Town of Weston, Connecticut Proposed Debt Management Policy

Edits suggested in redline but not reviewed/approved by BOF 01.09.25

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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. 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

- Current revenues and adequate fund balances are available such that project phasing can be accomplished.
- Useful life of the capital assets is 10 years or less.
- Existing debt levels might have an adverse impact on the Town's credit rating.
- Market conditions are unstable or uncertain.

Factors Favoring Long-term Debt Financing

- 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.
- Revenues available for debt service are forecast to be sufficient and reliable such that long-term financings can be marketed such that the Town can maintain a AAA credit rating.
- Market conditions present favorable interest rates.
- The life of the project or capital asset to be financed is 10 years or longer.

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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

Primary Debt Affordability Metric: There is a limit on the amount of debt that is affordable for the Town of Weston. The Town uses the following as the primary measure to define affordability:

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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.

Other Debt Affordability Metrics: Analytical review will be conducted by the Board of Finance in contemplation of the affordability of a new debt issuance which incorporates some or all of the ratios listed below. The ratios shall be reviewed in comparison to Weston's financial history, as part of Weston's long term financial projections, and in comparison to the ratios of other peer towns:

- Annual debt service payments as a percentage of expenditures
- Debt per capita
- Ratio of debt to net assessed value and to equalized net grand list
- Debt per capita as a percentage of per capita income
- Other debt related ratios utilized by rating agencies in assessing credit ratings for municipalities

- Mill rate
- Tax burden on a median value house

Financial Projections: Any proposal for debt issuance and assessment of debt affordability must include financial projections that assess the impact on debt levels, debt service, future debt capacity, tax burden, mill rate and key debt ratios as noted above. The projections should incorporate the long term capital plan and any other potential future plans for issuing debt for capital projects, and assess the impact over the next 20 years after the proposed debt issuance.

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 **30 years**.
2. **Paydown Schedule:** The Town will utilize level principal payments where practical. This structure will allow adjusting payments to smooth out total annual debt service over time.
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), tax impacts, and the overall debt burden on the community before issuing debt. 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.
5. The Town shall **comply with all federal, state, and contractual restrictions regarding the investment of bond proceeds**. The Town will use bond proceeds within the established time frame pursuant to the bond contract or other documents in order to comply with federal tax

requirement to avoid arbitrage (interest earned on investment of bond proceeds above the interest paid on the debt).

VIII. Refinancing of Debt

The Finance Department, in consultation with the Town's Municipal 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 **Town Administrator** and 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]