

## **DEBT MANAGEMENT POLICY**

Approved by the Town Council at the 10-20-15 Town Council Meeting

The Town may decide to borrow funds (incur debt) for short-term or long-term funding needs for a variety of reasons. Most often, debt is required for funding of the Capital Improvement Plan. Although the Capital Improvement Plan is scheduled and intended to be fully-funded at the scheduled time for each asset purchase, the Town may choose to borrow funds to finance its Capital Improvement Plan, and/or one-time capital asset expenditures and economic development activities consistent with and in accordance with the Comprehensive Plan and contingent upon a favorable vote of Town meeting.

(The Treasurer is required to provide a pre-determined, scheduled analysis to the Finance Committee and/or to the Town Council, detailing available funds for fulfillment of the long-term and short-term Capital Improvement Plan. Funds requested or required for one-time capital asset expenditures (i.e. land/building purchases) or economic development activities are analyzed and detailed in conjunction with the Capital Improvement Plan and/or separately as required/requested.)

Upon direction from the Town Council and/or the Finance Committee, the Treasurer will research all possible debt options available to the Town, to be reviewed by the Finance Committee for recommendation to the Town Council. The process and procedure for proposing debt, regardless of type and duration is outlined in this section for management and compliance purposes.

### **OVERVIEW**

The Town may not issue debt that is not supported by taxes.

The Town may not issue debt to fund current or ongoing operations of the Town except in the form of TANs when applicable, and only in compliance with current Maine State law and with applicable Internal Revenue Service (IRS) regulations.

The Town may not lend its borrowing capacity to any other entity. In limited circumstances, the Town may choose to guarantee the debt of another entity to which it is contractually affiliated (i.e. ecoMaine, Gray Water District, MSAD 15, any Public Private Partnership (as allowable by law)), providing that such contracts have been executed with the full consent of the Town Council and the voting authority of the Town.

### **DEBT DEFINITIONS**

Debt types are defined as the following:

- Bonds
  - General Obligation - is secured by the Town's pledge to use legally available resources to pay bond holders (aka Full Faith and Credit) and must have voter approval.
- Loans
  - Bond Anticipation Notes (BANs) – Temporary note(s) and renewal note(s) issued upon authorization of the Town Council in anticipation of bond sales, provided that the note

does “not exceed at any one time outstanding the authorized amount” (30A MRSA § 5772), “shall not exceed 3 years” (30A MRSA § 5772) and the time within which they are due “shall not be extended...beyond (1) the time fixed in the vote authorizing their issue; or (2) if no term is specified in that vote, beyond the term permitted by law” (30A MRSA § 5772)

- Tax Anticipation Notes (TANs) - “shall not exceed the total tax levy of the preceding municipal year” (30A MRSA § 5771), “must be paid within one month after the end of the municipal year in which they are made” (30A MRSA § 5771) and “must be paid out of the money raised by taxation” (30A MRSA § 5771)
- Lease

### **MANAGEMENT PROCESS/LIMITATIONS**

The Town will manage the debt which it proposes to incur in accordance with the following guidelines:

- 30A MRSA § § 5701, 5702
  - “A municipality cannot incur debt which would cause its total outstanding debt, exclusive of debt incurred for school, storm or sanitary sewer, energy facilities or municipal airports, to exceed 7.5% of its last full state valuation”
  - “A municipality may incur debt for schools to total an amount not exceeding 10% of its last full state evaluation, up to 7.5% for storm and sanitary sewers, and up to 3% for municipal airports, water districts and special purpose districts, combined”
  - In no event can the total debt exceed 15% of the municipality’s last full state valuation.
- The ability to achieve the lowest possible financing costs
- The measurement of the Town’s ability to pledge its full faith and credit to support the debt service (sometimes as determined by external influences such as rating institutions)

Proposed debt will be evaluated by the following:

