Town of East Hampton, Connecticut
Debt Policy

INTRODUCTION

The purpose of a debt policy is to establish consistent parameters and guidance for the Board of Finance and Town Council to make decisions on capital spending and issuance of debt as a means to fund them.

The Town recognizes the foundation of any well-managed debt program is a comprehensive debt policy. In addition to the general parameters, this policy provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt financing, methods of sale that may be used, and structural features that may be incorporated.

Finally, this debt policy is the Town's recognition of a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. The policy helps to ensure that the Town maintains a sound debt position and that credit quality is protected.

In summary, the main advantages of a formal debt policy are as follows:

- Enhances the quality of decisions by imposing order and discipline, and promoting consistency and continuity in decision making;
- Rationalizes the decision-making process;
- Identifies objectives for staff to implement;
- Demonstrates a commitment to long-term financial planning objectives; and
- Is regarded positively by the rating agencies in reviewing credit quality.

INTEGRATION OF CAPITAL-PLANNING AND DEBT FINANCING ACTIVITIES

Multi Year Capital Plan. The Town prepares a multi-year Capital Improvement Program for consideration and adoption by the Board of Finance and Town Council as part of the Town’s budget process. Annually, the capital budget identifies revenue sources and expenditures for the current year and the next succeeding four fiscal years. As part of the capital project planning process, the Town evaluates the financial impact of each proposed project. The plan is updated annually.

Funding of the Capital Improvement Program. Whenever possible, the Town will first attempt to fund capital projects with Local Capital Improvement Program (LoCIP) grants as part of its broader capital improvement plan. If these grants are not available, the Town will use general revenues (pay-as-you go), reserve funds, excess surplus, bond financing, or a combination thereof. The Town is guided by three principles in selecting a funding source for capital improvements: equity, effectiveness and efficiency.

1 **Fairness:** Whenever appropriate the beneficiaries of a project or service will pay for it. For example, if a project is a general function of government that benefits the entire community, such as a school, police station or library, the project will be financed with general obligation bonds and repaid with general tax revenues. If, however, the project benefits specific users, such as water and sewer facilities, the revenues will be derived through user fees or charges and assessments.

2 **Effectiveness:** In assessing a source or sources of revenue for the financing of projects the Town will select one or more options that effectively pays the annual debt service costs. For example, funding a capital project or the debt service on a project with a user fee or assessment, the Town should consider the term of the assessments that will repay the financing.

3 **Efficiency:** If grants or current revenues are not available to fund a project the Town will select a financing technique consistent with acceptable risk factors and principals of equity and effectiveness. These techniques currently consist of fixed-rate general obligation or revenue bonds issued by the Town.

Infrastructure Maintenance, Replacement and Renewal. The Town intends to set aside sufficient current revenues to finance ongoing maintenance needs and to provide periodic replacement and renewal consistent with its philosophy of keeping the Town's capital facilities and infrastructure systems in good repair and to maximize a capital asset's useful life. It is the Town's goal to encourage plans for scheduling this maintenance.

DEBT AUTHORIZATION (TOWN CHARTER REQUIREMENTS)

Agency	Comment
PLANNING AND ZONING COMMISSION	Proposed project must be referred to the local Planning and Zoning Commission for approval or a report (unless project is solely purchase of movable equipment). Planning and Zoning Commission should act on referral before Town Meeting is held. Action by Commission must be by majority vote of all its members, not just a majority of those present. C.G.S. Sections 8-24; 8-22.
BOARD OF FINANCE	Prior to Town Meeting, Board of Finance must recommend appropriation and bond and note authorization. Charter, Sections 5.1, 5.2; C.G.S. Section 7-348.
TOWN COUNCIL (If Town Council decides to submit an item to referendum the Town Clerk will need 30 days notice in order to prepare)	The Town Council must recommend appropriation and bond and note authorization and set date for Special Town Meeting to act on recommendation. Charter, Section 2.4; C.G.S. Section 7-3. The Town Council can submit any item to referendum by acting not less than five days prior to the Town Meeting. Charter, Section 4.4; C.G.S. Section 7-7.
NOTICE OF TOWN MEETING (Must be submitted 3 days before publication)	When the proceedings above are complete, the Notice of Town Meeting must be posted and published at least five days prior to meeting, and the Return of Notice must be filed with Town Clerk. Publication must be in a newspaper having a general and substantial circulation in the Town. Do not include day of Town Meeting in counting five days for publishing and posting notice. Charter, Sections 2.4, 4.1; C.G.S. Sections 7-3, 7-4. Notice of referendum initiated by the Town Council should be included in notice of Town Meeting. Town meeting must be held within seven to fourteen days prior to referendum date. Charter, Section 4.4; C.G.S. Sections 7-7, 7-9c.
TOWN MEETING	Town Meeting held and full resolution authorizing appropriation, bonds and temporary notes, etc., read, moved, seconded and voted. Charter, Section 4.1. Votes on the resolution should be counted unless the votes are to be taken at a referendum initiated by the Town Council or at an adjourned Town Meeting pursuant to a petition filed under Charter, Section 4.4 and C.G.S. Section 7-7. If voting is to take place at a referendum or adjourned town meeting, ballot heading of referendum question is announced and the Town Meeting is adjourned to referendum to be held within seven to fourteen days of meeting.
ADJOURNED TOWN MEETING - REFERENDUM	Absentee ballots must be provided. C.G.S. Sections 9-135, 9-1(n), 9-369c.

