

TOWN OF <b>DORCHESTER</b>	POLICY NUMBER <b>FIN - 3</b>	ADOPTED BY <b>SELECT BOARD</b>
Subject: <b>DEBT</b>	Adoption Date: Nov 8, 2012  Revision Date:  Effective Date: Nov 9, 2012	Supersedes:  Revision Date:

**3.01 Purpose.** To provide guidance for evaluating, securing, and utilizing the various forms of debt financing available to the Town.

**3.02 Departments Affected** -All departments, officers, boards and commissions may be impacted by this policy.

**3.03 Definitions** - See FIN Appendix A1

**3.04 Tax Anticipation Note (TAN)** – May be utilized whenever the Town anticipates that it will be unable to meet its immediate obligations due to a lack of liquidity. The source and form of the TAN shall be evaluated by considering the following:

- A. Interest Rate – should be least expensive terms available while still scoring acceptably in the areas which follow;
- B. Balance management – the TAN should be structured in a manner, such as a line of credit, that allows the Treasurer to utilize the funds only as needed and repay them as soon as cash flow allows, so that the Town only pays interest on the outstanding balance;
- C. Convenience – the TAN must be accessible electronically so that the Treasurer can move funds between it and the operating account in real time to allow cost effective management. Due to the mileage involved to reach any banking center from Dorchester there should be no consideration of a funding source that requires the Treasurer to travel to the source to accomplish timely fund management.
- D. Cost of closing – the cost of preparation and review varies greatly amongst financial institutions. In some markets the additional costs imposed by institutional policies may greatly exceed the interest to be paid over the term of the loan. Every effort should be made to utilize a source that imposes a minimum of additional costs.

Interest paid on TANs is tax exempt to the lender. To that extent the Town must adhere to IRS regulations concerning arbitrage and comply with such other regulatory requirements to ensure that the interest will remain exempt.

The Treasurer shall withdraw only the minimum funds necessary to maintain cash flow and shall repay borrowed funds as soon funds become available through the collection of revenue.

**3.05 Municipal Leases** – Pursuant to RSA 33:7-e, the Town shall use municipal lease agreements for the purchase of equipment when the board of selectmen determines that form of financing is advantageous to town purposes.

Municipal leases shall be recorded as current expense and do not enter into calculations of the Town's debt limit.

**3.06 Long Term Debt** – The Town will consider the use of debt financing only for one-time capital improvement projects and unusual equipment purchases, only under the following circumstances:

- A. When the project's useful life or the projected service life of the equipment will exceed the term of the financing.
- B. When there are designated revenues sufficient to service the debt, whether from project revenues, other specified and reserved resources, or infrastructure cost-sharing revenues.
- C. Debt financing is not considered appropriate for any recurring purpose such as current operating and maintenance expenditures.

The Town will use the following criteria to evaluate pay-as-you-go versus long-term debt financing in funding capital improvements:

- A. Factors which favor pay-as-you-go:
  - 1. Current revenues and adequate fund balances are available
  - 2. Project phasing is feasible
  - 3. Debt levels would adversely affect the Town's credit rating
  - 4. Market conditions are unstable or present difficulties in marketing bonds
- B. Factors which favor long-term financing:
  - 1. Revenues available for debt service are considered sufficient and reliable.
  - 2. Market conditions present favorable interest rates and demand for municipal financing
  - 3. A project is mandated by State or Federal requirements and current revenues and funds balances are insufficient to pay project costs
  - 4. A project is immediately required to meet or relieve capacity needs
  - 5. The life of the project or asset financed is ten years (10) or longer
  - 6. A project's long term benefits require that costs be shared by

current and future users and outweigh the additional costs as measured on a present value basis.

General obligation debt may be used in lieu of revenue debt if expenses can be significantly reduced (as compared to financing from self supporting revenues) and if special or enterprise fund revenue available for debt service is considered to be sufficient and reliable.

General obligation (bonded) debt will not exceed 1.75% of current assessed valuation.

An analysis will be prepared by Town staff for each long-term financing. The analysis will assess the impact of debt issuance on current and future operating and capital budgets and address the reliability of revenues to support debt service payments.

The Town will generally conduct financing on a competitive basis; however, negotiated financing or low interest programs, such as the NH DES Revolving Grant Program, may be used where the use of an unusual or complex financing or security structure is a concern with regard to marketability, or it is more cost effective to negotiate with a sole source. The cost of administrative requirements of various financing options shall be evaluated as well as the direct costs.

The Town will seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes or cost effectiveness.

The Town will monitor all forms of debt annually. An analysis will be included in the Town's Financial Plan.

The Town will monitor compliance with bond covenants and adhere to Federal arbitrage regulations.

The Town will follow a policy of full disclosure on every financial report and bond prospectus voluntarily following disclosure guidelines provided by the Government Finance Officers' Association (GFOA), unless the cost of compliance with the higher standard is unreasonable.

**3.07 Implementation** – To facilitate conduct in accordance with this policy, a copy of this policy shall be made available to officers, employees, volunteers, board and commissions upon hiring, appointment or election to office and at such other times as may be necessary.