1. Demand – the need for debt
  - a. Demand is measured by needs presented in the Capital Improvement Plan and/or one-time capital asset expenditures and economic development activities
2. Capacity – the maximum amount available to the Town for debt in consideration of:
  - a. Current and projected annual debt service levels, based on current projected and outstanding debt amortization schedules
  - b. Market conditions (ability to access the financing market, interest rates, etc.)
  - c. Economic conditions, including cost of construction
  - d. Opportunity for participation in low interest financing programs, debt service reimbursement, grant opportunities or other situations determined to be beneficial to the Town
3. Affordability – the analysis of the financial impact
  - a. Requires a projection of impact for the annual debt service, incorporating the elements of capacity. Annual debt service will be calculated/estimated as the annual amount

needed to satisfy principal and interest payments (according to a projected, estimated amortization schedule). Impact should be analyzed in consideration of budgetary and projected, estimated mil rate (as available) impact and with the following limitations:

- i. Annual debt service payments will not exceed 15% of the approved budgeted tax commitment
  - ii. Total outstanding debt must not exceed 5% of the Town's last full state valuation
4. Terms – length of debt maturity
  - a. Financing will be secured with the goal of paying back the debt over a term that is determined to be of the greatest benefit to the Town
  - b. Maturity of debt may not exceed the useful life of the capital asset or economic development being financed, or than the final maturity of refunded debt, which may not exceed 30 years from the date of issuance (30A MRSA § 5772)
5. Payment Structure – how payments are structured to be applied on the amortization schedule
  - a. If the question submitted for approval of a Town bond does not include this information specifically, the authority to determine payment structure and various other details is delegated to the municipal officers (30A MRSA § 5772)
  - b. Payments are to be structured with level principal amounts and declining interest over the life of the debt except in instances where debt service payments are structured to maximize economic benefit, such as for rate stabilization
6. Refunding – debt issuance, issued at a lower rate, the principal of which is used to pay off other outstanding debt
  - a. Refunding opportunities will be analyzed whenever issuing other applicable debt, in order to package issues
  - b. Refunding opportunities will be detailed in the scheduled available funds analysis to attempt to achieve future interest expense savings, which should be estimated to realize a present value saving of at least 2%.

#### **DEBT PRE-APPROVAL DISCLOSURES**

The Treasurer must provide the Town Council with a signed financial statement required to accompany any question submitted for approval of Town debt, which must include the following information:

1. The Town's total current outstanding debt including amounts authorized and unissued, and the current bond being requested for approval
2. An estimate and explanation of costs involved, including estimated interest rates, estimated cost of interest, total cost of interest and principal to be paid at maturity and any applicable information determined to be appropriate by the Treasurer
3. A statement that the validity of the debt and any subsequent voter approval of the debt may not be nullified by any errors in the estimations required to be provided and disclosed by the Treasurer

#### **BONDS**

## BOND RATINGS

Bond issuance is rated by external influences specializing in the analysis of an organization's ability to repay their debt obligations. The Town will be issued a rating for each bond issuance (which may exclude lease purchases), and at other pre-determined times based on the individual policies and procedures common to the external influence.

Is it the goal of the Town to maintain or improve its bond ratings, as it allows easy entry into the bond sale market and can help obtain favorable interest rates. Maintenance and compliance with/of the Fiscal Policy of the Town is crucial to overall favorable fiscal management and reliable reporting.

## BOND CONTINUING DISCLOSURE/RECORDS RETENTION COMPLIANCE

The Treasurer shall ensure compliance with all covenants made by the Town in the Bond documents, including, but not limited to, financial reporting, restrictions on the use and disposition of property, restrictions on the use and investment of Bond proceeds, and arbitrage and rebate compliance. For the purposes of this policy, the term "Bonds" means any obligations of the Town incurred for the purpose of borrowing money, including, without limitation, bonds, notes, and equipment lease-purchase agreements.

