

**Town of Redding, CT
Debt Management Policy
Revised and Approved (Date)**

- I. PURPOSE:** The debt management policy for the Town of Redding, CT (Town) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Management Policy sets forth guidelines for the issuance and management of all financings of the Town¹. Monitoring and executing the policy is essential to ensure that the Town maintains a sound debt position and protects the credit quality of its obligations while providing flexibility in meeting the Town's capital needs.
- II. POLICY STATEMENT:** Certain capital expenditures shall be financed by long-term debt to be repaid in accordance with the debt instrument. The Town will issue debt for the purposes of constructing or acquiring nonrecurring permanent capital improvements, major renovations, open space property, or other similar type projects it deems necessary. Current operating expenditures shall not be funded through the issuance of debt (except in limited circumstances by a tax anticipation note).

To qualify for long-term financing, the project as defined above shall have a minimum useful life of 7 years and cost at least \$100,000 individually, or in the aggregate for related items.

Capital expenditures which fall below these minimum bond thresholds, may be financed through one of the following:

- Budgeted operating expense
- State funds, such as LoCip (Local Capital Improvement Projects) or other grants
- Federal funds
- Capital non-recurring reserve (CNRE)
- Unassigned fund balance
- Contingency or other reserves that may exist

Exceptions or changes to this policy require approval of the Board of Finance.

¹ The Town participates with the Town of Easton, CT in providing a regional high school for students residing in each town. Accordingly, the outstanding debt and related interest expense of Regional School District No. 9 (the District) is shared by Easton and Redding. The District's Board of Education is responsible for approving the issuance of and managing the District's debt. The Town's Board of Finance does not approve the issuance of or manage the District's debt. However, the Town's Board of Finance should consider the entire debt burden, including the Town's share of the District's debt, when contemplating a debt issuance for the Town and when monitoring total indebtedness.

III. DEBT LIMITS

A. Legal Restrictions

Capital improvements financed through the issuance of long-term debt will be financed for a period not to exceed 20 years or in accordance with State Statutes. (S.7-371)

B. Public Policies

1. Type of debt that may be issued and purpose for which debt proceeds may be used:

Type of Debt that May be Issued	Purpose for Which Debt Proceeds May be Used
Bond Anticipation Notes (BAN)	Provides interim cash flows on a short-term basis to facilitate the timing of bond sales. The proceeds from the BANs may be used for the purpose for which the associated bonds are authorized.
Tax Anticipation Notes (TAN)	Provides interim cash flows to finance a current operation before the Town collects tax revenues. Proceeds are to be used to bridge the gap between the mismatch between the receipt of property taxes and ongoing expenditures.
General Obligation Bonds	For the purposes of constructing or acquiring nonrecurring permanent capital improvements, major renovations, open space property, or other similar type projects that the Town deems necessary.

2. Municipal Leases: A municipal lease is a type of debt which may be entered into using the following guidelines:
 - A municipal lease should be used for major equipment, rolling stock, and other capital items when it is cost justifiable
 - The minimum amount of a municipal lease shall be \$25,000
 - The term of a municipal lease shall not exceed 7 years.
3. Purpose for which debt proceeds are prohibited:
 - Current operating expenditures shall not be funded through the issuance of debt.
 - **Exception:** As noted above, a TAN may be issued to provide interim cash flows to finance a current operation before the Town collects tax revenues. CT statutory provisions exist that limit the term of the TAN to the same year as the expenditure.
4. Types of debt prohibited
 - Commercial lines of credit (as prohibited by CT State Statute)
5. Relationship to and integration with the Capital Plan
 - The Long Range Financial Planning Committee shall provide the Board of Finance with a copy of all capital requests made by the Town, schools, and Water Pollution Control Commission on an annual basis during the budget season. The capital plan should be updated, at a minimum, on an annual basis and should include both immediate and anticipated future capital needs.
 - The capital plan will assist the Finance Director and the Board of Finance in analyzing potential funding sources for the capital requests.

- The capital plan will assist the Finance Director, Town Treasurer, and the Board of Finance in analyzing the projected future debt levels of the Town.

