

TOWN OF NEWTOWN, CONNECTICUT

DEBT MANAGEMENT POLICY

I. PURPOSE

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the Town of Newtown.

Debt obligations, which include general obligation bonds, special assessment bonds, revenue bonds, bond anticipation notes, lease/purchase agreements and any other debt obligations permitted to be issued under Connecticut law. Issuance of debt shall follow the Capital Improvement Plan Policy (see Section 310)

II. POLICY STATEMENT

Under the requirements of Federal and state laws and Town Charter provisions, ordinances and resolutions, the Town may periodically issue debt obligations to finance the construction or acquisition of infrastructure and other assets or to refinance existing debt. It is the Town's goal to assure that such debt obligations are issued and managed in such a manner as to obtain the best long-term financial advantage to the Town and its residents, while making every effort to maintain and improve the Town's bond ratings and reputation in the investment community. Newtown seeks the highest practical long-term obligation rating Moody's and Standard & Poor's confers on municipalities.

III. RESPONSIBILITY FOR POLICY

- A. The Finance Director shall be responsible for issuing debt, and managing the Town's debt program. In carrying out this policy, the Director shall periodically:
 - 1. Consider the need for debt financing based upon the approved Capital Improvement Plan.
 - 2. Review the Town's adherence to this policy statement and compare the debt ratios established in this policy with where the Town actually is.
 - 3. Review the Town's authorized but unissued debt to determine if any authorizations are no longer needed.
 - 4. Determine if there are any opportunities for refinancing current debt.
 - 5. Review every three years the services provided by the Town's financial advisor, bond counsel, paying agents and other debt financing service providers.
- B. The Finance Director shall report his/her findings to the Board of Selectmen, Board of Finance and Legislative Council in the September/October time period of each year, during the Town's review and formulation of the Capital Improvement Plan.

- C. Actual issuance of bonds and material changes to the measures identified below shall be reported to the Board of Finance at their next meeting by the Finance Director.

IV. GENERAL DEBT GOVERNING POLICIES

The Town hereby establishes the following policies concerning the issuance and management of debt:

- A. The Town shall only issue debt obligations for approved Capital Asset Projects as defined within 310-6 of the Capital Improvement Plan ("CIP") Policy; or for refinancing existing debt obligations.
- B. The Town shall not issue debt obligations or use debt proceeds to finance current operations of the Town.
- C. The Town will utilize debt obligations when an approved Capital Asset Project cannot practically be funded from current revenue sources or in such cases wherein it is more equitable to the users of the project to finance the project over its useful life.
- D. The Town will measure the impact of debt service requirements of outstanding and proposed debt obligations on single year, five, ten, and twenty-year periods.
- E. The Finance Director will present a report on the measures in Section VI to the Board of Finance prior to their taking final action on the CIP. This report will include any funding parameters related to the Combined BOS and BOE proposed CIP Capital Asset Projects which may impact this policy.

V. DEBT POLICIES, RATIOS AND MEASUREMENT

- A. Ratio of General Fund Total Bonded Debt to Taxable Net Grand List - An increasing ratio of debt to net grand list (over several years) is not desirable. This debt ratio should not go beyond 3%.
- B. Maximum Maturity – All debt obligations shall have a maximum maturity of twenty years. The estimated useful life of the Capital Asset Project being financed should be considered when determining the maturity of debt. In the event debt obligations are being issued to refinance outstanding debt obligations the final maturity of the debt obligations being refinanced shall remain the same maturity.
- C. Average Maturity of General Obligation Bonds –The Town shall have at least 50% of outstanding general obligation bonds mature in less than ten (10) years.
- D. Ratio of General Fund Annual Debt Service to Total Annual Budget (Debt Service Level) –The Town will adhere to a debt management cap that limits annual General Fund debt service to no more than 9.0% of the total General Fund budget. In addition, the Town will set a goal of limiting annual General Fund debt service to 8.5% or less of the total General Fund budget by July 1, 2023.
- E. Net Present Value Savings – The Town must achieve a Net Present Value Savings of at least 2 percent over the life of an existing bond issue in order for it to be considered for refunding.

- F. Bond 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.
- G. If the debt management indicators fall outside the recommended levels, the Finance Director shall recommend and submit to the Board of Finance for approval, a plan to bring the debt management indicators to their appropriate levels within a specific time frame.

VI. DEBT SERVICE INDICATORS

- A. The Town's debt measures will be annually compared to Connecticut Towns:
 - 1. In the immediate vicinity of the Town, including Bethel; Brookfield; Danbury; Monroe; New Fairfield; New Milford; Oxford; and Southbury;
 - 2. With the same bond rating;
 - 3. With a bond rating one level higher and
 - 4. Within our District Reference Group ("DRG").
- B. The Town recognizes that the below ratios are useful guides but not the exclusive means by which it should measure debt burden:
 - 1. Ratio of Debt to Equalized Net Grand List (see V.A)
Indicates Newtown's ability to repay its long term (bonded) debt. Increasing bonded long-term debt as a percentage of assessed valuation (taxable net grand list) is undesirable, as it suggests that debt is exceeding the government's ability to pay. Sustained growth in debt (well beyond tax base growth) may ultimately overburden a tax base and reduce economic viability by straining budget and tax resources and reducing flexibility. A government near its debt limit has less flexibility to meet future capital needs. Debt reduction, on the other hand, lowers taxes and generates economic capacity to the extent that infrastructure necessary for economic growth isn't underfunded. A low debt profile may indicate underinvestment in infrastructure and capital facilities. Neglecting critical capital needs may impede economic growth and endanger future tax revenue generation. Standard & Poors considers a Debt to Equalized Net Grand List (market value) of less than 3% to represent a low debt burden; 3% to 6% a moderate debt burden; and greater than 6% a high debt burden.
 - 2. Average Maturity of General Obligation Bonds (Section V.B)
Prudent use of debt dictates that the debt's term matches the useful economic life of the financed capital items. A faster maturity schedule may be desired to avoid increased interest costs, however, it can place undue strain on the operating budget. Tax-backed debt retirement that falls below 40% in 10 years is considered a weak fiscal practice.
 - 3. Debt Service Level (Section V.D)
Indicates the extent of Newtown's fixed costs for paying principal and interest on its local tax supported debt. Increasing debt service as a percentage of total budget reduces Newtown's expenditure flexibility and may suggest excessive debt and/or fiscal strain. Debt service above 10%

of total budget constitutes a level at which budgetary competition is a significant consideration.

4. Debt per Capita and Debt per Family

Calculated by dividing the Town's direct debt by most current population figure. A low ratio suggests Newtown has the ability to repay its long-term debt. If long-term debt is increasing as population stabilizes or declines, debt levels may be reaching or exceeding the government's ability to pay (assuming that the ability to generate revenue and repay debt is directly related to population size). A high ratio is not inherently bad, however, and must be considered in the local context.

5. Debt per Capita income

6. Median Household Income

7. Debt per Capita as a Percentage of per Capita Income

8. Debt per Capita as a Percentage of Median Household Income

- C. The Town will, at the discretion of the Finance Director, employ data taken from the latest State of Connecticut Municipal Fiscal Indicators Report, the CERC Town Profile or other report from the CT Data Collaborative to compile the above ratios and develop trend lines from same.

Policy Review

This policy shall be reviewed by the Board of Finance, at minimum, on a biennial basis during the month of January in each odd numbered year. Recommendations for change, if any will be presented to the Legislative Council for approval.

Adopted by Board of Finance on May 11, 2020

Approved by the Legislative Council: March 3, 2021