PURPOSES FOR WHICH DEBT MAY BE ISSUED

- The Town will consider financing major capital improvements with a total cost exceeding $100,000. Such costs may include any planning, design and land acquisition costs for such improvements.
- The Town will consider issuing debt to finance projects that have been included in the Five-Year Capital Improvement Program.

REFUNDING OF EXISTING DEBT

A refunding transaction is the issuance of new bonds to refund an outstanding bond issue(s). Most refundings are performed primarily to take advantage of current interest rates that are lower than the rates on the outstanding bonds and to realize budgetary savings. The Town may consider a refunding for three primary reasons:

1. To reduce interest costs;
2. To achieve net present value savings (NPV) that exceed two (2%) percent of the debt service amount of the refunded bonds; and
3. To eliminate bond covenants that may have become restrictive.

OBJECTIVES OF ISSUING DEBT

- The Town will finance capital projects through the issuance of debt for the shortest period practical but will not exceed the useful life of the asset.
- The Town will evaluate debt management options as part of its annual Five-Year Capital Improvement Program process in order to prioritize future financing needs.
- The Town will attempt to minimize its reliance on long-term debt.

LEGAL LIMITATIONS

- Connecticut General Statutes limit the amount of indebtedness the Town may have outstanding to seven times the total annual tax collections including interest and lien fees plus the reimbursement for revenue loss on tax relief programs.

TYPES OF DEBT PERMITTED TO BE ISSUED AND CRITERIA FOR ISSUANCE

TYPES

- Bond Anticipation Notes (BAN’s)
- Tax Anticipation Notes (TAN’s)
- General Obligation (GO) Bonds
- Revenue Bonds or Special Assessment Bonds
- Lease Purchase Financing
- Tax Increment Financing (TIF)

CRITERIA

a. Short Term Debt

1 **Bond Anticipation Notes:** The Town may choose to issue Bond Anticipation Notes as a source of interim funding during a project's construction phase. Such notes are generally issued for a one-year term and can be renewed for a period not to exceed ten years, subject to mandatory pay downs beginning before the end of third year. . Before issuing such notes, the Finance Director will contact the Town's Financial Advisor, for consultation.

2 **Tax Anticipation Notes:** The Town may choose to issue Tax Anticipation Notes to fund internal working capital cash flow needs. Before issuing such notes, cash flow projections will be prepared by the appropriate Town Departments and reviewed by the Finance Director. Tax Anticipation Notes should only be considered following consultation with the Town's Financial Advisor.

3 **Leasing:** Leasing is appropriate for procuring assets that are too expensive to fund with current receipts in any one year, but with useful lives too short (less than ten years) to finance with long-term debt. Leasing will be considered for assets that will be needed for only short periods of time, or which are subject to rapid technological obsolescence.

b. Long Term Debt

1 **General Obligation (GO) Bonds:** General obligation bonds are general obligations of the Town with a full faith and credit pledge, payable from general (property) taxes, subject to certain constitutional and statutory limitations. Bonding should be used to finance capital improvements and long-term assets, or other costs associated with the financing of a project, which has been determined to be beneficial to the citizens of the Town. Repayment sources may include but are not limited to tax revenues, project revenue, Federal and State grants, and special assessments. The Town will consider all repayment sources prior to the issuance of debt.

2 **Revenue Bonds:** The Town may also consider revenue or special assessment bonds. To enhance security when issuing revenue bonds, the Town may issue "double-barreled" bonds which are secured both by a dedicated revenue stream and by the general taxing powers the Town. The Town will strictly adhere to all provisions of the bond resolution or trust indenture including but not limited to covenants, additional bond tests, and operation and maintenance requirements. The Town, with the assistance of its Financial Advisor, will analyze the feasibility and cost benefits prior to the issuance of such bonds.

3 **Tax Increment Financing (TIF):** The Town may sponsor conduit financings for physical projects in areas designated for redevelopment, urban renewal, or municipal development that have a general public purpose and are consistent with the Town's overall service and policy objectives. Debt service on TIF bonds will be derived from the incremental tax revenues generated as a result of economic growth in the TIF District. TIF Bonds are Special Revenue Bonds; the Town will have no obligation for the repayment of these bonds.

Credit Enhancement: The Town shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds etc.) when such credit enhancement improves marketability and cost-effectiveness.

RESTRICTION/LIMITATIONS ON DEBT ISSUANCE

- This policy prohibits the issuance of debt for current operations.
- This policy prohibits the issuance of derivative securities.
- The Town will not issue Pension Obligation bonds.

