TOWN OF EAST HADDAM
DEBT MANAGEMENT POLICY

Purpose:

The Town of East Haddam believes that debt is an equitable means of financing projects and represents an important tool for meeting its fiscal responsibilities. The Finance Director, in accordance with authorizing resolutions of the Boards of Selectmen and Finance, and in coordination with the First Selectman and Treasurer, manages debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance and makes debt service payments, acting with prudence and diligence and with attention to prevailing economic conditions.

This debt management policy primarily addresses debt instruments/securities issued by the Town in public or private bond markets. This policy is consistent with examples of debt management policies of other comparable municipalities, GFOA guidelines, and rating agency guidelines. This policy pertains to debt that is typically incurred when capital is raised in the public or private markets, including borrowings from sophisticated qualified institutional buyers, to meet the Town's funding needs (the purpose and need for financings is discussed within the policy). Such debt constitutes obligations whereby a third party has provided funds, which is evidenced by the formal execution of a bond or note certificate (or similar instrument), and is held by the third party until repaid.

This policy documents the Town's procedures and goals for the use of debt to finance Town needs. A regularly updated debt management policy, in conjunction with the Town's Ten Year Capital Improvements Plan, the Five-Year Financial Outlook, the Investment Policy, and the Reserve Policy, serves as an important tool that supports the use of the Town's resources to meet its financial commitments and to maintain sound financial management practices. This policy is enacted in an effort to standardize and plan the issuance and management of debt by the Town. While this debt management policy serves as a guideline for general use, it allows for exceptions in extraordinary circumstances.

The primary objectives of this debt management policy are to establish guidelines for the use of various categories of debt, create procedures and policies that minimize the Town's debt service and issuance costs, retain the highest practical credit ratings and provide full and complete financial disclosure and reporting.

The Town's Debt Management Policy is also designed to:

- Establish parameters for issuing and managing debt;
- Provide guidance to decision makers related to debt affordability standards;
- Document the pre-and post-issuance objectives to be achieved by staff;
- Promote objectivity in the debt approval decision making process; and
- Facilitate the actual financing process by establishing important policy decisions in advance.

Guidance:

This Debt Management Policy requires the development of the following:
- Five-Year Financial Outlook
- Reserve Policy

It is the recommendation of the Board of Finance Financial Policies Subcommittee to fully implement this Debt Management Policy and that the Subcommittee draft a Reserve Policy. The Subcommittee also recommends that the Board of Finance begin the implementation process for the Five-Year Financial Outlook.

SECTION I—PURPOSE AND NEED FOR FINANCING

Purpose of Financing

The Town of East Haddam borrows money primarily to fund long-term capital improvement projects, essential equipment and vehicle needs, and to refinance existing debt. Debt will be used to finance eligible projects only if it is the most cost-effective means available to the Town. The "pay-go" funding option is a technique that requires current citizens to pay taxes over long periods of time in order to accumulate reserves sufficient to pay for capital projects. While the "pay-go" means of using current revenues to pay for capital projects is often considered the preferred means of financing because it avoids interest payments, it may not be entirely equitable. The Town would be able to undertake capital projects under this method only if sufficient cash accumulates. Prudent use of debt financing rather than pay-go funding of capital projects can facilitate better allocation of resources and increased financial flexibility.

The three primary borrowing purposes for which bond proceeds may be used are summarized below:

A. Long-Term Capital Improvements

The Town shall prepare a Ten-Year Capital Infrastructure Planning Outlook that is utilized to prepare the Capital Improvements Program (CIP) budget for each fiscal year. The CIP budget includes projects for ten upcoming fiscal years and is updated during the annual budget process or if there are significant changes to the scope and/or cost of projects. Future operations and maintenance costs associated with capital improvement projects are to be determined and identified prior to submission of the project for approval. The Finance Director works with Town departments, boards and commissions ensuring that a complete budget of the CIP is prepared as part of the Annual Budget process.

Since the aggregate cost of desired capital projects generally exceeds available funds, the capital planning process prioritizes projects and identifies its funding needs. The Town will initially rely on internally-generated funds and/or grants and contributions from other governmental sources to finance its capital needs. Debt is issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries and if a revenue source is identified to repay the debt.

The Finance Director under the direction of the First Selectman, working with Town departments, boards and commissions, within the context of the CIP and the Town's Five-Year Financial Outlook, oversees and coordinates the timing, processing and marketing of the Town's borrowing and capital funding activities. Close coordination of capital planning and debt planning ensures that the maximum benefit is achieved with the limited capital funds. The debt management process determines the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

B. Essential Vehicle and Equipment Needs

In addition to capital projects, the Town regularly finances certain essential equipment and vehicles. These assets range from public safety vehicles and garbage trucks to information technology systems. The underlying asset must have a minimum useful life of three years.

