

## A Silent Guardian of Municipal Finance

### The Strategic Necessity of a Debt Service Ratio Cap

In the intricate and often demanding realm of municipal finance, where budgetary constraints collide with the relentless need for infrastructure development and community services, the **Debt Service Ratio (DSR)** emerges as a crucial, albeit often understated, metric. While grand development projects and fluctuating tax rates capture public attention, the DSR quietly governs a municipality's capacity to fulfill its financial obligations, thereby ensuring stability and fostering sustainable growth. For Truro, understanding and strategically managing the DSR is not merely a financial exercise; it's a fundamental prerequisite for long-term prosperity.

Now is the time to consider this when Truro is facing large increases in debt service due to a variety of proposed capital projects, most notably the pending DPW.

Truro would exceed what is generally considered a prudent fiscal DSR if the DPW cost exceeds \$20M -- and the DPW is only the start of proposed debt increases for projects Truro taxpayers might be asked to cover in the coming years.

Our financial health and ability for taxpayers to meet debt service burdens is also harder in the volatile national fiscal program underway. Who knows what taxpayers will really be able to carry? It is why prudence and forethought are needed now, while our debt service is still manageable.

### Understanding the Debt Service Ratio (DSR): A Deeper Explanation

The DSR is, at its core, a measure of a municipality's ability to service its debt. It's calculated by dividing the total annual debt service—encompassing both principal and interest payments—by the municipality's total annual revenue. This calculation provides a clear, quantifiable snapshot of the proportion of a town's income that is allocated to debt repayment. It is important to remember that available revenue includes all sources of income such as property tax, state aid, and fees.

In Massachusetts, the Department of Revenue plays a key role in monitoring and analyzing these ratios, providing valuable insights into the financial health of municipalities. Their data, accessible through resources like the DLS Gateway (<https://www.mass.gov/info-details/trends-in-municipal-debt>) offers a standardized framework for comparison and analysis, enabling towns to benchmark their financial performance against their peers.

### Why the DSR Matters: Beyond the Numbers

- Financial Stability and Resilience:
  - A healthy DSR acts as a buffer against economic downturns, ensuring that essential services remain funded even when revenue streams fluctuate.

- It provides the flexibility to address unforeseen expenses, such as natural disasters or infrastructure emergencies, without jeopardizing the town's financial stability.
- Creditworthiness and Borrowing Capacity:
  - Lenders and bond rating agencies scrutinize the DSR to assess a municipality's creditworthiness. A strong DSR (e.g., one under 10%) translates to lower borrowing costs, enabling towns to secure more favorable interest rates for critical projects.
  - This translates to substantial savings for taxpayers over the long term, reducing the overall cost of infrastructure development and other capital projects.
- Sustainable Growth and Investment:
  - Responsible debt management, as reflected in a healthy DSR, frees up resources that can be strategically invested in long-term projects that enhance the community's quality of life.
  - This includes investments in infrastructure improvements, educational programs, and public facilities, all of which contribute to sustainable economic growth.
- Proactive Financial Planning and Risk Management:
  - Monitoring the DSR enables town officials to identify potential financial risks early on, allowing for timely corrective measures.
  - This proactive approach to financial management prevents crises and ensures that the town remains on a stable financial footing.

## The DSR Cap: A Strategic Imperative for Truro

The DSR cap is not merely an arbitrary limit; it's a strategic policy designed to safeguard Truro's financial future. This cap ensures:

- Budgetary Flexibility:
  - By limiting the proportion of revenue allocated to debt repayment, the town retains the flexibility to fund essential services and respond to changing community needs.
- Responsible Investment:
  - The cap encourages responsible borrowing and ensures that debt is used strategically to fund projects that provide long-term benefits to the community.
- Fiscal Discipline:
  - Implementing a DSR cap promotes fiscal discipline within the town government, encouraging responsible spending habits and preventing the accumulation of excessive debt.
- Taxpayer Protection:
  - By preventing excessive debt accumulation, the cap protects taxpayers from future tax increases that may be necessary to service unsustainable debt levels.

- Alignment with Best Practices:
  - Many financially sound municipalities adhere to DSRs within or below the 10% range, making it a prudent benchmark for financial management.

### Comparative DSR Data

Below is a table showing some comparable Cape Cod towns. As of 2024, Truro's debt service was comparatively low at 2.7%. Given Truro's projected capital projections in the coming decade, diligent monitoring of the Debt Service Ratio (DSR) is imperative.

Municipality	Fiscal Year	Outstanding Debt Per Capita	GF Debt Service (Schedule A Part 2)	Total Budget	Debt Service as % of Budget	DSR Adoption
Brewster	2024	3,356	3,207,645	59,612,157	5.38%	No
Chatham	2024	15,818	6,855,968	64,104,683	10.70%	Yes - 10%
Eastham	2024	18,634	6,332,912	42,998,293	14.73%	Yes - 25%
Harwich	2024	3,332	2,541,800	81,819,406	3.11%	No
Orleans	2024	12,815	7,107,151	52,005,173	13.67%	Yes - 15%/10%
Provincetown	2024	15,788	2,507,817	44,894,644	5.59%	Yes - 10%
Truro	2024	3,500	816,675	29,908,458	2.73%	No
Wellfleet	2024		1,949,869	33,698,479	5.79%	No

### Revenue Source Diversification

Simultaneously, diversifying revenue sources to reduce the tax burden on residents is crucial.

For example, establishing a dedicated 'Solar Fund' will enable the town to capture and allocate revenue generated from solar energy projects, such as the Solar Landfill project, which has the potential to generate over \$500,000 annual revenue, or over \$6 million over 25 years in net cash flow (i.e., revenue less costs, or profits in private business terminology). This strategy will allow the town to strategically use this net cash flow stream to mitigate the impact on the town's operating budget.

### Truro's Strategic Direction

By proactively managing our DSR and diversifying revenue streams, while establishing robust financial controls, Truro can secure its financial stability and build a sustainable path for future generations.

-Michael Forgione  
Truro