Debt Policy

The purpose of the debt management policy is to:

• Establish criteria for defining, achieving, and maintaining prudent levels of indebtedness,

• Allocate the funding for the Town's Capital Improvement Program, between a planned program of cash spending and/or financing with debt.

• Provide a tool for investors, rating agencies, and others in their evaluation of our debt policies.

To achieve these objectives, the following guidelines have been adopted:

1) Capital items with an expected useful life of 3 years or fewer (e.g., police cruisers, school laptops) should be included in the operating budget.

2) A single capital item should be at least $50,000 or greater in order to issue debt to finance the item.

3. Larger items such as ongoing maintenance and infrastructure needs that occur annually, such as road maintenance and repairs or equipment replacement, should generally be funded by free cash or cash capital (rather than by issuing debt).

3) Debt should not be issued for a term longer than the expected useful life of the asset.

4) Debt service as a percent of General Fund expenditures should generally be less than 10%. There can be circumstances, however, where the Town has approved one or more large capital projects, with overlapping debt service obligations, where this limit can be exceeded. The rationale for this exception is the additional debt will typically require a debt exclusion vote, and thus would reflect the explicit approval of Town voters to pay for the extra debt. Absent the large capital project exception, the limit is intended to require the Town to reject/defer projects or to force payments to be made with cash capital rather than debt.

5) Total debt (all instruments that have direct recourse to the General Fund) should generally be less than 100% of annual general fund revenues. The large capital project exception, as expressed above, will also apply to this metric.

6) Capital projects that are greater than 3% of the Operating Budget should generally be funded with exempt debt, unless deemed doing so is unnecessary. Capital projects that are equal to or less than3% should be funded by levy debt.

7) Excess bond premiums should generally be used to pay for budgeted capital items or to reduce the amount borrowed.

8) Debt management recommendations should place appropriate emphasis on maintaining a high debt rating.

Revised 1/2/2020