Short-term financings, including loans and capital lease purchase agreements, are executed to meet such needs.

C. **Refinancing/Refunding of Existing Debt**

The Finance Director, working with the Town's Municipal Advisor, shall periodically evaluate the Town's existing debt and recommend refinancing when economically beneficial. A refinancing may include the issuance of bonds to refund existing bonds, notes or other obligations.

1.1 Financing Priorities

The Finance Director shall be responsible for analyzing all borrowing or debt refunding proposals to determine if it is beneficial to the Town and that it complies with the Town's long-term financial planning objectives. Borrowing requests include any new money or refunding debt proposals made to the Town involving a pledge or other extension of the Town's credit through the sale or issuance of securities, execution of leases, or otherwise involving directly or indirectly the pledging of the Town's credit.

For each financing proposal related to a new capital improvement project, the Finance Director will work with Town departments, boards and commissions to assess the feasibility and the impact of debt to fund the project based on the following assessments:

a) **Nature of Project and Use of Funds**

Each proposal is evaluated by comparing the nature of the project and use of funds with competing proposals on the basis of the benefits derived and how it furthers the Town's policy objectives as laid out in the Town's Annual Budget, Five-Year Financial Outlook and Ten-Year Capital Improvement Program.

b) **Cost-Benefit Analysis of Project**

A cost-benefit analysis is required for each project.

i. The benefits of a proposed project must be defined and, where appropriate, quantified in monetary terms. The funding sources are identified and estimated. Where revenues are part of the benefits, all assumptions made in deriving the revenues are documented. The validity of the assumptions and the risks associated with the revenue streams are assessed.

ii. The costs of the project are estimated, with the risks associated with the estimates assessed. The uses of funds are identified and estimated.

iii. Identify whether the project will increase or reduce ongoing operation and maintenance expenses.

c) **Expenditure Plan**

A detailed plan for the expenditure of funds is developed for each project, and the underlying assumptions of the project cost expenditure plan are documented and the risks associated with these projections are analyzed. The Town's bond counsel should conduct a preliminary review of such plan to assess whether such plan satisfies applicable federal tax code requirements.

d) **Revenue for Debt Service Payment**

A detailed plan for the debt repayment is developed for each project. The underlying assumptions of revenue cash flow estimates are documented and the risk associated with these revenue streams is analyzed. Where general fund revenues are proposed to service debt, the impact upon budgets is assessed.

All requests are prioritized based upon this evaluation. If the Finance Director concurs with the proposing department, the Finance Director will prepare the financing proposals for the review/approval of the Boards of Selectmen and Finance and ultimately voter approval should both Boards deem the proposal viable.

1.2 Asset Life

Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good condition and to maximize a capital asset's useful life, the Town makes every effort to set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal. Generally, no debt will be issued for periods exceeding the useful life or average useful lives of projects to be financed.

The Town will consider short or long-term financing for the acquisition, maintenance, replacement, or expansion of capital assets, including land. For short-term financing, the capital asset must have a minimum useful life of three years; for long-term financing, the physical asset must have a minimum useful life of ten years.

SECTION II—CREDIT RATINGS

2.1 Credit Ratings

The Town seeks to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the Town's policy objectives. Ratings are a reflection of the general fiscal soundness of the Town, the local economy and other regional economic factors, and the capabilities of Town management. By maintaining the highest possible credit ratings, the Town can issue its debt at a lower interest cost. To enhance creditworthiness, the Town is committed to prudent financial management, systematic capital planning, interdepartmental cooperation and coordination, and sound long-term financial planning.

Rating agencies consider various factors in issuing a credit rating; these typically include:

- Town's fiscal status
- Town's financial and general management capabilities
- Economic conditions that may impact the stability and reliability of debt repayment sources
- Town's general reserve levels
- Town's debt history and current debt structure
- The capital improvement project that is being funded
- Covenants and conditions in the governing legal documents

The Town recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the Town's debt rating of its outstanding debt. There are no predetermined credit rating formulas available from the rating agencies, although recent updates to rating methodologies from certain rating agencies have added transparency to their credit evaluation processes. This information provides a better understanding of how key quantitative and qualitative factors and risk factors are likely to affect rating outcomes. The Town will monitor rating agency guidelines and methodologies regularly to stay informed of changes to the rating metrics and processes.

