

## **TOWN OF HEBRON DEBT MANAGEMENT POLICY**

### **Our Mission**

To provide a comprehensive, viable and consistent debt management policy which recognizes the capital improvement needs of the Town of Hebron as well as the taxpayer's ability to pay while considering the existing legal, economic, financial and debt market factors.

### **Purpose**

The basic purpose of this policy is to establish parameters and guidance for the Board of Selectmen and Board of Finance in decision making on capital spending and the issuance and management of debt. This debt policy is the Board's recognition of a binding commitment to ensure sound debt repayment, position and credit quality protection.

### **Relevant Factors for Debt Issuance**

- Legal Constraints on debt capacity and various financial alternatives.
- Maintenance of the formally adopted Capital Improvement Plan Program by the Board.
- Maintenance of the formally adopted General Fund Unassigned Fund Balance.
- Urgency of capital requirements, economic costs, demographic trends and possible delay ramifications.
- Willingness and financial ability of the taxpayers to pay for capital improvements.
- Current interest rates and other market economic considerations.
- Overall financial condition of the Town of Hebron.
- The sources, availability and stability of revenues to be pledged towards repayment of debt.
- Type of debt to issue, whether short term or long term and proper balance between internal and external financing.
- Nature of the projects to be financed.
- Determination of "pay as you acquire" versus "pay as you use" approach.

### **Debt Management Elements & Objectives**

1. Capital Improvement Projects that may be financed by debt shall be repaid annually through tax revenues or other available revenue sources when designated for same and not feasible through a pay as you acquire format. Current operating expenditures shall not be funded through issuance of debt, i.e.; small, recurring maintenance or rolling stock (excluding vehicles with an excess cost of \$500,000 and a life expectancy greater than 15 years), or salaries.

2. Cash surpluses, grants, contributions or other revenue that may be designated for specific capital improvements or from the Capital Improvement Reserve Fund or Non-recurring Fund (excluding the General Fund) and where available and applicable should be utilized to finance scheduled capital improvements.
3. Short term debt may be utilized to provide interim cash flow to facilitate timing of bond sales, avoid locking in high long-term interest rates during periods of market turmoil or to partially finance projects where the final cost is uncertain. It is not to be used to defer the operating budget impact on bonded debt service or to speculate market rates. Interest and issuance costs for short term debt will be included in the capital request and will be charged to the applicable project.
4. General obligation bonds are issued to finance traditional public improvements. Revenue or limited obligation bonds may be issued within statutory parameters to finance only those projects or programs which directly support the Town's long term economic development, housing interests, or where service is of limited constituency and is clearly self-supporting.
5. Long term leases may be utilized for copiers, computers, major equipment, rolling stock or other capital items when it is cost efficient and justifiable to do so.
6. Alternate methods of creative financing such as swaptions (interest rate swap option), variable rate debt, etc., shall be fully disclosed, discussed and approved by the Board of Selectmen and Finance.
7. The Town of Hebron shall issue debt for the purpose of constructing or acquiring large non-recurring permanent capital improvements and for major renovations to existing capital improvements that are inclusive of the Town's Capital Improvement Plan Program. The exception to this element would be subject to approval of the Board of Finance.
8. All capital improvements financed through debt issuance shall be financed for a period not to exceed the useful life of improvements, but in no event, exceed 20 years (30 years for sewer projects) as in accordance with Connecticut State Statutes.
9. The Town of Hebron shall not construct or acquire a public facility if it is unable to adequately provide for the subsequent annual operation and maintenance costs of said facility.
10. The Town of Hebron will, at all times, manage its debt and sustain its financial position with the highest possible credit rating.
11. The Town of Hebron will ensure that an adequate system of internal financial control exists to maintain reasonable assurance and compliance with appropriate laws, rules, regulations and covenants associated with outstanding debt.
12. Revenue sources will only be pledged for debt when legally available and in similar situations where they have previously been used for operation and maintenance expenses/general operating expenditures.
13. The Town of Hebron will market its debt through the use of competitive bid process whenever deemed feasible, cost effective and advantageous to do so. However, it shall be recognized that in some situations, certain complexities and intricacies of a particular debt issue are such that it

may be advantageous to market the debt via negotiated sale. Bidders shall be encouraged to market the bonds to local investors.

14. The Town of Hebron will continually monitor its outstanding debt in accordance to existing conditions in the debt market and will refund/refinance outstanding debt when significant cost savings can be realized.
15. Credit enhancements will be used only in those instances where the anticipated savings in terms of reduced interest exceeds the cost of the credit enhancement.
16. The Town of Hebron will always attempt to issue debt that carries a fixed interest rate in order to maintain a stable and sustainable debt service burden. However, certain circumstances may warrant the issuances of variable rate with constant monitoring for an appropriate stabilization arrangement.

### **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.

### **Policy Review**

This policy should be jointly reviewed by the Board of Selectmen, Board of Finance, Town Manager and Finance Director periodically as deemed necessary in order to maintain a stable debt service burden.

Revised 2/12/16

*Adopted 3/1/16*

## **TOWN OF HEBRON DEBT SERVICE FUND**

### **DESCRIPTION**

Governments frequently incur long-term-debt that they intend to repay from the financial resources of the general government. Often governments set aside monies to meet current and future debt service requirements on a general government debt. The Debt Service Fund is established for the accumulation of assets to meet future debt service requirements.

### **PURPOSE**

1. **Creation.** Creation of a Debt Service Fund is hereby established for the Town of Hebron, which shall be used to account for the accumulation of financial resources to be used to offset the impact of future principal and interest requirements on general long-term debt. The purpose is to accumulate adequate reductions in revenues. Accordingly, the Governmental Accounting Standards Board's (GASB), Section 1300.104, establishes the debt service fund type "to account for the accumulation of resources for, and the payment of, general long-term debt principal and interest."
2. **Appropriations.** The appropriations to the Debt Service Fund shall be made as part of the Annual Budget adoption in May or as an appropriation from Unassigned Fund Balance. The amount of appropriation is to be determined by the Board of Finance. The appropriation transfer shall be made into the fund at the beginning of the budget year.
3. **Expenditures.** Expenditures from the Debt Service Fund shall be made as budgeted interfund transfers to the General Fund for payment of debt service principal and interest requirements.
4. **Fund Balance.** The unexpected balance of the Debt Services Fund existing at the close of any fiscal period shall remain credited to such fund and shall not lapse to the General Fund. The fund shall accumulate investment earnings that shall become part of the fund balance.