Town of Weston, Connecticut Proposed Debt Management Policy

I. Purpose

The purpose of the Debt Management Policy is to guide decisions related to financing capital improvements by the Town's available cash balances, current tax revenue, and issuance of debt in order to maintain the Town's long-term financial strength and retain the highest possible ratings from the municipal credit rating services. This policy is intended to ensure that debt is used responsibly to purchase major capital assets and fund infrastructure improvements and additions while preserving fiscal flexibility to take on additional debt when necessary. The policy also seeks to maintain a balance between the town's ability to meet service demands and the burden of debt on taxpayers.

II. Goals and Objectives

The goals of the Debt Management Policy are to establish parameters for issuing debt and managing a debt portfolio which encompasses the Town's specific capital improvement needs and its ability to repay financial obligations utilizing a long-range financial planning approach. Specifically, the policies outlined in this document are intended to guide the Town in:

1. **Establishing guidelines** for the issuance and management of debt.
2. **Minimizing debt service and issuance costs** to maximize the benefit of debt over cash purchase.
3. **Retaining the highest possible credit rating** and maintain transparency in financial disclosure.
4. **Ensuring compliance** with the Town Charter, state, and federal laws regarding debt issuance.
5. **Aligning debt management with long-term capital planning** and provide a mechanism to meet the town's infrastructure and capital project needs.

III. Use of Debt

A sound debt management program integrates "pay-as-you-go" financing with projects financed through the issuance of long-term debt. The Town's Capital Improvement Program (CIP) shall use this combined approach to fund capital projects. Therefore, it is important to integrate the Town's Debt Management Policy with both a long-range financial plan and the CIP. Debt issuance for capital projects should not be considered unless such issuance has been incorporated into the CIP, which is updated annually.

When considering how to fund capital improvements the Town will use the following criteria to evaluate whether to fund the improvement project on a "pay-as-you-go" basis versus the use of long-term debt financing:

Factors Favoring Pay-As-You-Go Financing

1. Current revenues and adequate fund balances are available such that project phasing can be accomplished.
2. Useful life of the capital asses is 10 years or less.
3. Existing debt levels might have an adverse impact on the Town's credit rating.
4. Market conditions are unstable or present difficulties in marketing the improvement project.

Factors Favoring Long-term Debt Financing

1. Alternative funding sources such as Federal and State grants, loan programs, donations, proceeds from divestitures of capital assets, or a combination thereof, are not adequate or available.
2. Revenues available for debt service are forecast to be sufficient and reliable such that long-term financings can be marketed with an investment grade credit rating.
3. The project securing the financing is of the type which will support an investment grade credit rating.
4. Market conditions present favorable interest rates.
5. The project is required to meet or relieve capacity needs and current resources are insufficient or unavailable.
6. The life of the project or capital asset to be financed is 10 years or longer.

When Debt Should Not Be Issued

1. Paying for ongoing public services – while ongoing services benefit today's citizens and taxpayers the debt will be paid by tomorrow's taxpayers.
2. Life of the debt is longer than the life of the capital asset it funds – if the debt lasts longer than the capital asset then future taxpayers will pay for an asset they do not benefit from.
3. Cost of issuing debt is too high – if the costs and fees to issue debt outweigh the benefits that debt provides (e.g., small capital projects, refinancing existing debt).

IV. Allowable Types of Debt

The Town may issue the following types of debt in accordance with Connecticut law:

1. **General Obligation Bonds (GO Bonds):** Used to finance capital improvement projects with a long-term benefit (e.g., school construction, infrastructure projects).
2. **Bond Anticipation Notes (BANs):** Short-term notes issued in anticipation of future bond issuance (e.g., as part of a multi-step construction program).
3. **Tax Anticipation Notes (TANs):** Short-term borrowing to cover operating expenses pending tax collection.
4. **Leases:** Capital leases used to finance equipment with a useful life shorter than 15 years.

This policy prohibits the use of variable rate demand bonds and floating rate notes, nor the issuance of any securities which would commonly be understood to be a "derivative".

V. General Debt Limitations

There is a limit on the amount of debt that is affordable for the Town of Weston. The Town uses the following measure to define affordability:

Annual Debt Service as a Percent of General Expenditures - measures the resources that debt uses in the annual budget. The Town of Weston will limit annual debt service (principal and interest) as a percent of general fund operating expenditures to no more than 10% at the time of new debt issuance, excluding debt supported by self-sufficient revenues.

And the following measures to manage outstanding debt:

Debt per Capita and Debt-to-Assessed Value Ratio. The town will aim to keep **debt per capita** and **debt-to-assessed value** ratios at or below the median levels for surrounding towns (AAA or AA+ rated). These ratios will be reviewed annually by the Finance Department to ensure Weston's debt levels remain competitive and manageable compared to other towns with similar economic profiles and credit ratings.

