

<p style="text-align: center;">Town of Bloomfield Policy Memorandum SUBJECT: Debt Management DISTRIBUTION: Town Council, Town Manager, Finance Department</p>

NO: Policy # 141.05
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AMENDED:
BY: Jim Wren, Finance Director
APPROVED: Town Council on
10/23/17

I. PURPOSE

The purpose of a debt management policy is to establish parameters and guidelines to improve the quality of decision-making on long-term capital planning and on the appropriateness of utilizing long-term debt to fund related capital expenditures. This policy is based on best practices recommended by the Government Finance Officers Association.

The Town of Bloomfield understands that the foundation of any well-managed debt program is a comprehensive debt management 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 recognition of the Town of Bloomfield's binding commitment to fully and timely repay 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 the Town's credit quality is protected and enhanced.

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

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

II. RESPONSIBILITY

It shall be the responsibility of the Town Manager, Finance Director and Town Council to ensure that debt is issued in compliance with the terms outlined in this policy.

III. FORMS

None.

IV. PROCEDURE:

A. OBJECTIVES OF ISSUING DEBT

- a. The Town will finance capital projects through the issuance of debt for the shortest period practical but, in any event, not in excess of the anticipated useful life of the financed asset or the maximum statutory amortization period, whichever is shorter. In conformity with Section 310 (a) of the Town of Bloomfield Charter, all bond authorizations must be approved at referendum, unless otherwise provided by the Connecticut General Statutes, including but not limited to the authorization of refunding bonds.
- b. The Town will evaluate debt-funding scenarios 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 to the extent consistent with its overall budgetary policies.

B. PURPOSES FOR WHICH DEBT MAY BE ISSUED

- a. During emergency situations, the Town may issue debt to provide for emergency infrastructure repair or replacement if such repair or replacement is necessary for the immediate preservation of the public peace, health and safety. Emergency situations shall be governed by Section 309 of the Town Charter and, unless approved in accordance with Section 310(a) of the Town of Bloomfield Charter, such debt shall be authorized in accordance with Section 7-379 of the Connecticut General Statutes – “Issuance of Bonds and Notes for Dire Emergencies.” For purposes of this statute, “dire emergency appropriation” means an appropriation to relieve or assist in the relieving of a situation certified to be an unusual and serious condition endangering public health and welfare. This determination is to be made by a board composed of the Governor, Attorney General and the Secretary of the Office of Policy and Management.
- b. Generally, the Town will only consider financing major capital improvements with a total cost exceeding \$1,000,000 through the issuance of long-term debt. Such costs may include planning, design and land acquisition costs for such improvements.

- c. The Town generally will consider issuing debt to finance only those projects that have been included in the Five-Year Capital Improvement Program. It is recognized that certain projects for which debt financing should be considered may arise in such a manner that they can not be incorporated in the Five-Year Capital Improvement Program prior to financing, *e.g.*, the coming to the market of a specific property which the Town desires to acquire for open space purposes.
- d. The Town will not fund current operating expenditures through the issuance of debt except under extreme circumstances that have been approved by the town council (such as issuance of debt in connection with tax anticipation notes or pension obligation bonds).

C. LEGAL LIMITATIONS

The Connecticut General Statutes (C.G.S. §7-374) limit the aggregate amount of indebtedness the Town and its coterminous municipalities may have outstanding and the amount of indebtedness outstanding for particular purposes to various multiples of the total annual tax collections of the Town and its coterminous municipalities. Certain debt as well as authorized but unissued debt (e.g. tax anticipation notes) are excluded by statute from this debt limitation. In addition, certain authorized but unissued debt may be included in the calculation of outstanding debt. The Town shall not incur indebtedness through the issuance of debt which shall cause outstanding aggregate indebtedness, or outstanding aggregate indebtedness by purpose, of the Town and its coterminous municipalities to exceed the following (taking into account the statutory exclusion of certain outstanding debt and inclusion of certain authorized but unissued debt):

a. Aggregate Debt:	7.00 times annual receipts from taxation
b. General Purposes:	2.25 times annual receipts from taxation
c. School Purposes:	4.50 times annual receipts from taxation
d. Water Pollution Control Purposes:	3.75 times annual receipts from taxation
e. Urban Renewal Purposes:	3.25 times annual receipts from taxation
f. Past Pension Benefit Obligation:	3.00 times annual receipts from taxation

