DEBT POLICY

Town of Simsbury

Purpose: To establish an objective basis by which to evaluate and act upon capital financing proposals.

Rationale: To ensure:

That Simsbury can attract financing for capital expenditures at the most economically advantageous rates of interest.

Regardless of the above, that the Town no incur debt that imposes an onerous burden on the taxpayers.

This policy is construed as a guideline that in no way constricts the authority of the Board of Finance to deviate there from when the interest of the Town is better served.

The policy will consist of four main components:

I. Statutory requirements
II. Objective (measurable) guidelines
III. Flexibility considerations
IV. Debt management reserve fund

I. Statutory Requirements

The State of Connecticut imposes limitations on indebtedness on all municipalities. These are described below:

Limitation of Indebtedness

Under Connecticut Law, municipalities may not incur indebtedness through the issue of bonds which will cause aggregate indebtedness by class to exceed the following:

General Purposes 2.25 times base
School Purposes 4.50 times base
Sewer Purposes 3.75 times base
Urban Renewal Purposes 3.25 times base

The "base" is defined as annual receipts from taxation (total tax collections including interest and penalties) and State payment for revenue losses under CGS sections 12-24a, 12-24c and 12-129d. In no case shall total indebtedness exceed seven times the base.

The statutes also provide for certain exclusions of debt issued in anticipation of taxes, for the supply of water, supply of gas, supply of electricity, construction of subways, for the construction of underground conduits for cables, wires, and pipes and for two or more of such purposes; for indebtedness issued in anticipation of the receipt of proceeds from State or Federal grants evidenced by a written commitment or contract.

II. Objective Guidelines

A. Five year capital plan

Capital planning for Simsbury is predicated on adoption by Board of Selectmen resolution of a five year capital improvement plan. In general, with the exception of emergencies and mandates, this plan is the governing document for capital expenditures.

The first year of the five year play may be recommended to the town meeting for adoption as the capital budget for the subsequent year. The remaining four year will then become the framework upon which the next five year plan will be formulated. In a proper planning environment, most projects will advance automatically from year to year. However, this advancement from year to year will be influenced by changing priorities, environmental factors, and the desire to even out the debt authorization schedule. This requires a meaningful review of all existing projects as well as all new projects added to the capital forecast. It must also include in-depth review of financing information and options to ensure the most cost effective strategies to finance these decisions.

The capital plan is reviewed on an annual basis prior to adopting the remaining four years and before the initiation of the planning process for the next program. This review should include an explanation of those factors which have brought about revisions. These revisions are to be adopted by Board of Selectmen resolution, and it retains the right to manage the timing of capital expenditures in the best interest of the community.

Definition of projects

- A capital improvement project has a useful life of no less than 7 years and should exceed 3% of the operating budget.

- A number of small projects may be combined to meet the 3% of budget requirement, provided that each such included project meets the 7 year useful life condition.

- Replacement or expansion of existing capital assets constitutes a capital expenditure as long as it meets the criteria established above. However, repairs and maintenance of capital assets do not constitute capital expenditures even though a number of maintenance projects when combined may exceed the 3% of operating budget.

- Notwithstanding the above, the Board of Selectmen reserves the right to adjust these criteria when it is in the best interest of the Town as in the case of projects for which full or partial reimbursement will be received.

B. Bond Rating

The Town seeks to improve its bond rating and establishes as a minimum objective that its bond rating not fall below Moody's Aa rating.

C. Policies

1. Bonds are issues only for large, nonrecurring permanent public improvements useful to the delivery of municipal services and economic development.

2. Bonds are retired (beginning within one year of issuance) by substantially equal serial maturities from the general operating fund over a term shorter but normally not longer than the useful life of the improvement.

3. The Town's overall debt structure, including overlapping debt, must fall within statutory limits and should decrease as rapidly as is financially feasible.

4. Short-term debt may be used to provide for interim cash flow, to facilitate the timing of bond sales, to avoid locking in high-term interest rates during periods of market turmoil and to partially finance projects whose final cost is uncertain.

5. In planning and structuring each bond sale, balanced emphasis should be given to each of the following objectives: a) providing case in advance to meet project expenses; b) spreading debt service increases evenly to minimize the impact on taxes; c) maximizing the credit rating potential and market acceptance of the bonds; d) minimizing net borrowing cost; and e) minimizing the impact of debt service payments on annual cash flow.

6. Whenever possible, capital costs are financed by means other than borrowing. In addition to soliciting outside grant funding, the Town utilizes pay-as-you-go methods such as regular contributions from the general fund, build-up up a reserve fund, down payments from operating funds, and inclusion of smaller projects in the general fund.

7. When feasible, the Town will develop a method for debt funding such that town residents can participate.

D. Debt retirement budget:

1. The Board of Finance establishes as a long term objective that debt retirement expenses (interest and principal) be at a rate of not more than 5-7% of the total annual budget.

2. No annual increase in debt retirement expenses should exceed the maximum of growth on the grand list or town budget and must meet the statutory requirements of the limit established under items I and II C. 1.

3. The above are to be understood as guidelines only and do not limit the authority of the Board of Finance to take other action.

III. <u>Flexibility (Timing) Considerations</u>

In making a recommendation to a Town Meeting on a capital expenditure proposed by the Board of Selectmen or the Board of Education, the Board of Finance will consider some or all of the following:

- Affordability – Debt budget per household, total taxes per household, demographics-% of population over 55, size of income, and total debt as a proportion of total assessed valuation; impact of residential taxes on property values, perceived willingness to pay (protest volume), among others. While some of these factors are subjective, the Town may select benchmark communities and strive to maintain a target position within them.
  - Mix of commercial to personal property
  - Projected growth in grand list

- Financial – cost escalation, building environment, financial markets, reimbursements

- Impact of external and uncontrollable factors

- Postponability (emergency, mandates)

IV. Debt Management Reserve Fund

Simsbury's budget already provides for a Reserve Fund for Capital and Non-recurring Expenditures (CNR) of about 3% of the total budget (about $1 million).

In addition to the CNR, the Board of Finance proposes that the Town establish a reserve fund:

Reserve Fund – At such time as the current debt budget falls below 5% of the annual budget, the Town may establish an annual appropriation that will maintain a debt reserve fund at 55 of the total budget.