



Town of Simsbury

933 HOPMEADOW STREET

SIMSBURY, CONNECTICUT 06070

Debt Policy Work Group

January 30, 2020

7:00AM

Main Meeting Room, Town Hall, 933 Hopmeadow Street

SPECIAL MEETING AGENDA

Call to Order

- 1) Review and Discussion of Draft Debt Policy
- 2) Next Steps and Meeting Date

Adjournment



Town of Simsbury

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TOWN OF SIMSBURY DEBT MANAGEMENT POLICY

Adopted by the Board of Finance on February 15, 1989

Revised by the Simsbury Board of Selectmen and Board of Finance on February XX, 2020

I. Purpose

The purpose of a debt policy is to establish written and objective guidelines to improve the quality of decision-making on long-term capital planning and on the appropriateness of utilizing debt to fund capital expenditures at the most economically advantageous rates of interest. It is the Board of Finance policy that the Town will confine long-term borrowing to capital improvements or projects that cannot be financed with current revenues. This policy recognizes the infrastructure needs of the Town as well as the taxpayer's ability to pay while taking into account existing legal, economic, financial and debt market considerations.

The primary objectives of this policy are to:

- Establish conditions for the issuance of debt for the purpose of funding capital projects.
- Plan for long and short-term issuance to finance the Town's capital program based on cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions.
- Minimize the Town's debt service and issuance costs.
- Retain the highest credit rating and ensure financial integrity while providing a funding mechanism to meet the Town's capital needs.
- Maintain full and complete financial disclosure and reporting.

This policy is based on the practices recommended by the Government Financial Officers Association (GFOA) to facilitate compliance with local, state and federal laws and regulations.

III. Effective Date

This policy shall remain in effect until revised or rescinded. The Town reserves the right to amend this policy as necessary.

IV. Authority and Responsibility

1. *Borrowing Authority*: The Town shall have the power to incur indebtedness in accordance with Connecticut General Statutes subject to the provisions of the Simsbury Town Charter. As stated in Chapter VIII, Section 813, the issuance of bonds and notes, except tax anticipation notes, shall be authorized by resolution of the Board of Selectmen.

The issuance of notes, the term of which does not exceed one (1) year, may be authorized by the Board of Selectmen upon recommendation of the Board of Finance.

2. Responsibility: It shall be the responsibility of the Board of Selectmen, the Town Manager and the Finance Director to issue debt in compliance with the terms outlined in this policy and in compliance with the Town Charter and State and Federal law. The primary responsibility of debt management rests with the Finance Director. The Finance Director shall:

- Provide for the issuance of debt at the lowest possible cost and risk;
- Determine the available debt capacity;
- Provide for the issuance debt at appropriate intervals and in reasonable amounts as required to fund approved expenditures;
- Recommend to the Board of Selectmen the manner of sale of debt;
- Monitor opportunities to refund debt and recommend such refunding as appropriate;
- Comply with all Internal Revenue Service (IRS), Securities and Exchange Commission (SEC), and State and local rules and regulations governing the issuance of debt;
- Provide for the timely payment of principal and interest on all debt; ensure the that the fiscal agent receives funds for payment of debt service on or before the payment date;
- Provide for and participate in the preparation and review of offering documents;
- Provide annual disclosure information to established national information repositories and maintain compliance with disclosure statements as required by the state and national regulatory bodies;
- Distribute to appropriate repositories information regarding financial condition and affairs at such time and in the form required by law, regulation and general practice;
- Provide for the distribution of pertinent information to rating agencies;
- Maintain a current database of all outstanding debt; and
- Apply and promote prudent fiscal practices.
- Develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition.

V. Policy

1. Debt Retirement Objective – Debt retirement expenses (interest and principal) shall be at a rate of not more than 7% of the total annual general fund operating budget. Debt that is being funded outside of tax revenues (i.e. WPCA Sewer Use Fees) shall not be included within the 7% unless the fund responsible for the debt payments is financially unstable and it is anticipated that the Town will be called upon to make debt payments from the general fund.
2. Compliance with Six-year Capital Improvement Plan (CIP) - Capital Planning for Simsbury is required by the Town Charter, Section 803 and predicated on adoption by the Board of Selectmen of a six-year CIP. In general, with the exception of emergencies and mandates, this plan is the governing document for capital expenditures. The Town further

recognizes that certain projects for which debt financing should be considered may arise in such a manner that they cannot be incorporated into the six-year CIP prior to financing, e.g., the coming to the market of a specific property the Town desires to acquire for open space purposes.

3. Types of Permissible Debts – whenever possible, the Town will first attempt to fund capital projects with state and federal grants or other revenues. When such funds are insufficient, the Town may use dedicated revenues from Special Revenue Funds, Capital Projects Funds, or General Fund revenues or reserves. If these are not appropriate or sufficient, the Town will use bond funding or long-term leases. The Board of Selectmen and the Board of Finance will evaluate debt-funding scenarios as part of the capital budget process using models developed by the Finance Director in order to prioritize future financing needs and to evaluate compliance with this policy. The Board of Finance will forward its recommendations to the Board of Selectmen.

