

FY10 Budget – Debt

The debt service for the Town in FY10 is currently projected at \$5,705,113. All but \$17,063 of these costs are already known – with that small amount set aside to pay interest on a bond that will be issued next summer in time to pay for the fire engine approved by November 2008 Town Meeting. There is no funding specifically set aside in either the capital or debt budgets for Performance Contracting, as is explained in the prior section on Capital. The debt figure above may increase depending upon the results of the Performance Contracting evaluation.

Of the total debt service, \$3.72 million is principal, and \$1.96 million is interest. A total of \$2.91 million of the \$5.71 million of debt service is ‘inside the tax levy’ – where it competes with all other general fund budget needs. A total of \$2.80 million is ‘outside the tax levy’ – taxpayers pay an additional and temporary amount, primarily for the Reading Memorial High School construction project.

Of the \$2.91 million issued inside the levy, the Massachusetts School Building (MSBA) authority pays \$462,036 of the costs associated with work done at Coolidge Middle School. All other school projects financed inside the levy have received full settlements from the MSBA, and the remaining debt is the Town’s obligation. Thus the net cost of debt inside the levy is \$2,443,606. This figure was shown in the previous section describing capital, and is used when calculating the FINCOM’s so-called 5% policy on capital+debt.

School buildings – net of the MSBA payments - represent the largest share of the net inside debt at \$1,188,048 (49%) for FY10. Other categories include Public Safety buildings & equipment \$676,022 (28%); technology \$297,000 (12%); recreation \$195,437 (8%); and the Downtown Improvements \$87,100 (3%).

Recent activity

Market conditions have been difficult for over one year, yet at the same time interest rates are at historic lows. In April 2008 we arranged a private-placement sale at 3.05% to fund the demolition of the water treatment plant, the ladder truck, tennis courts, and a refinancing of some old school debt. The Town received a \$7.1 million settlement from the MSBA representing their share of the old school debt – thus the action at November 2008 Town Meeting to reduce the annual debt service by over \$1 million. In June 2008 the Town issued temporary State House notes at 2.50% for the technology project. A Special Town Meeting in June 2008 authorized water debt, which was funded in August 2008 by temporary State House notes at 2.34%. Finally, in February 2009 we were able to tap the public market at an opportune moment and permanently sell debt for the technology and water projects at a cost of 1.36%.

Future debt activity looks to be modest. Only two projects are in the Capital Improvement Plan that may require debt: replacement of Public Safety technology, and building a cemetery garage – both tentatively scheduled for FY13.