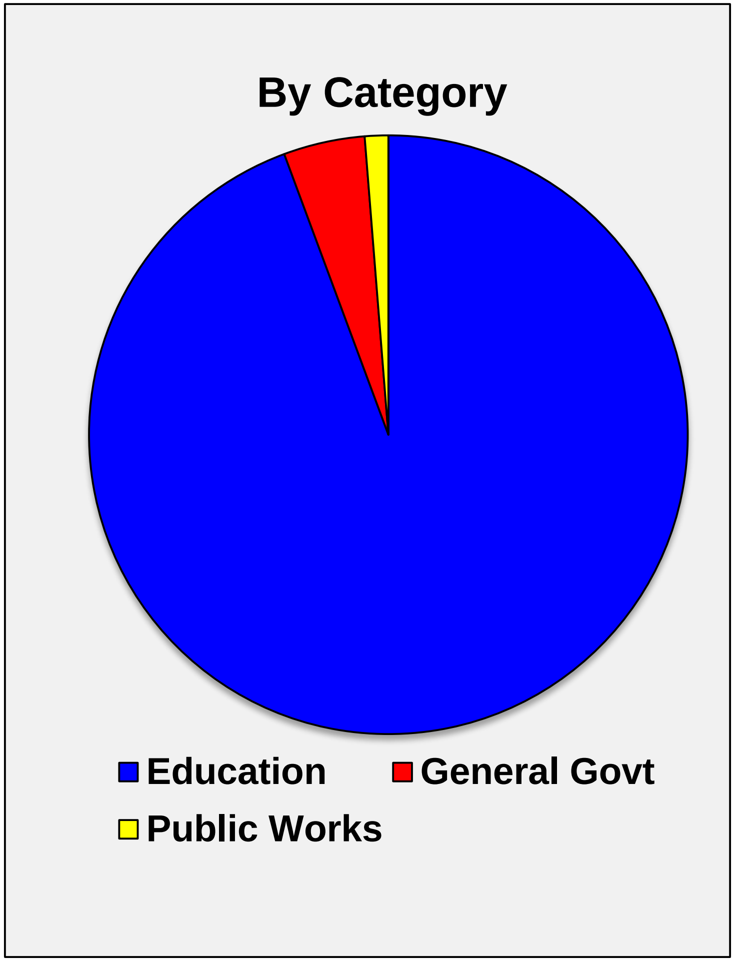


Source: 2017 Ad Com financial Model

Approved Excluded Debt projects that are currently being financed

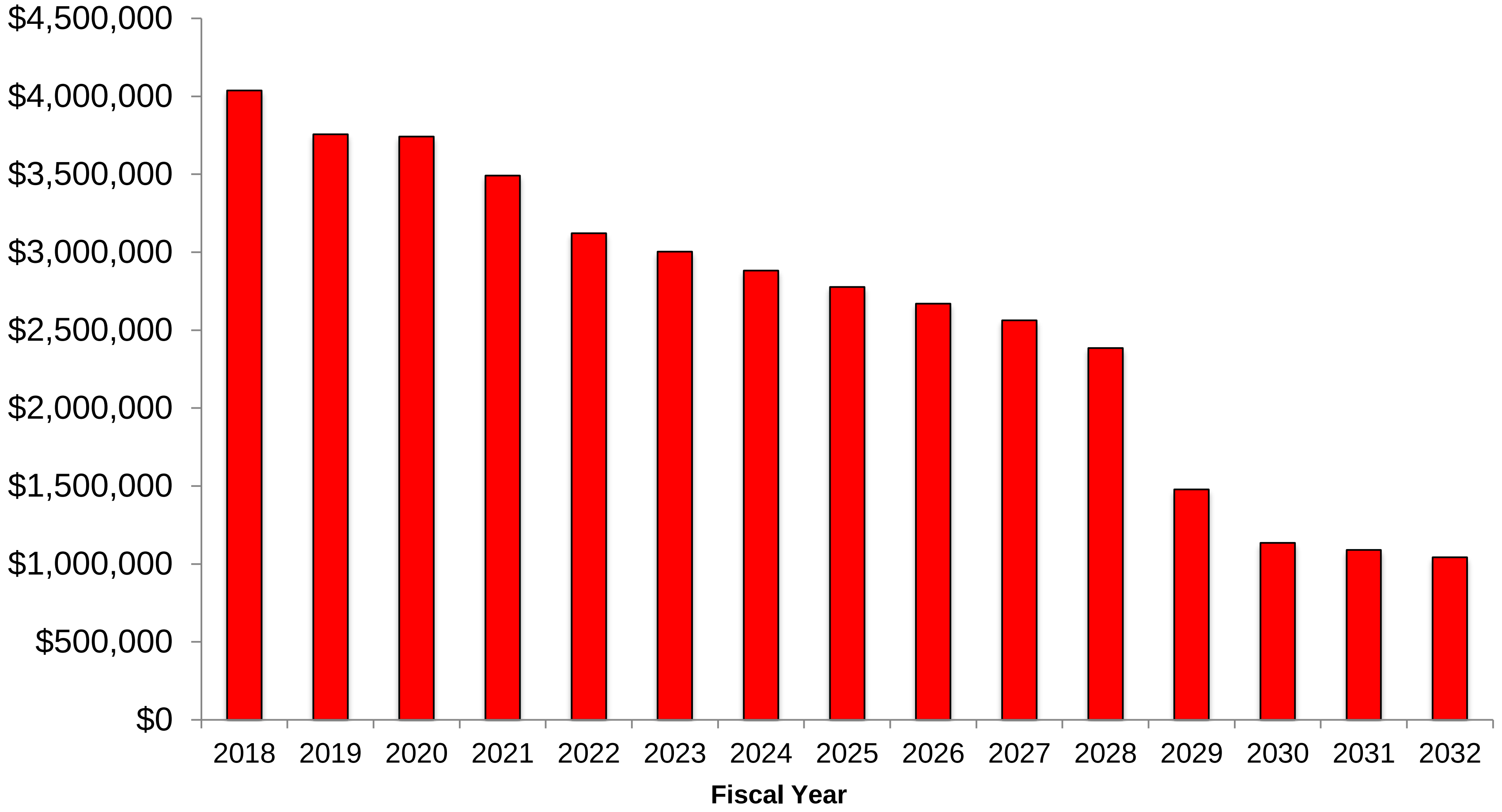
Project	FY18 Debt Service	FY Paid off
Original Middle School (net of SBA reimbursement)	$38,186	2019
Sewer Weir River District	$53,752	2019
Sewer Weir River District	$12,862	2020
Town Hall: General Govt.	$231,223	2021
HS & So. Elem. (net of SBA reimbursements)	$502,486	2021
High School Athletic Fields	$98,830	2027
New East Elementary School	$1,191,900	2028
PRS & Foster Elementary Improvements	$528,500	2029
2015 Middle School	$2,608,156	2032+

