04-24-2019 Town Council Meeting
Responses to Council Questions

ITEM #9: Discuss Draft Financial Policy Guidelines

Council Question: What are the consequences if the ratio of debt service expenditure as a percent of total governmental fund expenditures exceeds 15% in a given year?

***Staff Response**: The debt service to expenditure ratio measures the amount committed to annual debt service as a percentage of total expenditures. A higher percentage represents less flexibility because more operating resources are being committed to debt service. What this means is that there are less funds available to pay for the General Fund operating expenditures. The Town has added some protection from this issue with the creation of the Debt Service Fund in 2009. The Town is allocating a portion of the tax rate directly for the repayment of debt. Therefore, we know what the Town's capacity for debt issuance and repayment is without impacting the General Fund operating expenditures.*

The town's current debt service expenditure ratio is 11.85%. Standard & Poor's considers the range between 8% - 15% a strong ratio. Moody's will make a positive or negative adjustment if an entity has an usually small or high ratio. As the Town gets ready to borrow for the Municipal Services Center and for the Affordable Housing bond projects, we will fall right at the 15% target. The conservative nature of this measure will allow the Town the flexibility we need to issue the debt we have planned for the next several years. Ideally our debt service to expenditures ratio would remain at around 10%.

Council Question: The agenda packet explained that the aggregate ten-year principal payout ratio target should be 65% or better. Is there an ideal aggregate ten-year principal payout ratio target? If so, what is that ideal target?

***Staff Response**: The 10-year payout ratio measures the amount of principal to be retired in the next 10 years. The rating agencies look at this measure to make sure that a locality is not back-loading its debt. Standard & Poor's will give an entity a point positive score adjustment if an entity has a payout ratio > 65%. Moody's will make a negative or positive adjustment if an entity has an unusually slow or fast payout ratio. The 65% target is conservative.*

The town's current payout ratio is 75.1% which is in line with other AAA rated agencies. As the Town gets ready to borrow for the Municipal Services Center and for the Affordable Housing bond projects, we will fall right at the 65% payout target. The conservative nature of this measure will allow the Town the flexibility we need to issue the debt we have planned for the next several years. Ideally our payout ratio would remain between 75% - 80%.