The Town will comply with any applicable continuing disclosure requirements of Rule 15c2-12 under the Securities and Exchange Act of 1934, as amended, and officially interpreted from time to time and the terms of any continuing disclosure agreement or certificate entered by the Town (each, a "Continuing Disclosure Agreement"), including the following:

1. The Town will provide the following information to the Municipal Securities Rulemaking Board (MSRB) or any successor thereto established under the Securities and Exchange Act of 1934, as amended not later than 270 days after the end of each fiscal year, annual financial information and operating data relating to the Town for the preceding fiscal year of the type presented in any Official Statement prepared in connection with the Bonds regarding:
  - a. revenues and expenditures of the Town relating to its operating budget
  - b. capital expenditures
  - c. fund balances
  - d. rate information
  - e. outstanding indebtedness and overlapping debt of the Town
  - f. pension obligations of the Town
  - g. any such other financial information and operating data as may be required to comply with the Rule
  - h. the audited financial statements of the Town, prepared in accordance with generally accepted accounting principles, promptly upon their public release.
2. The Town will provide in a timely manner not in excess of 9 business days after the occurrence of an event listed below to the MSRB or any successor thereto, notice of the occurrence of any of the following events with respect to the Bonds:
  - a. Principal and interest payment delinquencies

- b. Non-payment related defaults, if material
- c. Unscheduled draws on debt service reserves reflecting financial difficulties
- d. Unscheduled draws on credit enhancements reflecting financial difficulties
- e. Substitution of credit or liquidity providers, or their failure to perform
- f. Adverse tax opinions, the issuance by the Internal Revenue Service of Proposed Issue (IRS Form 5701-TEB) or other material notices of determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the bonds
- g. Modifications to the rights of securities holders, if material
- h. Bond calls, if material, and tender offers
- i. Defeasances
- j. Release, substitution, or sale of property securing repayment of the bonds, if material
- k. Rating changes
- l. Bankruptcy, insolvency, receivership or similar event of the Town; for the purposes of the event identified in this clause (l), the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for the Town in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or government authority has assumed jurisdiction over substantially all of the assets or business of the Town, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Town
- m. The consummation of a merger, consolidation, or acquisition involving the Town or the sale of all or substantially all of the assets of the Town, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- n. Appointment of a successor or additional trustee or the change of name of a trustee, if material

The Town chooses to file the required information through the Electronic Municipal Market Access System (EMMA), provided by the MSRB.

The Town will comply with the terms of each arbitrage and use of proceeds certificate or tax compliance certificate (each, an "Arbitrage and Use of Proceeds Certificate") for each issue of Bonds issued by the Town and with the applicable provisions of federal tax law. Without limitation of the foregoing, the Town shall take the following actions:

1. Proper Use of Proceeds — The Treasurer shall ensure that bond proceeds are expended and allocated to expenditures in a manner that is consistent with the purpose for which each bond issue is undertaken, as set forth in any Arbitrage and Use of Proceeds Certificate or agreement related to each bond issue.

2. Investment of Bond Proceeds — The Treasurer shall ensure that bond proceeds are invested in investments that are permissible under the terms of Maine law, the bond documents, and applicable federal tax laws.
3. Arbitrage and Rebate — The Treasurer shall ensure that the Town complies with the arbitrage, rebate and yield restriction requirements of Section 148 of the Internal Revenue Code and the regulations promulgated pursuant thereto and that the Town completes all necessary arbitrage rebate calculations, payments and filings in a timely manner or confirms that the Bonds are exempt from rebate.
4. Administration of Direct Pay Bonds — The Treasurer shall ensure the proper administration of each issue of Bonds qualifying for the payment by the Federal government of a credit equal to a percentage of interest on such Bonds, including the timely completion and filing of any forms required by the Internal Revenue Service to maintain or establish the applicable status of the Bonds for purposes of federal income taxation.
5. Use of Bond-Financed Facilities — The Treasurer shall consult with Bond Counsel for the Town before entering into any agreement or other arrangement for the sale, lease, management or use of bond-financed property, including, but not limited to, service, vendor, and management contracts, research agreements, licenses to use bond-financed property, agreements granting special rights or entitlements to private parties or naming rights agreements. The Treasurer shall review such agreements for compliance with federal tax laws.
6. Post-Issuance Transactions — The Treasurer shall consult with Bond Counsel for the Town before making any modifications or amendments to the bond documents for a bond issue, including, but not limited to, entering or modifying investment agreements; making any change in security for the Bonds; engaging in post-issuance credit enhancement transactions (i.e. bond insurance, letter of credit) or hedging transactions (i.e. interest rate swap, cap); terminating or appointing successor trustees; releasing any liens, or reissuing or refunding the Bonds.
7. Remedial Action — In the event that is determined that any use of bond proceeds or bond-financed facilities is inconsistent with the character of the status for federal income tax purposes of the Bonds, the Treasurer shall consult with the Town's Bond Counsel for the purpose of determining the nature and extent of any remedial action necessary or proper for the Town to take with respect to such Bonds or bond-financed facilities. If the Town takes any action after the issuance of Bonds that causes the conditions of the private business tests or the private loan financing test to be met, then the Town shall take timely remedial actions in accordance with the federal Treasury Regulations section 1.141-12 as necessary in order to preserve the tax-exempt status of the Bonds.