STRUCTURAL FEATURES OF DEBT

Overview: The Town plans long-term and short-term debt issuances to finance its capital improvement program based on cash flow needs, sources of revenue, construction periods, available financing instruments and market conditions.

When establishing the structure of a bond issue, a mill rate impact analysis will be performed. The analysis will incorporate the current debt structure and project the costs of various financing options available to the Town. **Debt Repayment:** Generally, borrowings by the Town should be of a duration that does not exceed the economic life of the improvement and in no event exceed 20 years (30 years for school and sewer projects) in accordance with Connecticut General Statutes. The Town will repay, a minimum of, 50% of the Town's overall outstanding debt within ten years.

CREDIT OBJECTIVES

Analysts at rating agencies, underwriting firms and institutional investors use debt ratios to analyze debt levels. However, the Town recognizes that ratios are one of many factors that influence bond ratings. Commonly used debt ratios of comparable sized Towns and with comparable ratings will provide one measure against which the Town can assess its debt burden. Another method is to compare ourselves against ratios developed by rating agencies, such as, *Standard & Poor's and Moody's Investors Service*. The analysis is not intended to determine the Town's total financial position or to project the rating level of the Town.

The Town will use the following debt ratios when reviewing the Town's capacity to issue debt:

Debt Burden Indicator	Definition	Standard & Poor's
Debt as a percentage of Full Valuation	A ratio of total direct debt to the full valuation of the most recent completed grand list.	• Low - Below 3% • Moderate - 3%-6% • Moderately High - 6%-10% • High - Above 10%
Debt per capita	This ratio measures net debt to population.	• Very Low - Below $1,000 • Low - $1,000-$2,000 • Moderate - $2,000-$5,000 • High – Above $5,000
Debt Service Indicators		
Annual net debt service as a percentage of total General Fund expenditures (including transfers out)	The portion of operating expenditures used for debt service costs	• Low - Below 8% • Moderate - 8%-15% • Elevated - 15%-20% • High - Above 25%
A retirement rate of 50% of the Town's indebtedness within 10 years		Median: Greater than 50%

Overlapping Debt

- There are no portions of the debt of other governmental entities that are payable in whole or in part by the Town (e.g. Regional School District Debt) .

METHOD OF SALE

Competitive Sale: The Town, as a matter of policy, will issue its debt obligations in a competitive sale when deemed cost effective and advantageous to do so .

Negotiated Sale: There may be instances where it is determined by the Director of Finance and approved by the Board of Finance that certain complexities of a bond financing or market conditions are such that it may be beneficial to the Town to issue its debt obligations through a negotiated sale. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. Selection of the underwriting team shall be made pursuant to selection procedures set forth in this debt policy under “Selection of Consultants and Service Providers”.

Private Placement: When determined appropriate by the Finance Director and approved by the Board of Finance, the Town may elect to sell its debt obligations through a private placement of limited public offering. Selection of a placement agent shall be made pursuant to selection procedures developed by the Finance Director.

DISCLOSURE

Rating Agencies: Full disclosure of the Town’s financial position, current operations, and local economy shall be made to the rating agencies; an open line of communication should also be maintained with the agencies. Town staff, with assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agencies. A credit rating will be sought from Standard & Poor’s and others as recommended by the Finance Director in conjunction with the Town’s financial advisor.

POST ISSUANCE TAX & SECURITY LAW COMPLIANCE

The Finance Director will develop and implement written post-issuance compliance procedures that will enable the Town to adequately safeguard against post-issuance violations that may result in the loss of the tax-exempt status of their bonds.

Arbitrage: The Finance Director shall establish a system of record keeping and reporting to meet the bond gross proceeds expenditure tests and the arbitrage rebate compliance requirement of the federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebateable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the Town’s outstanding debt issues. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with.

Continuing Disclosure: The Town is committed to continuing disclosure of financial and pertinent credit information relevant to the Town’s outstanding securities and will abide by the Provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure and its executed Continuing Disclosure Agreements.

SELECTION OF CONSULTANTS AND SERVICE PROVIDERS

The Town employs outside financial specialists to assist it in developing a bond issuance strategy preparing bond documents and marketing bonds to investors. The key players in the Town's financing transactions include its financial representatives (the Finance Director and staff, among others), Bond Counsel and a Financial Advisor. Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, auditing, or printing services, are retained as required.

The Town's Finance Director shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the Town's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices. The Finance Director shall periodically seek requests for qualifications for bond counsel and financial advisory services based on need.

INVESTMENT OF PROCEEDS

The investment of idle funds must be in conformance with federal laws, state statutes, the Town Charter, and internal policies and procedures.

SAFETY FIRST

Besides legality, the Town's foremost investment objective will be safety of principal.

LIQUIDITY

The Town will maintain sufficient liquidity to meet project expenditure requirements.

REVIEW OF THIS POLICY

This policy shall be reviewed no later than a bi-annual basis and modified as necessary.

Approval:

APPROVED BY BOARD OF FINANCE: 12-17-2012

APPROVED BY TOWN COUNCIL: 04-09-13