VI. Debt Structure

The Town follows the following practices in repaying the principal and interest on its General Obligation Bonds:

1. **Debt Term:** The town will issue debt with the shortest period practical, but in any case, does not exceed the **useful life of the asset** being financed, with a maximum maturity of **20 years**.
2. **Paydown Schedule:** The town will strive to **pay down at least 50% of its outstanding general obligation debt within 10 years**, in line with best practices, to limit long-term interest costs.
3. **Fixed Rate:** The town will issue **fixed-rate debt** to minimize budgetary uncertainty.
4. **Call Provisions:** Debt will include provisions for early redemption (call options) to allow flexibility in refinancing if interest rates decrease.

VII. Process to Issue Debt

The Town will issue long-term, fixed rate debt to permanently finance the acquisition of long-lived capital assets when current tax revenues or cash balances are not sufficient to finance these projects. The Town will consider key economic variables, local economic trends, revenue and expenditure projections (including future operating costs associated with new capital projects), and the overall debt burden on the community before issuing bonds. Issuance of debt is guided by the following practices:

1. The Town shall **solicit and select a Municipal Advisor** when issuing debt obligations to advise on structuring and other options to improve the marketability of the bond offering.
2. The Town shall **authorize by resolution** a not to exceed issuance amount for the bonds in accordance with the provisions of the Weston Town Charter (Section 9.11 et al), as revised from time-to-time.
3. The Town shall **employ other outside financial specialists** to assist town staff in developing a bond issuance strategy, preparing materials for presentation to rating

agencies, preparing bond documents, and marketing bonds to investors (e.g., Bond Counsel, paying agent/registrar, trustee, auditing, or printing services).

4. The Town will **generally issue debt obligations through a competitive sale process** unless conditions are more favorable for a negotiated process. Whenever possible, the Town will issue $10 million or less in tax exempt securities per calendar year to receive the "Bank Qualified" status on the issue to minimize interest rates paid for bonded projects.

VIII. Refinancing of Debt

The Finance Department, in consultation with the Town's financial advisor, will annually evaluate opportunities to **refund existing debt** to achieve savings. Refunding will be considered only if a **net present value savings of at least 2%** of the refunded debt is achieved

IX. Monitoring and Ongoing Disclosure

The Town's long-term financial forecast, capital improvement program, debt obligations, and debt capacity will be evaluated together, in an integrated manner, on an annual basis by the **Director of Finance** and reported to the **Board of Finance**. Any changes that occur in capital plans, debt obligations, or debt capacity will be incorporated and highlighted for consideration in the Town's annual budgeting process.

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. The Director of Finance, with assistance of financial advisors, shall prepare and submit comprehensive financial, economic, and demographic information on the Electronic Municipal Market Access (EMMA) service annually.

The Town will also maintain open communication with credit rating agencies, ensuring full financial disclosure of operations and providing accurate and timely information to maintain or improve the town's credit rating.

X. Policy Review

The Director of Finance is responsible for reviewing the Debt Management Policy annually and shall recommend to the Town Administrator and the Board of Finance any changes to this policy as required. This would include changes required to align the policy with best practices, ensure compliance with any covenants in any bond documents, or meet the requirements of federal tax, securities, or other applicable law.

Approved by the Weston Board of Finance: [Date]

Policy Rationale

Debt Service as a Percentage of Budget: Annual general obligation debt service (principal and interest) should not exceed **10% of the Town's General Fund budget**, excluding debt supported by self-sufficient revenues.

Affordability and Sustainability

- Capping debt service at 10% ensures that debt repayments do not overly burden the operating budget, allowing the town to maintain flexibility in its spending priorities. Municipalities must balance between servicing debt and funding essential services like education, public safety, and infrastructure maintenance.
- By limiting the debt service ratio, the town can avoid future financial stress where too much of the budget is allocated to paying off past debt rather than addressing current needs.

Industry Standards and Credit Rating Protection

- The 10% threshold aligns with the guidance provided by bond rating agencies (like Moody's, S&P, and Fitch) as an indicator of sound financial health. Higher debt service levels could raise concerns about fiscal strain and lead to downgrades in the town's credit rating, which would increase the cost of borrowing in the future.

Fiscal Flexibility

- A 10% cap preserves room within the budget for emergency spending, unexpected revenue shortfalls, or necessary increases in operating expenses without being overly constrained by debt obligations. It allows the town to respond to unforeseen circumstances with financial agility.
- It also ensures there is capacity to issue new debt for capital projects as needed without exceeding a comfortable threshold, preserving future financial flexibility for long-term planning.