Total Excluded Debt Service	$5,265,895	
Less: Bond Premium Allocation	$(178,836)	
Meals tax reserves (Offset Middle School)	$(450,000)	
Meals tax revenue (Offset Middle School)	$(600,000)	
NET TOTAL EXCLUDED DEBT SERVICE	**$4,037,059**	



Source: 2017 Ad Com financial Model

Net total excluded Debt Service forecast

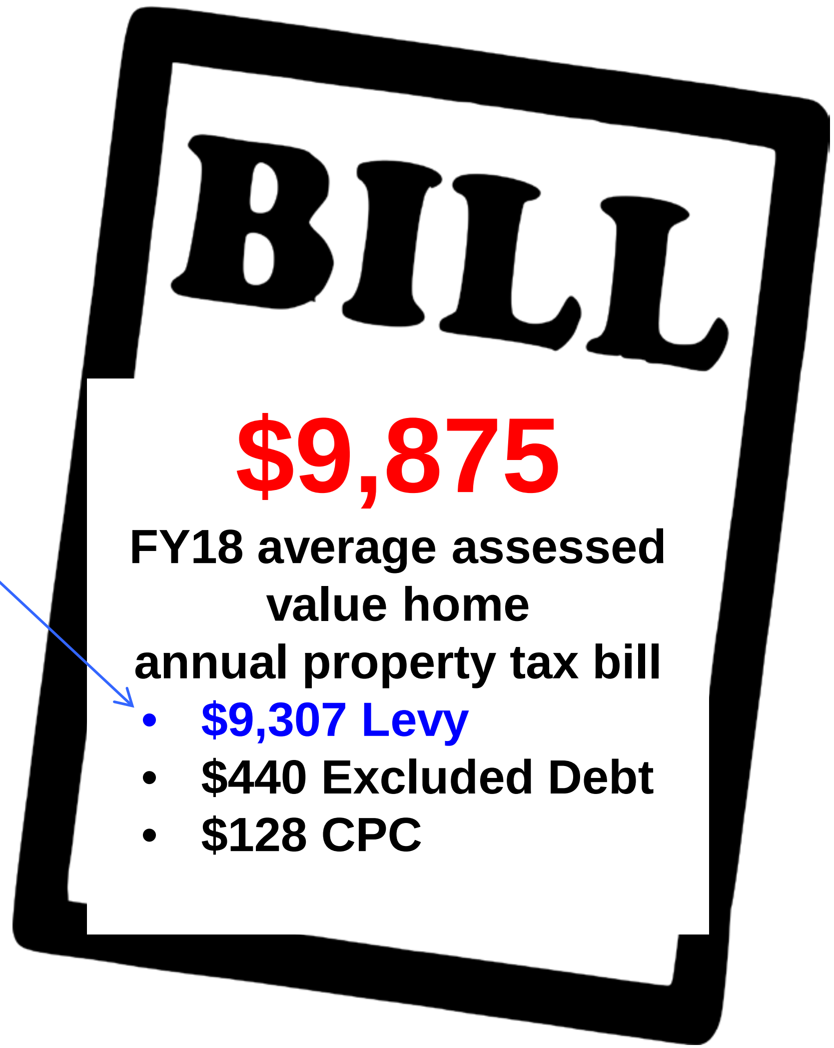


Assumes at least $600,000 in Meals Tax revenue applied each year through 2032

Source: 2017 Ad Com financial Model

What other debt does the Town carry?

- **Non-excluded debt**
  - Funds **within** the Proposition 2 ½ levy limit used to pay debt service costs…no tax increase
  - Projects approved by 2/3 vote of Town Meeting



Source: 2017 Ad Com financial Model

Sewer, Country Club, Lincoln School Apts. Non-Excluded Debt

- **No impact on Town operating or capital budget:**
  - **Town borrows money on behalf of entity (leverage Aaa bond rating)**
  - **Town receives revenue offset from each entity**
    - Sewer: revenue from ratepayers
    - Country Club: revenue from users
    - Lincoln School Apartments: rent from tenants

