

TOWN OF New Fairfield, CT

DEBT POLICY

By Ed Sbordone, Town Treasurer - September 1, 2019
Updated by Terry R. Friedman, Town Treasurer – May 2022

Title: Financial Policy	Adopted by BOS <u>9/26/2019</u> TBD
Section: Debt Policy	Adopted by BOF <u>9/18/2019</u> TBD

The following policy is enacted to govern the issuance and management of debt by the Town of New Fairfield, CT (Town).

The primary objectives of this debt policy are to:

- Borrow funds only when needed and at the lowest possible cost.
- Establish conditions for the use of debt;
- Adhere to policies and procedures that manage the Town's debt service and the issuance costs for the bonds that are issued;
- Retain the highest possible credit ratings;
- Maintain all required financial disclosures and reporting; and
- Maintain measures of affordability in compliance with Connecticut State Statutes which sets limits on debt that can be incurred by Towns.

This policy will apply to all general obligation debt and revenue supported debt. (if applicable) issued by the Town and any other forms of indebtedness. The Town does not, as of the date of adoption of this policy, have any revenue supported debt.

A regular, updated debt policy is an important tool to ensure that the Town utilizes its resources to meet its dual commitments of providing needed services to the residents of New Fairfield while maintaining sound financial management practices. This policy is a guideline for general use and will be reviewed periodically, but no less often than every year.

Debt Policy

A) Use of Debt Financing

Debt financing, to include bond anticipation notes (BANS), general obligation bonds, revenue bonds and other indebtedness permitted to be issued or incurred under the Connecticut General Statutes (Sec. 7-374), shall only be used to purchase capital assets and to fund infrastructure improvements. The expected useful life of assets acquired with the debt should exceed the term to repay the debt.

B) Assumption of Additional Debt

The Town shall not assume additional tax-supported general-purpose debt without conducting an objective analysis as to the community's ability to support the proposed additional debt service payments, based upon the proposed principal amount, expected interest rates and proposed amortization schedules.

C) Affordability Targets

The Town will assess the additional debt service requirements of any new general-purpose debt taking into account the debt which is retired and the potential need for additional projects and current debt.

The criteria, or measures used, shall be to maintain the total amount of debt and the annual debt service ratios within the following established parameters:

- *Maintain the ratio of Annual General Fund Debt Repayments (including principal and interest) to the Annual General Fund Operating Costs of no more than 15%
- *Maintain a maximum Town of New Fairfield total short and long-term debt of no more than \$135 million (Total at ~~9/1/19 was \$18 million~~ 5/1/22 was \$78 million) Short and long-term debt are defined as the amounts set forth in the Short and Long-term Obligations footnotes contained in the Town's Comprehensive Annual Financial Report. In no event shall the town exceed the State short and long-term debt limit.

*These measures allow the capital financing to grow along with the level of the Town's operations and population.

D) Debt Structure

There shall be no debt structured notes that include increasing debt service amortization levels in subsequent years. There shall always be, at a minimum, interest paid in the first full fiscal year after a bond sale. Substantially equal principal will start to be repaid no later than the first fiscal year after the bond issue for general obligation debt. **The first principal payment shall be 75% or more (rounded) of the even equal principal amount.**

The Town will finance capital projects through the use of BANS (when available and advantageous) in years one and two and permanent financing in year three.

As a contingency, the Town will have the option within the existing model to roll over BANS for a period of up to ten years, but not to exceed 7 years for debt issued for the General Fund. This option may be utilized in an extremely high interest rate environment when general obligation bond rates exceed 7.5%. This process complies with the requirements of Connecticut and Federal Law.

E) Call Provisions

Call provisions for bond issues shall be based upon the advice of the Town's Financial Advisor to achieve early optional redemptions without significant call premiums or higher interest rates. When economically feasible, all bonds shall be callable only at par.

F) Sale Process

The Town shall use a competitive bidding process in the sale of debt unless the nature of the issue warrants a negotiated sale. The Town shall attempt to award the bonds based on a true interest cost (TIC) basis. However, the Town may award bonds based on a net interest cost (NIC) basis as long as the financial advisor agrees that the NIC basis can satisfactorily determine the lowest and best bid. The Town shall award BANS on a NIC basis.

G) Rating Agencies

Financial transparency to include full disclosure of operations and open lines of communication shall be made to the rating agencies. Town staff, with assistance of

financial advisors, shall prepare the necessary materials and presentation to the rating agencies. Credit rating(s) will be sought from ~~one or more at least two~~ agencies including Moody's, Standard & Poor's, Fitch or any other agency as recommended by the Town's financial advisor. The Town shall endeavor to maintain highest possible bond ratings, and if failing to do so, make all efforts to regain that rating level again.

H) Continuing Disclosure

The Town is committed to continuing transparency and full disclosure of financial and operating 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.

I) Debt Refunding

Town staff and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the present value savings of a particular refunding should exceed 2.0% when compared to the present value of the debt service on the refunded maturities.

J) Interest Earnings and Premium on Bonds

Interest earnings received on the investment of bond proceeds shall be used to assist in paying the interest due on bond issues, to the extent permitted by law. The procedures for investment shall follow the written Investment Policy of the Town.

Premium and discount on Bond proceeds shall be retained in the appropriate fund for each attributed financing ~~and be~~ amortized ~~over the life of the bond~~ and recognized in the appropriate fund on an annual basis. ~~in accordance with Generally Accepted Accounting Principles (GAAP).~~ The Board of Finance is responsible for determining the annual amortization amounts.