**Budget Questions and Requests for Information**

**2018-19 Recommended Budget**

**Question #11**

**QUESTION:**

1. What is the impact of delaying the debt fund tax increase?

**RESPONDENT:** Kenneth C. Pennoyer, Business Management Director

**Response:** The Debt Management Fund cash flow projection includes the following assumptions regarding projects that will be financed from the fund over the next 5 years (FY19-FY24).

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Project | Financing Cost | Financing Date | Debt Service | Interest Rate |
| MSC | $ 34,100,000 | 5/01/19 | $ 2,430,000 | 4.0% |
| Wallace Deck | 2,400,000 | 5/01/19 | 171,000 | 4.0% |
| Affordable Housing | 5,000,000 | 5/01/19 | 360,000 | 4.0% |
| Blue Hill Phase II | 2,600,000 | 5/01/19 | 184,600 | 4.0% |
| Affordable Housing | 5,000,000 | 7/01/20 | 372,000 | 4.5% |
| Streets & Sidewalks | 7,700,000 | 7/01/21 | 592,844 | 5.0% |

**Affordable Housing (AH) Bonds**

It is assumed that the Debt Fund tax rate will be increased in the year that the affordable housing bonds are issued in an amount sufficient to cover the additional debt service cost. Based on the assumptions above the rate increase needed would total one penny, applied as follows:

FY20 – 0.5 cents

FY21 – 0.5 cents

**Debt Fund Cash Flow (not including AH Bonds)**

In order to keep the Debt Fund from experiencing negative cash flow one of two things needs to happen. Either the capital financing plan described above needs to be delayed or reduced significantly or the dedicated property tax needs to be increased. The amount of property tax increase needed depends on the year the tax is applied. The low-point for cash flow is FY2024-25, therefore the tax rate increase does not have to be instituted immediately however it does get more expensive with each year of delay.

**Tax rate increase needed** *(not including AH bonds)*

FY2018-19 - 0.80 cents

FY2019-20 – 0.95 cents

FY2020-21 – 1.15 cents

FY2021-22 – 1.35 cents

FY2022-23 – 2.0 cents

**Delaying or Reducing Projects**

The MSC represents the bulk of the Town’s planned borrowing for the next 5 years, therefore any change to projects to delay or avoid a tax increase in the debt fund would impact that project. In order to avoid a tax increase in the debt fund altogether, the cost of the MSC would need to be reduced by $9-10 million. Alternatively the project could be delayed approximately three years. This would solve the cash flow problem in FY2024-25, but the building cost is expected to escalate by 6% per year, adding about $5 million to the project.