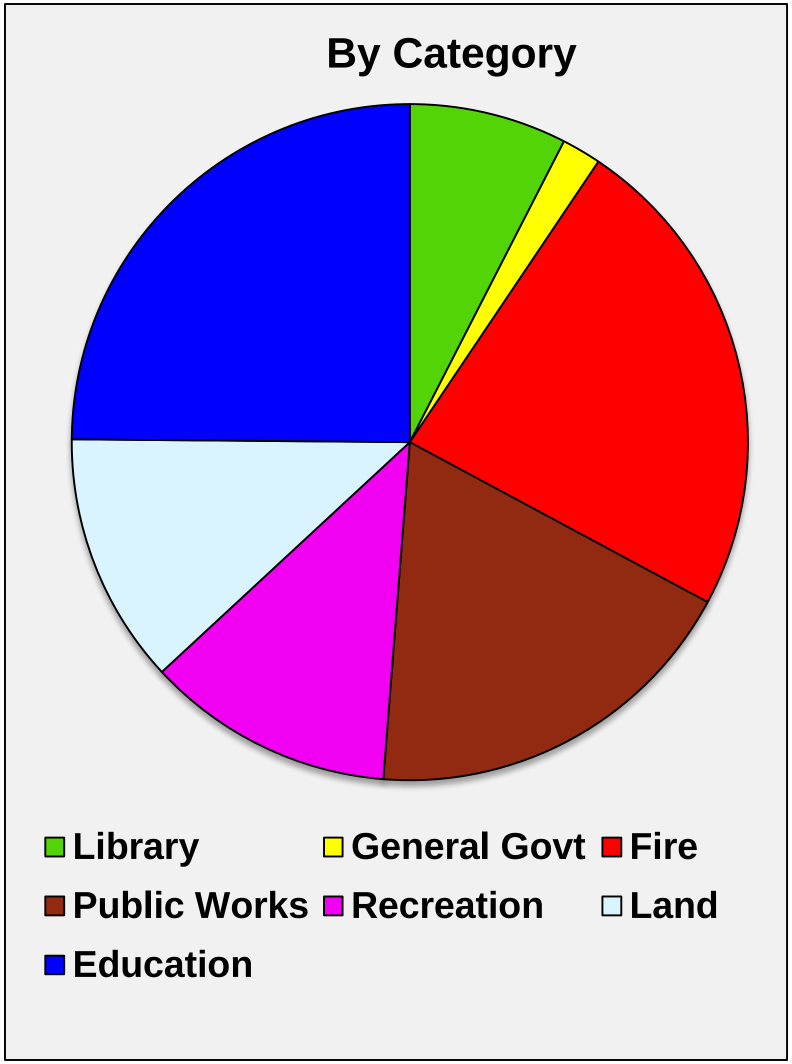
	FY18 Debt Service	Debt Expires
Sewer Weir River District	$103,284	2019
Septic System Repairs	$5,434	2019
Sewer Weir River District ($750k)	$24,713	2020
SSCC Irrigation System($1.7M)	$175,300	2020
SSCC Mowers	$52,642	2020
Weir River Phase II($2.3M)	$110,700	2027
Lincoln School Apartments	$519,950	2028
Sewer - Thaxter Street	$7,550	2029
Sewer - Central Street	$7,550	2029
Lincoln School Apartments	$16,176	2032
Sewer-Ship & Cottage	$48,885	2034+

Total Non-Excluded Debt	$1,072,184	

Approved Non-Excluded Debt projects that are currently being financed

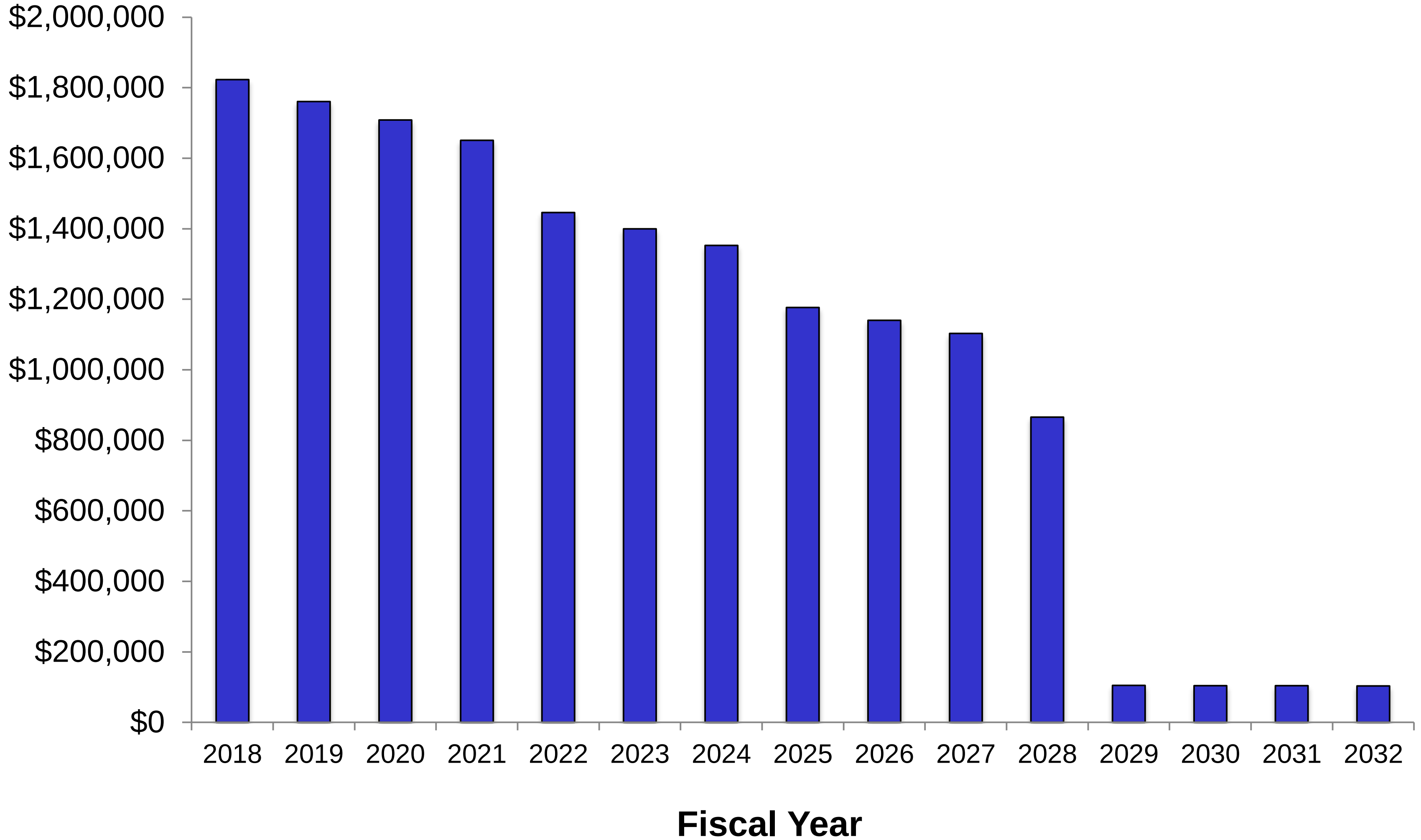
	FY18 Debt Service	Debt Expires
Library	$137,400	2021
Town Hall/General Govt.	$34,350	2021
Fire Trucks (2)	$178,666	2024
Central Fire Station Renovation	$248,400	2027
Wastewater Management Plan	$24,623	2027
DPW Facility & Athletic Fields	$527,100	2028
Hersey Land Acquisition	$110,250	2028
School Fields Project	$401,329	2028
School Fields Project-Turf Fields	$52,037	2028
Land: Industrial Park Area-Wastewater Treatment	$14,376	2028
Land: Recreation Park Drive	$94,700	2034+

