

Town of Reading 16 Lowell Street, Reading, MA 01867

Debt & Capital Policy

Finance Committee

December 2006

The Finance Committee (FINCOM) of the Town of Reading hereby establishes and adopts a Debt & Capital Policy that a minimum of 5% of Net Available Revenue ('NAR' - as defined below) shall be devoted to construct and replace the capital plant of the community, both as debt repayment and annual payments as part of the budget for capital items.

The FINCOM recognizes that a prudent Capital Improvement Program (CIP) will serve to avoid excessive maintenance and repair costs, and reduce the need for sudden and unexpected capital expenses that may have an adverse impact on the Town's operating budgets.

The FINCOM also recognizes that from time to time additional capital expenses over this 5% minimum will be beneficial for the long term financial health of the Town. These additional expenses may be funded either by use of excess Reserves (as described in the FINCOM Cash Reserves Policy), from the general fund (by way of a budget increase above this 5% minimum Policy), or through other methods outside of the tax levy.

The FINCOM encourages a prudent use of debt so as to spread out the cost of large capital assets over a period of time that should not exceed the expected useful life of the asset. If debt service of any new capital project is expected to exceed 0.25% of NAR in any single year, the project should instead be brought forward as debt or capital excluded from the tax levy.

The **Capital Improvement Program** will be a minimum of five years of projected capital projects that reflect the prioritized needs of the Town, subject to the anticipated funding provided by this Policy. This CIP will be presented at least twice each year to the FINCOM by the Town's financial staff, in advance of both the Annual and Subsequent Town Meetings.

Net Available Revenue is defined as all general fund revenues, excluding any MSBA reimbursements or revenues collected outside the tax levy.

The most recent set of certified financial statements will typically be used to calculate Net Available Revenue. The FINCOM may use the best estimates from the Town's financial staff at other times.