General Obligation (G.O.) bonds may be issued to finance traditional public improvements for which other funding is unavailable or impractical. Long-term bonds may be used to finance infrastructure or facility improvement projects with an estimated life expectancy of at least 15 years and cost of at least \$250,000.

The Town may go to market for G.O. bonds for a minimum threshold of \$1,000,000. A smaller number of projects may be combined to meet the threshold, provided that each such included project meets the 15-years useful life condition.

General Obligation (G.O.) Bond Anticipation Notes (BAN's) may be issued for short-term debt. The Town may choose to issue bond anticipation notes (BAN's) as a source of interim financing when deemed prudent. Bond anticipation notes may also be used as a form of permanent financing (generally up to 10 years under current statutes) by renewing the notes over a number of years and reducing the principal amount of the notes on renewal.

Capital Lease Purchase Financing, in contrast to a true lease, provides for the acquisition of the leased item. Lease purchase financing may be used for procuring assets that are too expensive to fund with current receipts in any one year, but with useful lives too short (less than 15 years) to finance with long-term debt. Generally, lease purchase financing will not be considered for the purchase or construction of assets with a life expectancy of less than five years. The Town will seek competitive pricing when practical.

Low Interest Loan – The use of federal and state aided low interest loans should be considered before consideration of issuing any other forms of debt. Low interest loans may also be considered from private banks as permitted by law.

4. Statutory Debt Limitations – 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.

5. Bond Structure

Consideration should be given by the Board of Selectmen to each of the following:

- Providing cash in advance to meet project expenses
- Maximizing the credit rating potential and market acceptance of the bonds
- Minimizing net borrowing cost
- Minimizing the impact of debt service payments on annual cash flow

Bond term – All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event to exceed 20 years. For capital expenditures valued below \$20 million, bonding will not exceed ten (10) years. Fifteen (15) to twenty (20) year bond terms may be considered and approved in the budget process by the Board of Finance for major projects exceeding \$20 million that benefit the community.

Interest Rates - The Town will attempt to issue debt that carries a fixed interest rate. However, it is recognized that certain circumstances may warrant the issuance of variable rate debt. In those instances, the Town should attempt to stabilize debt service payments through the use of an appropriate stabilization arrangement. Board of Selectmen approval is needed to issue variable rate debt.

Debt Service Pattern – The preferred debt service method is level principal, however, new debt should be structured to coincide with the retirement of past debt to lessen the impact upon the mill rate and to keep debt service costs at or below 7% of the operating budget. Debt that is being funded outside of tax revenues (i.e. WPCA Sewer Use Fees) shall not be included within the 7% unless the fund responsible for the debt payments is financially unstable and it is anticipated that the Town will be called upon to make debt payments from the general fund.

Call provision – The Board of Selectmen seeks to minimize the cost from optional redemption call provisions, consistent with its desire to obtain the lowest possible interest rates on its bonds. The Town Manager and Finance Director will evaluate the optional redemption provisions for each issue to ensure that the Town does not pay unacceptable higher interest rates to obtain such advantageous calls.

Method of sale – Debt obligations are generally issued through competitive sale. When conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the Town that would not be achieved through a competitive sale, the Board of Selectmen may elect to sell its debt obligations through a private or negotiated sale.

6. Refunding Debt - The Board of Selectmen will continually monitor its outstanding debt in relation to existing conditions in the debt market and will refund any outstanding debt when sufficient savings can be realized. The target threshold for net present value savings should be a minimum of 2%.
7. Emergencies - During emergency situations, the Town may issue debt to provide for emergency infrastructure repair or replacement if such repair or replacement as necessary for the immediate preservation of the public peace, health and safety as governed by the Town Charter.

VI. Debt Affordability Measures

The Board of Finance, in connection with the budget approval process, will evaluate the Town's debt position. The following statistical measures to determine debt capacity will be used and evaluated in relation to rating agency standards and the Town's historical ratios to determine debt affordability:

Debt Burden and Service Indicators

- Debt as a percentage of Net Taxable Grand List
- Debt per capita
- Debt to personal income
- Debt to taxable property value
- Debt as a percentage of General Fund expenditures
- Simsbury debt in comparison to other comparable towns

VII. Professional Services (Responsibility of the Board of Selectmen)

1. Bond Counsel: All debt issued by the Town will include a written opinion of bond counsel affirming that the Town is authorized to issue the proposed debt. The opinion shall include confirmation that the Town has met all Town and state requirements necessary for its issuance, a determination of the proposed debt's federal income tax status and other components necessary for the proposed debt.
2. Municipal Advisor: A Municipal Financial Advisor(s) will be used to assist in the issuance of the Town's debt. The Municipal Financial Advisor will provide the Town with objective advice and analysis on debt issuance. This includes, but is not limited to, analyzing debt capacity, projecting future debt impact and modeling of future debt issuance, monitoring market opportunities, structuring and pricing debt, and preparing official statements of disclosure.
3. Underwriters: An Underwriter(s) may be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing the negotiated or private placement debt and reselling the debt to investors.

4. *Fiscal Agent:* A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders.

All vendors retained by the Town of Simsbury will be selected in accordance with the Town of Simsbury's purchasing policy.