Total	$1,823,231	



Source: 2017 Ad Com financial Model

Non-Excluded Debt Service forecast*



*** Excludes Lincoln School Apartments, Sewer, Country Club** **Source: 2017 Ad Com financial Model**

Town capital projects currently under consideration

Project	Preliminary Estimate
Foster School	TBD*
Library	$17,100,000 (net of grant)
North Fire Station	$6,000,000 - $8,000,000
South Fire Station	$6,000,000 - $8,000,000
Town Hall (Police, Senior Center, Recreation)	$8,500,000 - $10,500,000
Harbor Improvements	$10,000,000
South Shore Country Club pool	$10,000,000

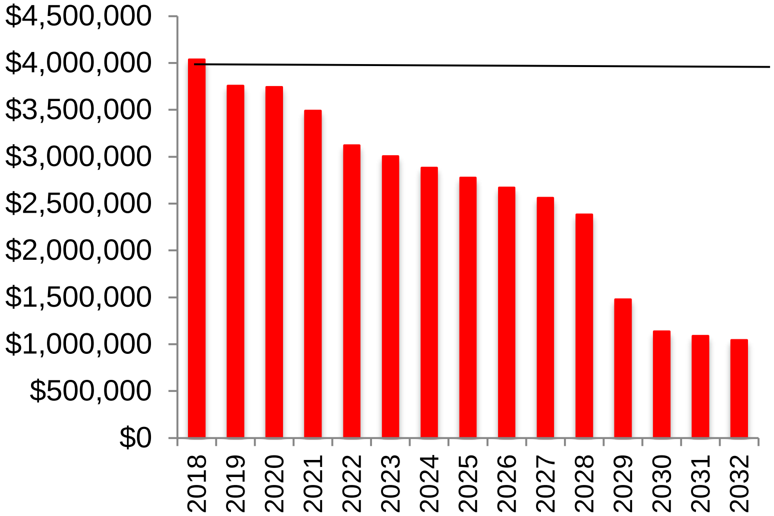
Total	$57,600,000 - $63,100,000 ex. Foster

Total Estimate: $75,000,000 - $100,000,000 total

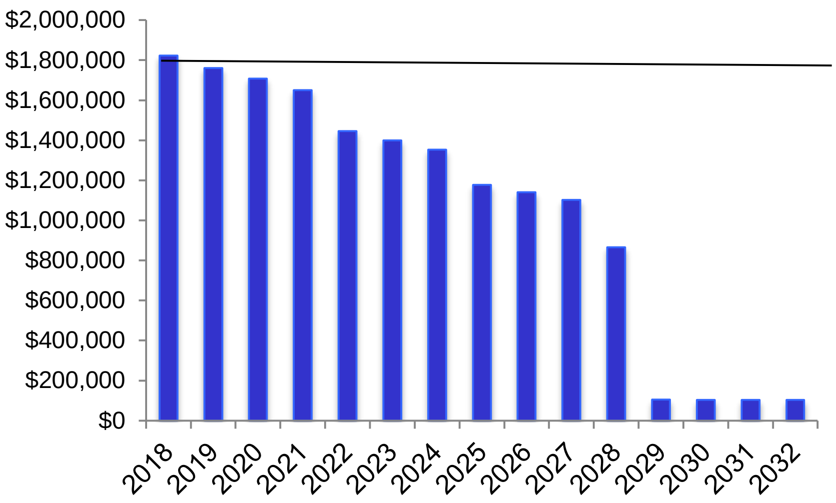
* East School (2009): $26.6 million, $16 million paid by Town;
Middle School (2014): $59 million; $38 million paid by Town

Concept for financing new capital projects

- **Excluded debt:**
  - Create capacity by "replacing" expired debt with new debt (requires 2/3 vote at Town Meeting and majority ballot vote)
  - ***Implication:*** Debt service portion of tax bill will not decline



- **Non-excluded debt:**
  - Create capacity by budgeting debt service to be flat (use of funds requires 2/3 vote at Town Meeting)
  - Accumulate and restrict unused capacity ("tax relief")
  - *Implication:* Funds not available for other operating budget uses



Source: 2017 Ad Com financial Model

Rule of Thumb

$100,000 reduction in debt service

3.5% interest rate, 20 year term

$1,200,000 debt equivalent

(amount of borrowing that is “taxpayer neutral”)

Source: 2017 Ad Com financial Model

How much non-excluded debt capacity could be accumulated and restricted?

Fiscal Year	Potential cumulative restricted non-excluded debt service
2021	-$226,021
2024	-$524,420
2027	-$774,045
2030	-$1,772,904

“Best case”; assumes we can save 100% of debt service reduction.

Source: 2017 Ad Com financial Model

How much borrowing capacity could be created?

