DEBT MANAGEMENT POLICY
No. FIN 104

PURPOSE

This Debt Management policy provides administrative guidelines to the Financial Services Department, all Town Departments, Management and Town Council.

1.0 POLICY

This policy establishes the framework for overall planning and execution for Town debt management. It sets forth guidelines against which current debt issuance planning can be measured and proposals for future debt issues can be evaluated.

1.1 DEBT POLICY

1.1.1 INTRODUCTION

When authorized by the Council, the Town will issue long-term debt for high-cost, long-lived capital projects/assets. The Town will issue short-term debt only when it is impossible to fund a project/asset initially through long-term debt. Debt issuance will conform to the debt limitations as set by State statutes.

1.1.2 ISSUING DEBT

a) The issuance of short-term debt is limited to projects/assets that cannot be funded initially through long-term debt.

b) The issuance of long-term debt is limited to capital projects and assets that the Town cannot finance from current revenues or resources.

c) For purposes of this policy, current resources are defined as that portion of fund balance in excess of the required reserves (see Policy FIN 101 Section 1.1.7 Fund Reserves).

d) Every effort will be made to limit the payback period of the bonds to the estimated useful life of the capital projects or assets.

e) The Town will use long-term debt financing when the following conditions exist:

- Non-continuous capital improvements are desired
- Future citizens will receive a benefit from the improvement

f) When the Town utilizes long-term debt financing, it will ensure that the debt is financed soundly by:

- Conservatively projecting the revenue sources that will be utilized to repay the debt.
- Financing the improvement over a period of not greater than the useful life of the improvement.
- Determining the cost benefit of the improvement, including the interest cost, is positive.

g) Capital leases may be used to finance equipment purchases, rather than an outright purchase if funding is not available and the lease rate is less than the rate attained from investment return. In no case shall the Town lease/purchase equipment whose useful life is not greater than the term of the lease.

1.1.3 THE AMOUNT OF DEBT ISSUANCE

a) The Town will use debt ratios based on debt per assessed value, debt per capita, and debt per capita as a percentage of per capita income as guides. These ratios will assist in guiding amounts that the Town will permit in debt issuance.

b) The Town will conform to the debt limitations as set forth by the State statutes. Compliance with state law and this policy will be documented each year in the Town's Comprehensive Annual Financial Report.

c) Individual percentages, as defined by state law, shall not exceed in any specific debt category:

- General Debt — 6% of secondary net assessed valuation
- Utility Debt — 20% of secondary net assessed valuation
- Open Space & Park Facilities — 20% of secondary net assessed valuation

d) No debt shall be issued for which the Town is not confident that a sufficient, specifically identified revenue source is available for repayment. The Chief Fiscal Officer shall prepare an analytical review for this purpose prior to the issuance of any debt.

1.1.4 DEBT MATURITIES

a) The Town will keep the average maturity of general obligation bonds at twenty years or less.

b) All efforts will be made to limit the long-term debt maturity schedule to the estimated useful life of the capital asset constructed or purchased.

1.1.5 OTHER POLICIES

a) Annual budget appropriations shall include debt service payments and reserve requirements for all long-term debt outstanding, as set forth in the bond covenants.

b) Debt issues will be sold on a competitive basis, except when conditions make a negotiated sale preferable, and awarded to the bidder who produces the lowest interest cost. Revenue bonds can be issued through a negotiated sale when the issue is unusually large, the project is speculative or complex, the issue is a refunding or the market is unstable.

c) Debt service costs (GO, MPC, Revenue Bond and Contractual Debt) shall not exceed 25% of the Town's operating revenue. Improvement District (ID) debt is not included in this calculation because it is paid by the property owners of the district.

d) General obligation debt that is supported by property tax revenues and grows in proportion to the Town's assessed valuation or community acceptable property tax rates will be utilized as authorized by voters. Other types of voter-approved debt may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges).

e) The following considerations will be made to the question of pledging of project (facility) revenues towards debt service requirements:

- The project requires moneys not available from other sources.
- Matching fund moneys are available, which may be lost if not applied for in a timely manner.
- Catastrophic conditions
- The project to be financed will generate net positive revenues (i.e., the additional tax revenues generated by the project will be greater than the debt service requirements). The net revenues should not simply be positive over the life of the

bonds, but must be positive each year within a reasonably short period (e.g., by the third year of debt service payments).

f) Improvement District (ID) bonds shall be issued only when there is a general Town benefit. ID bonds will be utilized only when it is expected that they will be issued for their full term. It is intended that Improvement District bonds will be used primarily for neighborhoods desiring improvements to their property such as roads, streetlights, public utilities and storm drainage.

Improvement District debt will be permitted only when the full cash value of the property-to-debt ratio (prior to improvements being installed) is a minimum of 3/1 prior to issuance of debt. and 5/1 or higher after construction of improvements. In addition, the Town's cumulative improvement district debt will not exceed 5% of the Town's secondary assessed valuation.

g) Utility rates will be set, as a minimum, to ensure the ratio of revenue-to-debt service meets bond indenture requirements of 1:2. The Town goal will be to maintain a minimum ratio of utility revenue-to-debt service of 1:6 to ensure debt coverage in times of utility revenue fluctuations attributable to weather or other causes and to ensure a balanced, pay-as-you-go Capital Improvement Plan.

h) The Town may issue inter-fund loans.

i) Reserve accounts shall be maintained as required by bond covenants or as advisable by the Town Council. The Town shall structure such debt service reserves so that they do not violate IRS arbitrage regulations.

1.1.6 PROFESSIONAL SERVICES

a) All professional service providers (underwriters, financial advisors, bond insurer's etc) selected in connection with the Town's debt issues will be selected in accordance with the Town's procurement policies. In most cases this will require a request for proposal process.

b) The Town shall maintain an open line of communication with the rating agencies (Moody's and Standard & Poor's etc.), informing them of major financial events in the town as they occur. The Comprehensive Annual Financial Report (CAFR) shall be distributed to the rating agencies no later than January 31 of the following year of the CAFR.