



Town of Falmouth, Maine

Debt Management Policy

Policy Statement

The Town invests in its Capital Improvement Program, other capital assets and economic development activities. The capital improvement plan not only addresses the maintenance and replacement of existing assets, it also looks ahead for future needs, projects and mandates.

The Town may borrow money to finance its Capital Improvement Program, other capital assets and economic development activities. The Town's ability to achieve the lowest possible financing costs is tied directly to its fiscal management, including the existence and adherence to formal fiscal policies.

This policy will assure both taxpayers and bond rating agencies that the Town debt levels and ability to pay debt service are actively and satisfactorily managed

Purpose

The purpose of this policy is to provide the Town with a guide to manage debt levels by evaluating the need for capital investment against the capacity to pay for financing the costs of meeting that need. The primary focus of this policy is to measure debt secured by the full faith and credit of the Town (general obligation or GO) by which the debt service is supported. The goal of this policy is to equip the Town Council and administration with guidelines and information that can aid decisions on borrowing to accomplish the fiscal and operational mission of the Town.

The Town currently has limited instances of debt issuance that is not supported by taxes. The Wastewater issues debt that is secured solely by the revenues generated by the Wastewater operations. These types of borrowings are not covered by this policy, as they are analyzed using commercially-based methods, such as debt service coverage ratios and other financial analysis.

Governing Factors

The Town shall maintain an outstanding GO debt total that complies with State law, which currently limits long-term debt outstanding to 15% of the State assessed valuation of the Town. Sections 903; 903.1 and 903.2 of the Town Charter describe conditions that require a referendum vote to borrow funds. Issuance of General Obligation debt requires a majority of votes cast must favor passage and the total number of votes cast for and against the question must equal or exceed 10% of registered voters.

All calculations within this policy will also include debt service that is all or partially reimbursed, such as State School Funding.

The Town shall not issue debt to fund current or ongoing operations of the Town or Schools, except in the form of Tax Anticipation Notes (TANs) when applicable; in compliance with State law and in conformance with Internal Revenue Service (IRS) regulations.

The Town shall not lend its borrowing capacity to or guarantee debt of any other entity. At the Town's option, Industrial Revenue Bonds may be approved for use by the private sector, but any issuance of such Bond's shall not incur any liability to the Towns.

Maturity of debt obligations must be no more than the useful life of the capital investment being financed, or than the final maturity of refunded debt; pursuant to Maine law which may not exceed 30 years from issuance.

Refunding opportunities will be evaluated annually to achieve future interest cost savings.

Rules of borrowing and this Policy also cover lease purchases, as they are secured by the general obligation of the Town.

Debt Limitations

The Town's Capital Improvement Program is based on a Capital Plan. This Plan includes projections for replacement of assets as well as anticipating investment in new assets that may be needed. The Plan is expected to be updated annually to reflect additions, deletions and other changes in assets or circumstances. It is expected that investment in operating equipment, fleet and technology will be transitioned such that acquisitions will be made through annual budget appropriations when applicable, as determined by management and Town Council.

Borrowing capacity will be evaluated first by the Governing Principles, and then using a number of factors, specifically:

1. *Demand* – what is the need for borrowing

a. Demand is measured by the needs presented by the Capital Plan. It can also be based on opportunities that arise from time to time which require capital investment by the Town.

2. *Capacity* – what is the maximum amount to borrow

a. The maximum amount to be borrowed at any given time will be determined by evaluating the following factors:

1. Current and projected annual debt service level, based on current outstanding debt.
2. Market conditions (ability to access the financing market, interest rates, etc.).
3. Economic conditions, including cost of construction.
4. Opportunity for participation in low interest financing programs, debt service reimbursement, grant opportunities, or other situations beneficial to the Town.

3. *Affordability* – what is the fiscal impact

a. A projection of annual debt service impact for each borrowing will be done, incorporating the elements of capacity. It will include budgetary impact, as well as a projection of tax impact. Debt service will be calculated as annual amount needed to satisfy principal and interest payments, net of any applicable revenue.

1. Net debt service payments should not exceed 15% of general fund expenditures. Net debt service equals budgeted debt service net of Enterprise Funds and State reimbursed School Debt Service.
2. Total outstanding debt should not exceed 5% of the State equalized valuation of the Town.

4. *Term* – length of payback period

- a. Financing shall be secured with the goal of paying back the debt over a term that is of the greatest benefit to the Town. This would usually match the life of the acquired asset.

5. *Payment Structure* – how payments are applied

- a. Payments will be structured with level principal and declining interest over the life of the debt, except
- b. In instances where level debt service payments offer economic benefit, such as for rate stabilization.

6. *Refundings* – bond issuance, issued at a lower rate, used to pay off another outstanding bond

- a. Opportunities for refunding will be reviewed when issuing other GO bonds in order to package issues.
- b. Opportunities for refunding will be considered independently for issues where the net savings, after costs of issuance, is estimated to be at least 3% of the par amount (face value) of the bonds being refunded.

Bond Ratings

Debt issuance is rated by agencies specializing in the analysis of organizations' ability to pay off their debt. The Town is rated for each bond issue, and there can be other times when an agency will undertake an affirmation of ratings. As of 2013, the Town is rated AA+ by Standard & Poor's and Aa1 by Moody's.

It is the goal of the Town to maintain or improve these ratings, as it allows easy entry into the bond sale market and favorable interest rates. This policy in conjunction with other fiscal policies of the Town, overall good fiscal management and reliable reporting are critical in rating maintenance.

Debt Issuance

The Town relies on the sale of bonds for its large financing needs. These sales are conducted through the use of a financial advisory firm and recognized bond counsel. This allows the Town continued access to the bond market and ensures compliance with all Securities and Exchange Commission (SEC), Municipal Securities Rulemaking Board (MSRB) and IRS regulations. The Town may also enter into lease purchase agreements if it is determined to be cost effective.

Each issuance of general obligation debt will be evaluated to determine compliance with this policy, and that information will be submitted to the Town Council as they deliberate actions on financing approvals.

Reporting

The Town's debt information is part of the Comprehensive Annual Financial Report (CAFR). Annual debt service requirements are budgeted as part of the annual budget approval process. Bond ratings received by rating agencies are published and available for public review.

The Town Council and Finance Committee receive an annual report on the overall debt status of the Town in the form of the CAFR.

The Town is required to provide certain information to investors periodically and financial information annually. This information is filed through the Electronic Municipal Market Access system (EMMA), provided by the MSRB.