Alignment with Comparable Towns

- Many Connecticut towns use similar guidelines for their debt policies. For example:

Town	Debt Service Limit as % of Budget
Windsor	Limit to 6% - 8%
Berlin	10%
Farmington	10%
Groton	10%
Redding	Analytical review, no specific cap
Haddam	Less than 10%, Target 2% - 8%

Simsbury	8%
Greenwich	11%
Newtown	9% (goal of 8.5%)

Excluding Self-Supported Debt

- Excluding self-sufficient revenue-backed debt (such as future sewer fees or other user charges) ensures that the general fund's operational capacity is not constrained by debt obligations for projects that are funded by other means. This recognizes that certain debt instruments tied to specific revenue streams (like utility fees) do not strain the tax base in the same way as GO bonds supported by general property taxes.

Debt per Capita and Debt-to-Assessed Value Ratio: The town will aim to keep **debt per capita** and **debt-to-assessed value** ratios at or below levels for similarly rated municipalities (AAA or AA+ rated towns). These ratios will be reviewed annually by the Finance Department.

Why Include Debt-to-Assessed-Value in Policy and not Debt-to-ENGL?

- Including the **Debt-to-Assessed-Value Ratio** in a town's debt management policy helps ensure that debt levels remain manageable relative to the local tax base, which is tied to assessed property values. This ratio is used to gauge how well the town's tax base can support its debt, ensuring that the debt burden remains sustainable.
- **Debt-to-ENGL** provides a **broader comparison** across municipalities, helping the town understand its debt levels relative to full market values and how it compares with other towns. It's especially useful for benchmarking when credit rating agencies or external bodies evaluate the town's financial health.

Benchmarking Against Similar Municipalities

- By aiming to keep the town's debt per capita and debt-to-assessed value ratios in line with similarly rated municipalities (AAA or AA+), Weston ensures its debt levels remain competitive and manageable compared to other towns with similar economic profiles and credit ratings. Municipal credit rating agencies (e.g., Moody's, Standard & Poor's) closely evaluate these metrics when assessing the town's overall financial health, particularly when rating the town's bonds.
- Municipalities with high debt per capita or debt-to-assessed value ratios could signal to investors that the town is taking on excessive debt relative to its tax base, potentially leading to credit downgrades and higher borrowing costs.

Town	Debt per Capita Policy	Debt-to-Assessed Value or Related Policy
Newtown	Debt per capita is monitored and compared with other towns in the same DRG and bond rating.	Debt to Taxable Net Grand List not to exceed 3%.
Farmington	Direct Debt per Capita is maintained at or below 110% of the median for AA1 and AA+ rated towns.	Direct Debt to Full Assessed Value of properties is maintained at or below 110% of the median for AAA rated towns.
Haddam	Monitors debt per capita to keep levels low to moderate according to bond market views.	Debt to full value of taxable net Grand List is below 3%.
Redding	Analytical review, no specific cap.	Analytical review, no specific cap.
Greenwich	Debt per capita is monitored to ensure capital projects are funded responsibly.	Net debt not to exceed .55% of Grand List (full market value).
Windsor	Affordability is assessed, but no specific debt per capita metric is mentioned.	Affordability ratios are used to evaluate debt, with a focus on debt service to budget ratios.
Berlin	Debt per capita is monitored.	Total General Fund debt must not exceed 2.5% of the most recent certified grand list.
Groton	Not explicitly mentioned in policy.	Total direct indebtedness must not exceed 5% ENGL.
Tolland	Not explicitly mentioned in this document.	Debt is measured against key metrics like the town’s budget and grand list.
Simsbury	Defer to Finance Director.	Defer to Finance Director.

Debt Management as a Tool for Equity

- Monitoring and keeping the debt per capita at a reasonable level ensures that no particular generation of residents is disproportionately burdened by the town’s debt obligations. This creates **intergenerational equity**, where future residents pay their fair share for the benefits of infrastructure and capital projects funded by debt.
- A **manageable debt-to-assessed value ratio** ensures that the town's debt does not overly rely on its property tax base, providing a safeguard against market downturns in property values that could make debt servicing more burdensome.

Comparability and Predictability

- By comparing debt levels to similarly rated municipalities, Weston can make **data-driven financial decisions**. This ensures that debt remains within industry norms for AAA or AA+ towns, maintaining the town's financial reputation.
- Annual reviews by the Finance Department allow for **proactive management** of debt levels, offering the opportunity to make adjustments as needed based on economic conditions, property valuations, or other financial factors.

Fiscal Flexibility

- By keeping debt per capita and debt-to-assessed value ratios at reasonable levels, Weston maintains fiscal flexibility, ensuring it has the capacity to take on additional debt when necessary (e.g., for future capital projects) without overburdening taxpayers or jeopardizing its financial stability.