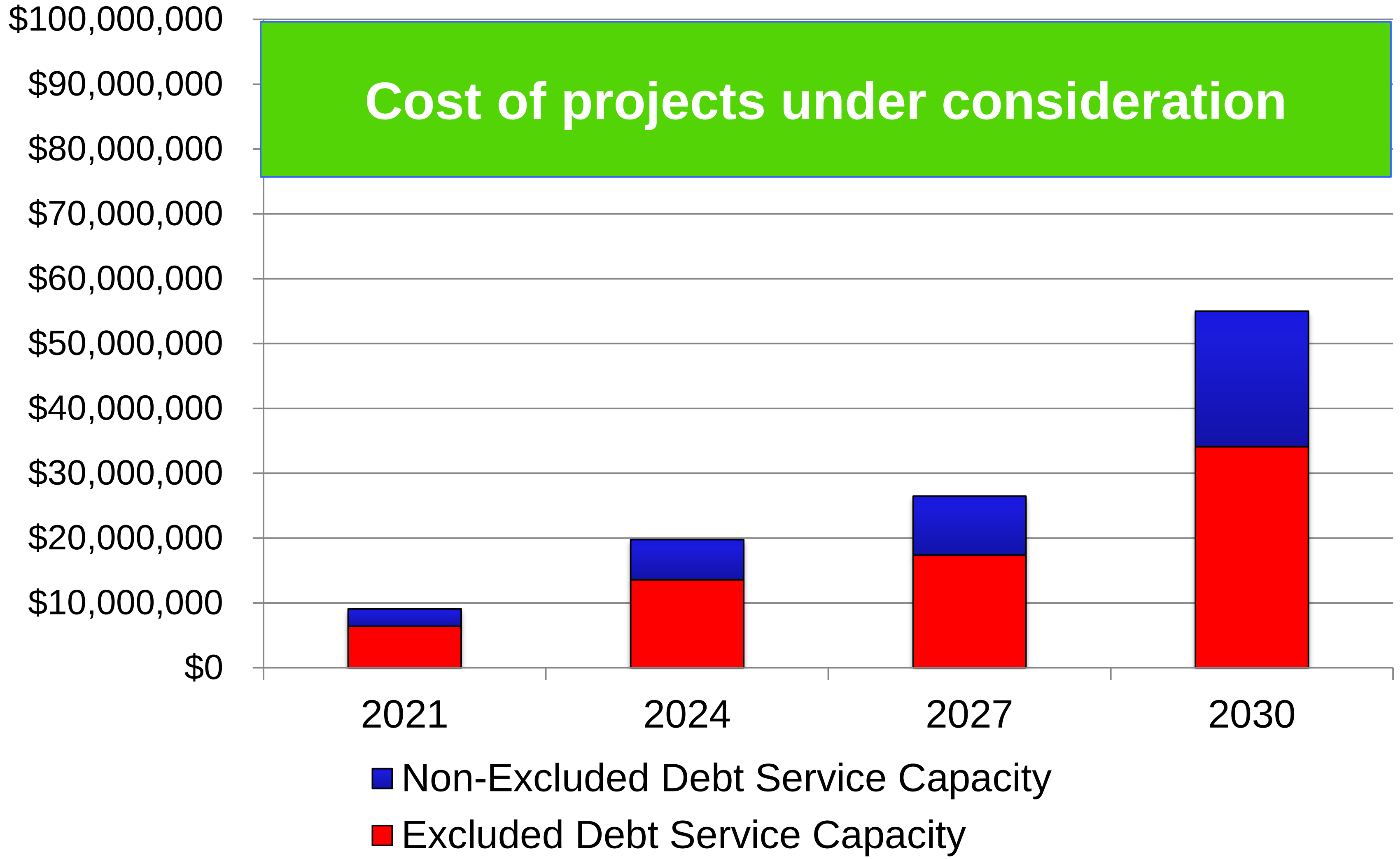
Debt Equivalent of Cumulative Existing Reduction in

Fiscal Year	Non-Excluded Debt Service (3.5%)	Excluded Debt Service (3.5%)	Total
2021	$2,659,068	$6,412,016	$9,071,084
2024	$6,169,643	$13,595,831	$19,765,474
2027	$9,106,409	$17,352,123	$26,458,532
2030	$20,857,698	$34,128,863	$54,986,561

Data is cumulative and assumes no use of non-excluded debt capacity. There will be capital projects that cannot be funded through Capital Outlay; it is unlikely that 100% of the non-excluded capacity will materialize.