C. Financial Restrictions, Ratios, and Planning Considerations

1. Covenants and Laws—The Town shall comply with all covenants and requirements of the bond resolutions, and state and Federal laws authorizing and governing the issuance and administration of debt obligations.
2. The Board of Finance shall exercise due care on behalf of the public interest, in managing the Town’s exposure to debt liabilities and debt service payments. As part of this responsibility to exercise due care, the Board of Finance shall actively monitor and report upon trends in the maturity dates of its General Obligation Bonds and of the Town’s share of the District’s debt, as well as the related annual costs of debt service.
3. Analytical review should be conducted by the Board of Finance on an annual basis and in contemplation of new debt issuances. The list below comprises ratios and other information that the Board of Finance may find relevant in conducting its analytical review. Those ratios and metrics should be looked at in context with each other and not in isolation. The Town recognizes that the ratios below are useful guides but not the exclusive means by which it should measure debt burden:
 - Debt per capita (long-term debt per capita, total debt per capita)
 - Ratio of bonded debt and other outstanding debt to net assessed value
 - Annual debt service payments
 - Annual debt service payments as a percentage of budgeted and actual expenditures (in total and separately for school-related debt and town-related debt)
 - Debt maturity schedule
 - Bond rating
 - Per capita income
 - Median household income
 - Debt per capita as a percentage of per capita income
 - Debt per capita as a percentage of median household income
4. The Town’s debt burden also should be compared to Towns in the immediate vicinity of the Town, with the same (or similar) bond rating, and to Towns in the same District Reference Group. The comparison should incorporate the list of ratios and metrics in the list above, to the extent the information is readily available.
5. To compile the above ratios and develop trend lines, the Town will use information from the following sources:
 - The Town’s latest CAFR (specifically, the long-term debt section in Management’s Discussion and Analysis, long-term liabilities information in the notes to the financial statements, and tables 8-12).
 - The latest State of Connecticut Municipal Fiscal Indicators Report at <https://portal.ct.gov/OPM/IGP-MUNFINSR/Municipal-Financial-Services/Municipal-Fiscal-Indicators>
6. The compilation and preparation of the above data is the responsibility of the Town’s Finance Director and shall be provided to the Board of Finance on an annual basis, no later than the start of the annual budget process. The Town’s Finance Director shall also update (as necessary) and provide that data to the Board of Finance in contemplation of new debt issuances. The Board of Finance shall review that data during the annual budget process before it recommends

a budget to the Town Meeting and in contemplation of new debt issuances.

IV. DEBT STRUCTURING PRACTICES

- A. **Minimum useful life and amount:** To qualify for long-term financing, the project shall have a minimum useful life of 7 years and cost at least \$100,000 individually, or in the aggregate for related items. The minimum amount of a municipal lease shall be \$25,000.
- B. **Maximum term:** Consideration should be given to the useful life of the asset(s) being financed in determining the bond term or the municipal lease term. The maximum term of the bond should be 20 years according to state statute. If debt obligations are being issued to refinance outstanding debt obligations, the final maturity of the debt obligations being refinanced shall remain the same maturity or a lesser maturity. The term of a municipal lease shall not exceed 7 years.
- C. **Debt service pattern:** Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis so that debt service payments will be a predictable and manageable part of the operating budget.
- D. **Use of optional redemption features:** For each transaction, the Issuer shall evaluate the costs and benefits of redemption provisions.
- E. **Bond insurance:** For each issue, the Town will evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the Town shall be competitively procured.

V. DEBT ISSUANCE PRACTICES

- A. **Approval:** Approval of a debt issuance must be obtained from the Board of Finance and Board of Selectmen. Additionally, approval must be obtained by the Town as required by CT State Statutes.
- B. **Selection and use of professional service providers:** The Town's Board of Selectmen shall be responsible for solicitation and selection of Town Counsel, including bond counsel. The Finance Department shall be responsible for the solicitation and recommendation to the Board of Finance of professional services that are required to administer the Town's debt program (other than Town counsel which includes bond counsel). Examples of service providers include financial advisors, underwriters, and fiscal agents.
- C. **Costs of debt issuance:** The Town may choose to include costs of debt issuance as part of the total BAN or bond funding. These costs can include services provided by the financial advisor, bond counsel, rating agency, underwriters, and fiscal agents.
- D. **Method of sale:** The Town's Finance Department shall recommend to the Board of Finance a method of sale (for example, competitive bidding) that is most likely to achieve the lowest cost of borrowing while considering both short-range and long-range implications for taxpayers. The Board of Finance shall make the final decision on the method of sale.
- E. **Criteria for issuance of advance refunding and current refunding bonds:** The Town will use refunding bonds, where appropriate, when restructuring its current outstanding debt. A debt refunding is a refinancing of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding should not be pursued without a sufficient net present value benefit after expenses.
- F. **Use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services:** The Town will continually strive to maintain its bond rating by improving financial policies, budgets, and the financial health of the Town so its borrowing costs are minimized and its access to credit is preserved. The Town will maintain good communication with bond rating agencies about its financial condition, coordinate meetings and presentations in conjunction with a new issuance, as necessary.

VI. DEBT MANAGEMENT PRACTICES

- A. **Investment of bond proceeds:** The Town shall comply with all applicable federal, state, and

contractual restrictions regarding the investment of bond proceeds, including the Town's Investment Policy.

- B. Continuing disclosure:** The Town shall provide disclosure information to the appropriate repositories and maintain compliance with disclosure statements as required by state and national regulatory bodies.
- C. Arbitrage rebate monitoring and filing:** The Town will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the Town will comply with the arbitrage rebate requirements of the federal tax code and the Internal Revenue Service and will perform (whether internally or by contract with a third-party) arbitrage rebate calculations for each issue subject to rebate.
- D. Federal and State law compliance practices:** The Town shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local laws, rules, and regulations, as applicable.
- E. Ongoing market and investor relations efforts:** The Town shall endeavor to maintain a positive relationship with the investment community. The Town shall communicate through its Comprehensive Annual Financial Report and annual budget the Town's indebtedness and future financial plans.

VII. USE OF DERIVATIVES

No derivative products will be utilized unless permitted by law, and after adoption of a swap or derivative policy by the Board of Finance. No derivative products shall be utilized without an analysis by an independent municipal advisor.