

HOW THE TOWN FINANCES PROJECTS

When the town takes on a large capital project, like renovating or constructing a building, where does the money actually come from and how does the process work?

First, the project gets reviewed by the Select Board, the Finance Committee, and the Capital Improvements Committee. Other groups may weigh in — like the Planning Board or the Historical Preservation Committee. All of them are asking, is this a good use of town resources, and will it benefit Deerfield? We can only borrow funds for large, non-recurring items. We can't do this to pay for our Operating Budget.

The voters of the town have the final say in the matter. The appropriation will be an item in the Warrant for the Annual Town Meeting, or possibly a Special Town Meeting, and if the townspeople don't approve it, the project won't be funded. If it requires borrowing, that requires a separate ballot vote to approve making it "debt excluded" — that is, the payments on the loan don't count against the Proposition 2½ limit on property taxes.

Only after going through those stages can the project proceed, and the funds voted by the Town Meeting can only be spent on that specific purpose. If we approve a new high school we can't use that to build a police station.

While a project is under way, the town pays the bills as they arrive. On short jobs like road repair that's typically on completion. For big, long-term projects like the Wastewater Treatment Plant, the contractor submits invoices monthly or quarterly. To pay those bills, the town has to take out short-term loans, known as Bond Anticipation Notes, or "BANs." Those loans come from banks, and we shop around to find the best rates.

There may be other sources of funding for a project, like grants, zero-interest loans, or even donations. Those are used as we get them to keep down the amount we have to borrow. Sometimes those funds get released only when certain milestones in the project are complete.

When the project is done and the final bills are paid, then the town issues long-term bonds and retires the short term loans. We only borrow after the fact, to cover what was spent. The bonds are issued through a financial service firm which specializes in that kind of thing. They are purchased by anybody who chooses to do so, most often municipal bond funds, banks, or private investors.

These long-term bonds then get paid down over their lifespan, typically 20 to 30 years. There are limits to how many bonds the town can issue. If we borrow too much our bond rating goes down, which means borrowing gets harder and more expensive. On the annual Operating Budget the interest and principal payments on those bonds comes under "Maturing Debt" and "Interest on Maturing Debt."