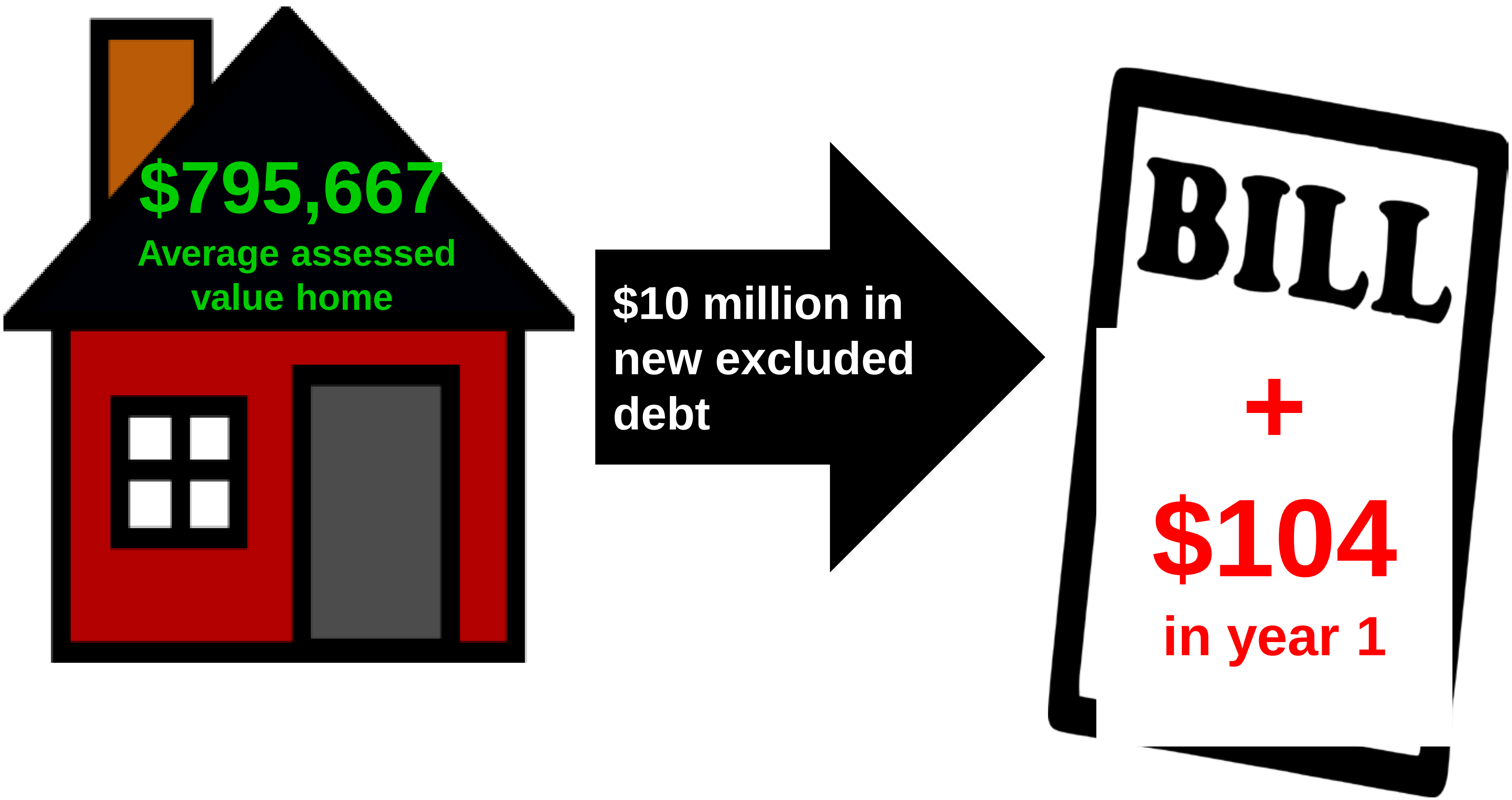
Source: 2017 Ad Com financial Model

Debt Capacity (cumulative) vs. Project costs



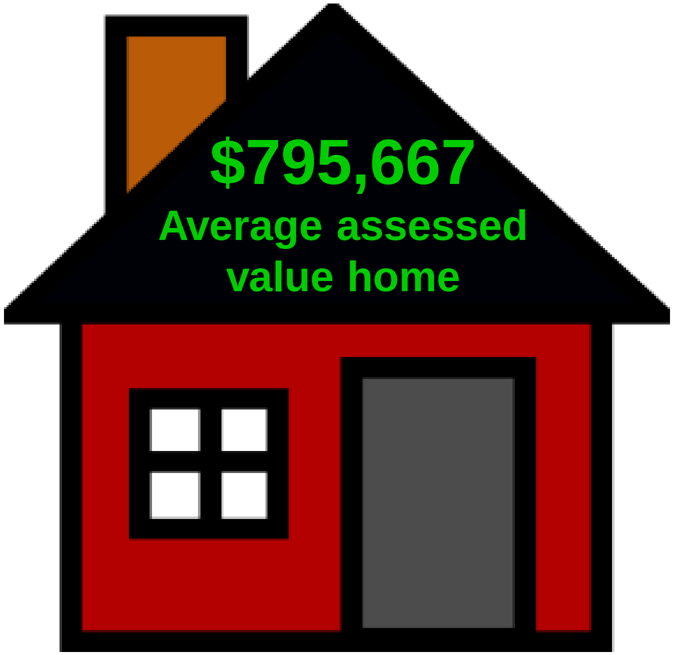
Source: 2017 Ad Com financial Model

Rule of Thumb



Source: 2017 Ad Com financial Model

Scenario 1: $50 million new excluded debt in 2021 (3.5% interest rate)



Tax impact of $50 additional excluded debt:

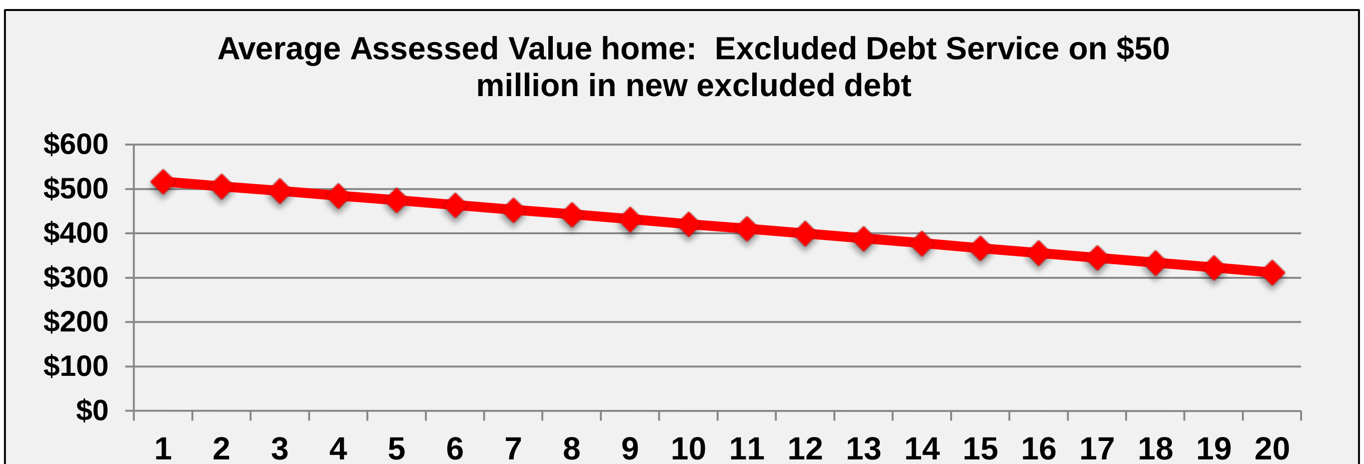
$517 tax increase Year 1

$475 tax increase Year 5

$421 tax increase Year 10

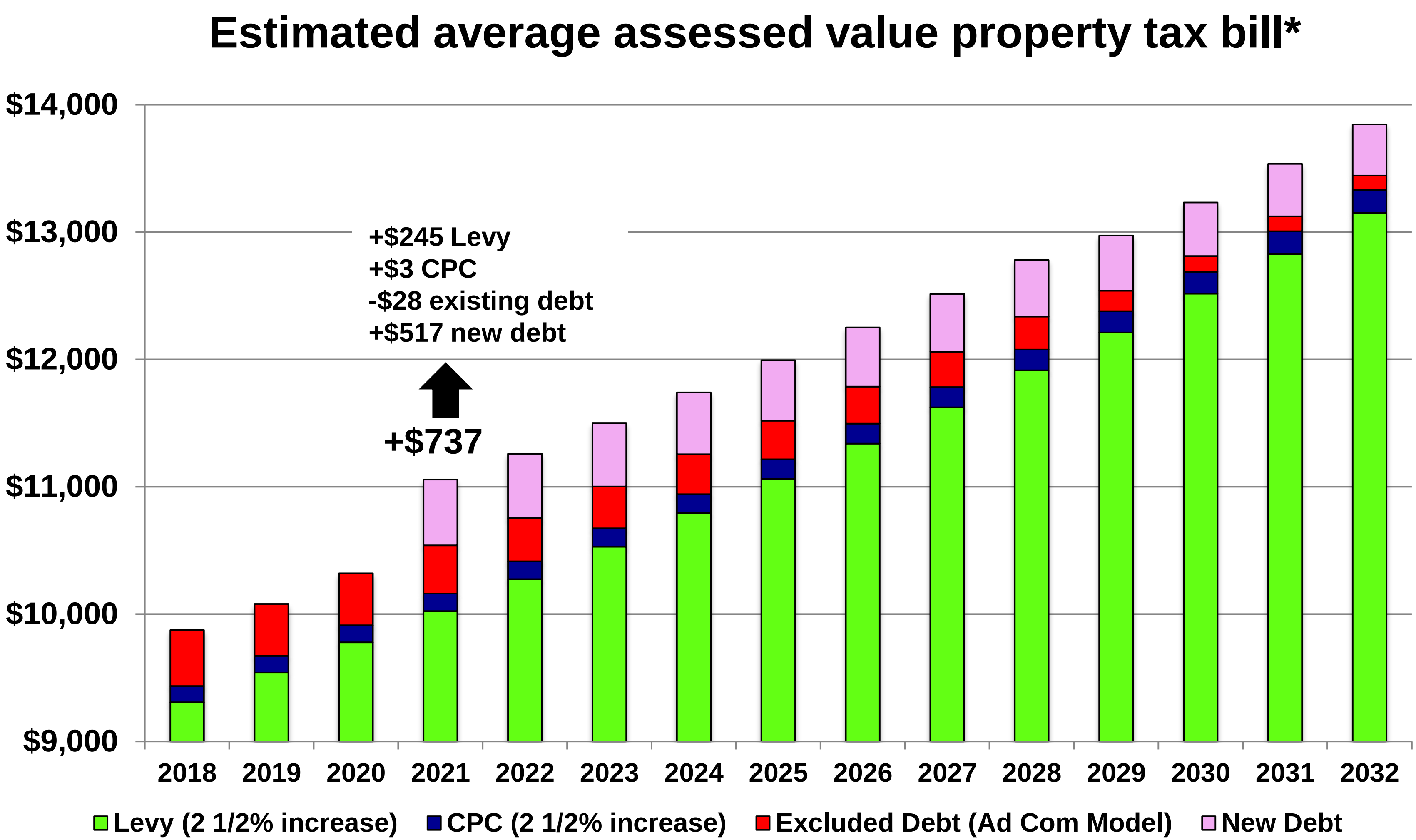
$367 tax increase Year 15

$416 average over life of loan



Source: 2017 Ad Com financial Model

Scenario 1: $50 million new excluded debt in 2021 (3.5%)



* Does not include application of stabilization funds, meals tax revenue, etc. to reduce tax rate

Source: 2017 Ad Com financial Model

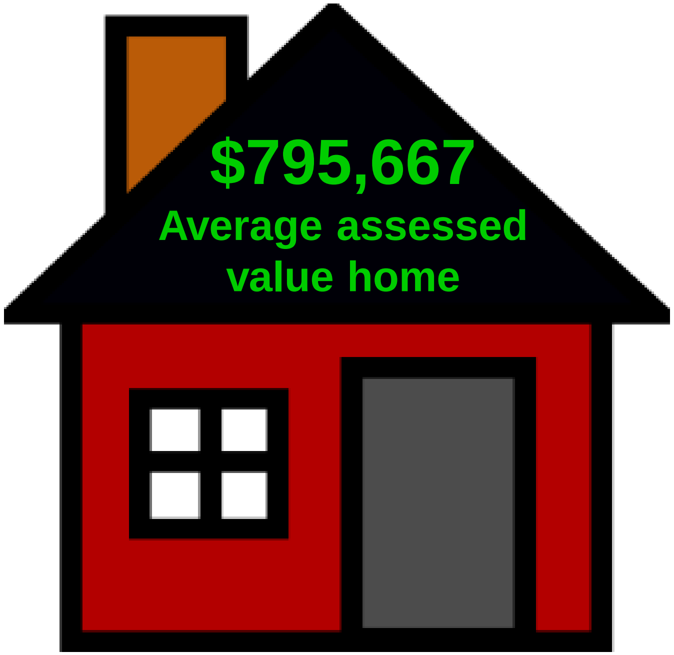
Potential offsets (in millions)

	Available now	**Potential through 2030**
Excess fund balance (budget turnbacks, one-time revenue)	$2.3	$0.5 per year
Restricted non-excluded debt service	$0.2	$0.5 - $1.9
Restricted fund balance (Hersey House proceeds)	$1.2	-

Total	**$3.7**	

Potential offsets are not guaranteed and require future decisions, including decisions not to spend money.

Scenario 2: $50 million new excluded debt in 2021 (3.5%), $3.7 million tax relief



Tax impact of $50 additional debt:

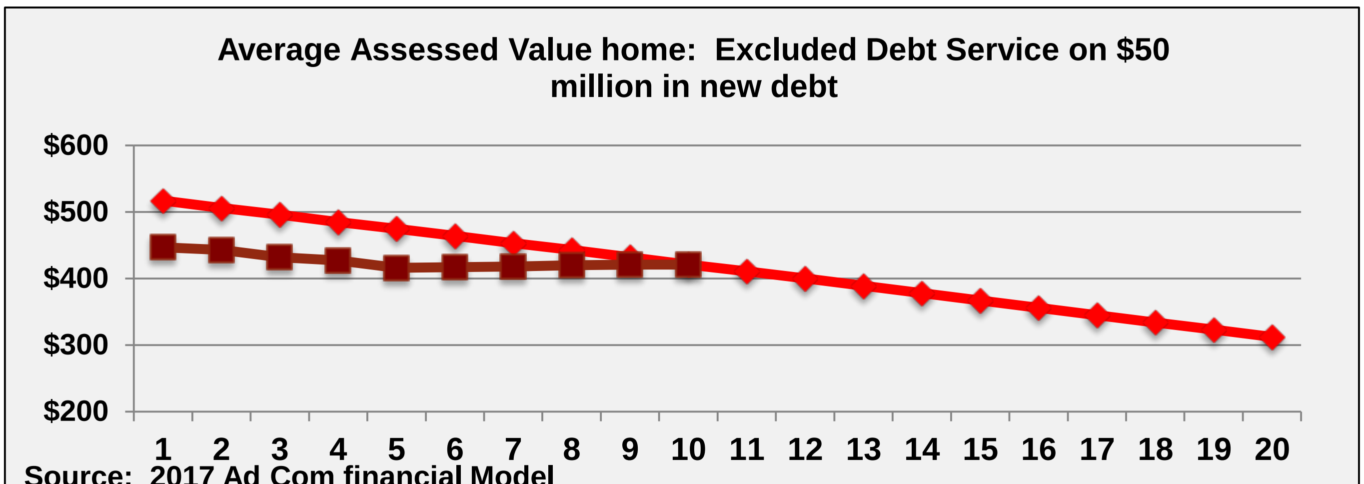
$447 tax increase Year 1 (-$70)

$416 tax increase Year 5 (-$59)

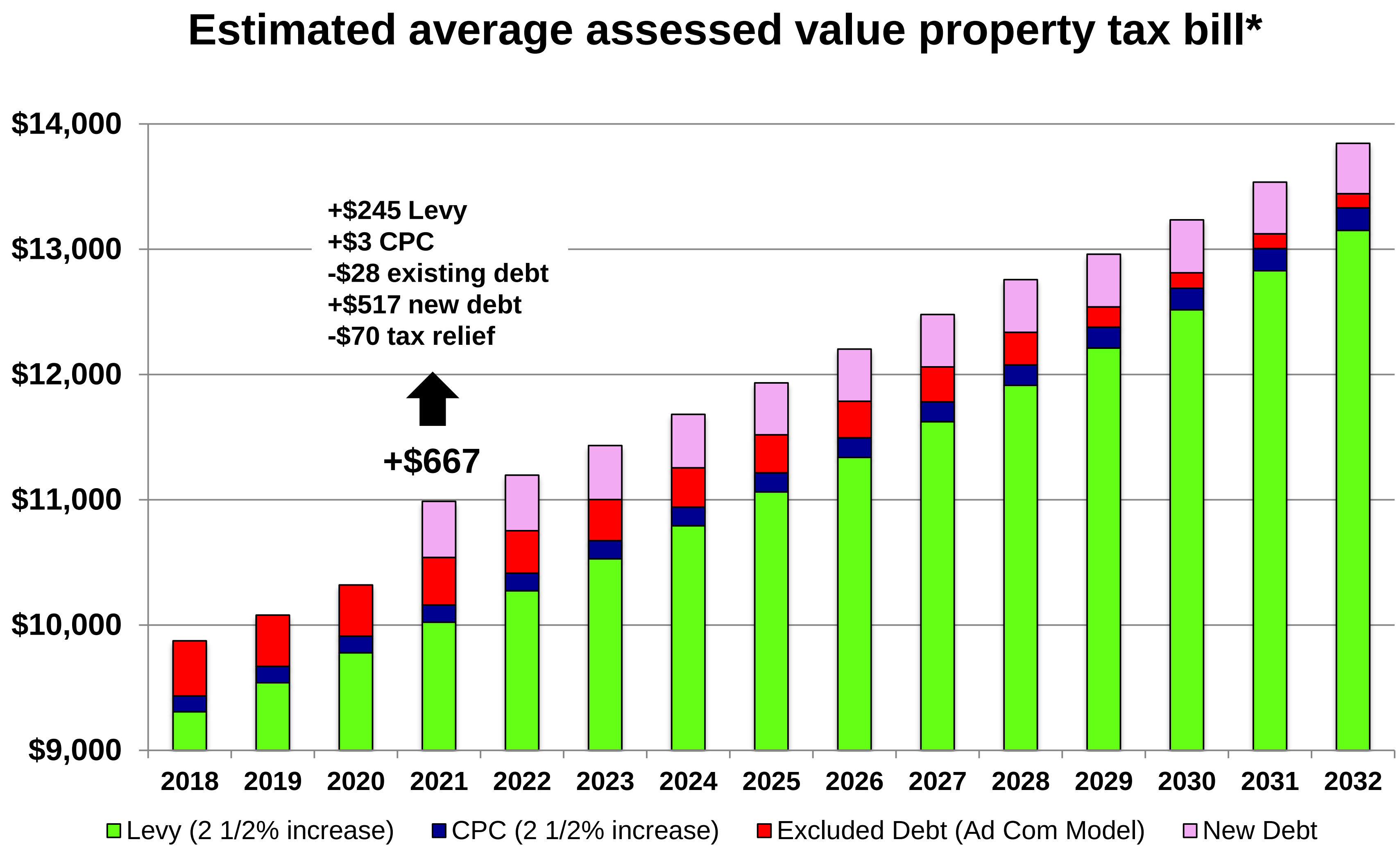
$421 tax increase Year 10

$367 tax increase Year 15

$394 average over life of loan (-$22)



Scenario 2: $50 million new excluded debt in 2021 (3.5%) and $3.7 million tax relief



* Does not include application of stabilization funds, meals tax revenue, etc. to reduce tax rate

Source: 2017 Ad Com financial Model

Next Steps

- Share presentation with community, boards/committees advancing large capital projects, and Advisory Committee
- Identify and model additional scenarios
- Discuss capital priorities, timing, and implications
- Identify opportunities for targeted tax relief
- Explore additional funding opportunities
  - Outside Hingham (grants)
  - Within Hingham (e.g., sale of assets)
- Pursue revenue opportunities
- Consider policy decisions the board can make as part of FY19 goal-setting and the FY20 budget process