In calculating the amount of indebtedness of the Town and its coterminous municipalities outstanding there shall be excluded:

- a. Tax Anticipation Notes (“TANs”)**

- b. Statutorily-Specified Utilities Financings
- c. Levied Public Benefit Assessment Financings
- d. Grant Anticipation Financings
- e. Contract Revenue Anticipation Financings
- f. Water Pollution Abatement Order Financings
- g. Refunded Obligations

D. TYPES OF DEBT PERMITTED TO BE ISSUED AND CRITERIA FOR ISSUANCE

Types of debt obligations covered by this policy:

a. Short Term Debt:

1. General Obligation (G.O.) Bond Anticipation Notes (BAN's)

The Town may choose to issue bond anticipation notes as a source of interim financing when deemed prudent. Bond anticipation notes may also be used as a form of short-term permanent financing (generally up to ten years under the current statutes) by renewing the notes over a number of years and reducing the principal amount of notes on renewal. Before issuing such notes, the Town will direct the Town Manager and Director of Finance to contact the Town's Financial Advisor for consultation. Bond anticipation notes will generally be sold at a competitive sale; however, a negotiated sale or private placement may be allowed when in the best interest of the Town.

2. Lease Purchase Financing (also known as capital lease financing)

Generally, lease purchase financing, in contrast to a true lease, provides for the acquisition of the leased item. Lease purchase financing 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 10 years) to finance with long-term debt.

- i. Generally, lease purchase financing will be considered for assets that are "like items in the aggregate", that will be needed for only short periods of time, or which are subject to rapid technological obsolescence.
- ii. Generally, lease purchase financing will not be considered for the purchase or construction of assets with a life expectancy of less than five years or a cost of less than \$20,000.
- iii. All lease purchase financings, whether for the Town or the Board of Education, shall require approval by the Town Council. As a matter of

Federal tax law, tax-exempt lease purchase financings for Board of Education purposes require the Town's approval as the Board of Education cannot exercise the Town's borrowing power.

- iv. Principal and interest payments on a lease purchase financing shall be included in the operating budget of the Town or of the Board of Education, based on the respective purpose of the lease purchase financing. The Board of Education shall enter into an agreement to that effect with respect to each lease purchase financing entered into by the Town for the benefit of the Board of Education.

* Note that the above policies do not address true or operating leases. Pursuant to such leases the leased item is returned to the lessor at the end of the lease term. Provision for lease payments with respect to such leases should be incorporated into the annual operating budgets for the Town or Board of Education, as applicable.

b. Long Term Debt:

1. **General Obligation (G.O.) Bonds:** General obligation bonds (and general obligation BANs) are backed by the Town's pledge of its full faith and credit to pay interest and principal of the obligations. Unless paid from other sources, the bonds are payable from general property tax revenues. The Town has the power under Connecticut General Statutes to levy ad valorem taxes on all taxable property in the Town without limit as to rate or amount, except for a few minor exceptions allowed by state statutes.

General obligation bonds should be used only to finance or refinance capital improvements and long-term assets, or other costs directly associated with financing of a project which has been determined to be beneficial to a significant proportion of the citizens of the Town and for which repayment sources, if any, have been identified. Bonding should be used only after considering alternative funding sources such as project revenues, Federal and State grants, and special assessments.

Other types of debt obligations not covered by this policy:

- **Tax Anticipation Notes (TAN's)**
- **Revenue Anticipation Notes (RAN's)**
- **Conduit/Tax Increment Finance (TIF)**
- **Pension Obligation Bonds**
- **Revenue or Special Assessment Bonds**

E. RESTRICTION/LIMITATIONS ON DEBT ISSUANCE

- a. Limitations on Issuance of G.O. Debt:** This Policy prohibits issuing general obligation debt for current operations (other than in connection with the issuance of tax anticipation notes, pension obligation bonds or other exceptions as approved by the town council), enterprise activities, enterprise funds, vehicles/rolling stock, leased or lease purchased items.
- b. Derivatives Prohibited:** This Policy prohibits the issuance of any securities which would commonly be understood to be “derivative”.
- c. Town Charter:** Procedures for debt issuance must comply with Section 310 of the Town Charter. Issuance of bonds must be approved by a majority of qualified electors voting thereon. This majority must exceed, by at least 15%, the negative vote at a town election, general election or special election called by the council for that specific purpose. Notice of such vote must be made at least ten days prior to the vote taking place.