The Town shall maintain all records relating to the issuance of Bonds and the requirements of the Internal Revenue Code and the representations, certifications and covenants set forth in the Arbitrage and Use of Proceeds Certificate relating to the issuance of Bonds until the date six years after the last outstanding Bonds have been retired. If any of the Bonds are refunded by tax-exempt obligations, the Town shall maintain all records required to be retained by this section until the later of the date six

years after the last outstanding Bonds have been retired or the date three years after the last refunding obligations have been retired.

The records that must be retained include, but are not limited to:

1. Basic records and documents relating to the Bonds (including any loan agreement, Arbitrage and Use of Proceeds Certificate and the opinion of Bond Counsel)
2. Documentation evidencing the expenditure of Bond proceeds
3. Documentation evidencing the use of the project(s) financed by the Bonds by public and private sources (i.e. copies of management contracts, research agreements, leases, etc.)
4. Documentation evidencing all sources of payment or security for the Bonds
5. Documentation pertaining to any investment of Bond proceeds (including the purchase and sale of securities, SLGS subscriptions, yield calculations for each class of investments, actual investment income received from the investment of proceeds, guaranteed investment contracts, and rebate calculations)

## **LEASE**

The Town may choose to enter into a lease agreement to fulfill its requirement for certain assets (i.e. Town vehicles and various equipment). A lease may be used when the Town wishes to use property without purchasing it outright. A lease is only considered for capital assets if it meets one or more of the following requirements:

- It transfers ownership of the leased property to the lessee with the lessor as the lienholder
- Contains a nominal purchase option
- Its terms equal 75% or more of the estimated economic life of the leased property
- The present values of the lease payment equals or exceeds 90% of the fair value of the property at the inception of the lease

The lease agreement must contain a clause stating that if the Town chooses not to or is unable to appropriate the necessary funds in any applicable budget year for the debt service payment owed to the Lessor, the Town may elect to terminate the lease without penalty and the Town will peaceably surrender the leased items to the Lessor, forfeiting its rights to ownership.

## **DEBT ISSUANCE**

In the past, the Town has relied on the sale of bonds (as well as BANs) for the majority of its financing needs. The sales are conducted through the use of a financial advisory firm and recognized bond counsel (the fees of both of which are expendable from the bond proceeds). This process allows the Town continued access to the bond market and ensures compliance with all Securities and Exchange Commission (SEC), MSRB and IRS regulations.

The Town may enter into lease agreements if the management process outlined above determines such an agreement to be in the best interest of the Town.

## **ANNUAL POLICY REVIEW/EDUCATION**

On an annual basis, or sooner if deemed necessary or appropriate by the Treasurer, the Treasurer shall review this policy and assess the Town's compliance with this Policy. The Treasurer shall make changes to this Policy as appropriate to ensure compliance with any covenants in the bond documents or the requirements of federal tax and securities law and any other applicable law. The Town will also implement a program, including appropriate instruction and education of personnel, for purposes of ensuring compliance with the terms of this Policy.