F. STRUCTURAL FEATURES OF DEBT

- a. Overview:** The Town plans long-term and short-term debt issuances to finance the Town’s capital program based on cash flow needs, sources of revenue, capital construction periods, budgetary impact, available financing instruments, and market conditions. Also, an analysis will be completed to attempt to schedule new debt payments to begin as previous debt matures in an attempt to smooth out the impact of debt service over time. At the time a bond issue is structured, the mill rate impact will be evaluated so as to minimize overall tax increases with a target annual debt service increase of no greater than 5%.
- b. Debt Repayment:** Generally, borrowings by the Town should be of a duration that does not exceed the economic life of the improvement financed and where feasible should be shorter than the projected economic life, and, in all cases, not exceed the maximum amortization period permitted by state statute. Moreover, to the extent possible, the Town will design the repayment of the debt so as to recapture rapidly its credit capacity for future use. The Town will endeavor to structure new bond issues so as to provide that 50%, at a minimum, of the Town’s overall outstanding debt will be retired in the succeeding ten fiscal years.

G. CREDIT OBJECTIVES

Many analysts use debt ratios to analyze debt levels. However, the Town recognizes overemphasis on debt ratios should be avoided because debt ratios are but one of many factors

which influence bond ratings. Commonly used debt ratios of comparably sized municipalities will provide one measure against which the Town can assess its debt burden. Another measure is to compare the Town against ratios developed by rating agencies. The analysis is not intended to review the Town's total financial position or to make projections of future expenditures other than debt service.

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

a. Debt Burden Indicators

1. Debt as a percentage of Net Taxable Grand List.
2. Debt per capita.

b. Debt Service Indicators

1. Annual general obligation debt service as a percentage of General Fund operating budget expenditures. The target range for this percentage is between 8%-10% of the budget each year.
2. Retirement of 50%, at a minimum, of the Town's overall outstanding debt in the succeeding ten fiscal years.

c. Overlapping Debt: The Town is a member of the Metropolitan District Commission ("MDC"), a regional sewer and water authority. In compliance with GASB standards, the MDC debt, along with the estimated Town of Bloomfield share of such debt, must be disclosed in the audited financial statements.

d. Underlying Debt: The Town has several coterminous taxing districts that may issue debt and levy taxes for repayment of such debt. The debt of these tax districts is considered underlying debt of the Town. While the Town is not responsible for repayment of any tax district debt, such debt is included in the Town's total overall outstanding debt for analysis purposes and for purposes of the statutory debt limitation.

H. METHOD OF SALE

a. Competitive Sale: The Town, as a matter of policy, shall seek to issue its debt obligations in a competitive sale unless it is determined that such a sale method will not produce the best results for the Town. In such instances where the Town, in a competitive sale of its debt securities (whether general obligation or non-general obligation debt), deems the bids received as unsatisfactory or does not receive bids, it may enter into negotiation for sale of the securities.

b. Negotiated Sale: When determined appropriate, the Town may determine to sell 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” below.

- c. **Private Placement/Limited Public Offering:** When determined appropriate, the Town may elect to sell its debt obligations through a private placement or limited public offering. Selection of a placement agent shall be made pursuant to selection procedures developed by the Finance Director and approved by the Town Manager and Finance Subcommittee of the Town Council.
- d. **Participation in State and Federal Loan Programs:** When determined appropriate, the Town may issue debt obligations in conjunction with loans made pursuant to State and Federal programs, e.g., the State of Connecticut programs for providing funding of eligible drinking water and water quality projects.

I. SELECTION OF CONSULTANTS AND SERVICE PROVIDERS

- a. **Solicitation:** The Town shall establish 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 the highest quality services at competitive prices.
- b. **Financing Team:** The Town employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents (i.e. offering statement) and marketing bonds to investors. The key players in the Town’s financing transactions include its internal financial professionals (the Town Manager, the Director of Finance and Finance Department staff, among others), its Bond Counsel, and its Financial Advisor. Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, auditing, or printing services, are retained as required.
- c. **Bond Counsel Involvement:** The Bond Counsel will issue an opinion as to the legality and, where applicable, the tax-exempt status of all obligations. The Town also may seek the advice of Bond Counsel on other types of financing and on any other questions involving federal tax law applicable to tax-exempt bonds. Bond Counsel also is responsible for the preparation of the resolution authorizing issuance of obligations, various closing documents to complete their sale and issuance, review of the offering statement and performance of other services as defined by contract approved by the Town.
- d. **Financial Advisor Involvement:** The Town will seek the advice of the Financial Advisor when appropriate and when required by law. The Financial Advisor will advise on the structuring of obligations to be issued, inform the Town of various options, advise the Town as to how choices will impact the marketability of the Town’s obligations, and provide other services as defined by contract approved by the Town. To ensure independence, the Financial Advisor neither will bid on nor underwrite any

Town debt issues for which it is serving as Financial Advisor. The Financial Advisor will inform the Town Manager and the Director of Finance of significant issues that could affect the marketability of its debt or impact its credit rating.

J. REFUNDING OF LONG-TERM DEBT

A refunding of long-term debt involves the refinancing of an outstanding bond issue by issuing new bonds. Most refundings are performed to take advantage of current interest rates that are lower than those rates on outstanding bonds. Such refundings are for interest rate savings. Current refundings are completed within 90 days of the issue date of the refunding bonds and the related escrow is not subject to arbitrage investment yield restrictions. Advance refundings occur when the old bonds are called more than 90 days after the issue date of the refunding bonds. In advance refundings, arbitrage requirements must be followed, meaning that funds held in escrow must not earn more than the yield on the new bonds. The Town may consider a refunding for three primary reasons:

- a. To reduce interest costs.
- b. To restructure debt service, but generally only if the present value of debt service savings exceeds two (2%) percent of the debt service amount of the refunded bonds.
- c. To eliminate old bond covenants that may have become restrictive.

K. DISCLOSURE/ARBITRAGE COMPLIANCE

- a. **Rating Agencies:** Full disclosure of operations and open lines of communication shall be maintained with at least one rating agency. Town staff, with assistance of financial advisors, shall prepare the necessary materials and presentation to the rating agency. A credit rating will be sought from one or more nationally recognized credit reporting agencies as recommended by the Town's financial professionals in conjunction with the Town's financial advisor.
- b. **Arbitrage, Private Activity Use/Payment and Covenant/Representation Compliance:** The Town shall establish a system of record keeping and reporting to ensure compliance with arbitrage limitation, arbitrage rebate, and private activity use and payment limitations applicable to its tax-exempt obligations under the Federal tax code. This effort shall include tracking expenditure of and investment earning on proceeds of bond and note issues and lease purchase transactions, 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, private activity use and payment, general financial reporting and certification requirements embodied in bond covenants, if any, or tax compliance or regulatory agreement covenants or representations in connection with the Town's tax-exempt obligations shall be monitored to ensure compliance with all such covenants and representations.

- c. **Continuing Disclosure:** The Town, working together with its Financial Advisor and Bond Counsel, 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, including requirements regarding annual financial information and material event filings incorporated in the Town's continuing disclosure agreements entered into in connection with the issuance of its debt obligations.

L. INTEGRATION WITH CAPITAL PLANNING

The Town prepares a multi-year Capital Improvement Program for consideration and adoption 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 financial impact of each proposed project will be evaluated and updated annually. To fund the Capital Improvement Program, the Town will use general revenues (pay-as-you-go), debt financing, State and Federal Aid, special assessments or a combination thereof.

M. DEBT AUTHORIZATION

The Town shall have the power to incur indebtedness subject to the provisions of the Bloomfield Town Charter and the Connecticut General Statutes, as revised from time-to-time.

N. INVESTMENT/ACCOUNTING OF PROCEEDS

The investment of proceeds of debt obligations (including investment earnings) must be in conformance with all applicable state and federal laws. All efforts must be made to defer permanent bonding until the money has already been spent or is close to being spent in order to avoid having excess cash on hand which may lead to violation of arbitrage rules, with due regard for the tax law limitations on the extended delay in reimbursing non-debt funding sources with the proceeds of tax-exempt bonds (see Section 12). For large projects spanning a period of time of three months or more, bonds and bond anticipation notes will be issued according to a cash flow statement developed for the project.

Bond proceeds will be recorded in the Capital Projects Fund and specifically accounted for in the individual project to which they relate. Any net sale premium on bond issuance shall also be credited to the project in question and should be used to help reduce future borrowing needs for the project financed.

Approved by the Town Council on