The Finance Director is responsible for managing the rating reviews associated with the Town's various debt obligations. This effort includes providing periodic updates, both formal and informal, on the Town's general financial condition and coordinating meetings and presentations in conjunction with a new debt issuance when determined necessary. Credit material provided to the rating agencies shall be prepared by the Finance Director with the assistance of the Town's Municipal Advisor.

The Finance Director, in consultation with the Town's Municipal Advisor, shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the principal rating agencies shall be asked to provide such a rating.

SECTION III—TYPES OF FINANCING INSTRUMENTS

There are many different types of financing instruments available to the Town as defined below.

Direct Debt Obligations

3.1 General Obligation Bonds

General obligation (GO)-bonds are secured by a pledge of the full faith and credit of an issuer which includes a promise to levy taxes in an unlimited amount as necessary to pay debt service on such bonds. GO bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk.

3.2 Bond Anticipation Notes

General obligation bond anticipation notes (BANs) are short-term interest-bearing notes issued in the anticipation of long-term future bond issuances. The Town may choose to issue BANs as a source of interim financing when it is considered by the Finance Director to be prudent and advantageous to the Town.

3.3 Temporary Notes

Under State Statute, the Town may issue general obligation temporary notes to finance capital projects related to sewer and water systems which notes may be renewed for up to fifteen years subject to compliance with certain statutory pay down requirements.

3.4 Lease—Purchase Financings

The Town may undertake short term financing to purchase essential equipment, such as fire engines, vehicles and other capital items, through a lease-purchase mechanism. Lease purchase terms are typically from three to ten years and shall not exceed the useful life of the equipment being financed. Under this financing vehicle, the Town enters into a-lease purchase agreement with a lessor to finance the lease purchase of certain equipment. The Town may also select a master lease arrangement whereby multiple pieces of equipment are financed over a period of time up to a maximum amount on an as needed basis.–Such lease purchase arrangements are subject to annual appropriation.

3.5 State and Federal Loans

State and federal loan proceeds are an important source of funds for capital projects in addition to the issuance of notes and bonds. A typical state borrowing program is the State's Clean Water Fund program which enables municipalities to finance wastewater infrastructure projects through a combination of loans and grants.

SECTION IV—DEBT RATIO GUIDELINES

4.1 Guidelines General Obligation Bonds

As discussed in section 3.1, general obligation bonds are secured by a pledge of the full faith and credit of the Town which includes a promise to levy taxes in an unlimited amount as necessary to pay debt service. Generally accepted measures of assessing the impact of general obligation bonds include:

Key considerations:

- Debt per capita: This is the outstanding principle as a percentage of population.
- Debt to taxable property value "debt burden": This is the outstanding debt as a percentage of the grand list.
- Rate of debt retirement: This is the rate in which outstanding principal is retired.
- Debt service to budget: This is the annual debt service as a percentage of the budget.

Other considerations:

- Debt to personal income: This is the sum of personal income in Town divided by the debt per capita.
- Debt to operating revenue: This is a percentage of outstanding principal debt to operating revenue.

The Town shall monitor and strive to achieve and/or maintain these debt statistics at a low to moderate classification, as generally viewed by the municipal bond market.

4.2 General Fund-Supported Debt

An important ratio used in analyzing the Town's debt position with respect to General Fund supported debt securities (including lease revenue obligations and certifications of participation) is the required annual debt service/lease payment as a percentage of total available general revenues or expenditures (carrying charge). This analysis includes the annual debt service/lease payment for all long-term fixed obligations of the Town such as lease revenue bonds, capital leases backed by the Town's General Fund excluding debt liabilities of Town.

The Town shall strive to maintain the following key ratios:

- **Debt to full value of taxable Grand List. The recommend ratio is below 3%.** Rating agencies tend to consider this ratio as the most important criteria.
- **Debt as a percentage of the budget. The recommended ratio is below 10%, ideally between 2% and 8%.**

It is a strong financial management practice and an important planning tool to also evaluate the effects of other significant long term fixed costs.

SECTION V—STRUCTURE AND TERM OF TOWN INDEBTEDNESS

5.1 Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Borrowings by the Town should be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 15 to 30 years. Longer terms of debt will be considered when after careful analysis it is determined to be a benefit to the town and in keeping with the useful life of the improvement.

5.2 Rapidity of Debt Repayment

In structuring a bond issuance, the Finance Director will manage the amortization of debt, and to the extent possible, match its cash flow to the anticipated debt service payments. **The Town shall strive to pay down a minimum of 50% of the total debt in ten years or less.**

The Town will seek to structure debt as permitted by Connecticut State Statute and in manner a determined to be most beneficial to the Town by the Finance Director.

5.3 Interest Rate

Fixed rate securities ensure budget certainty through the life of the securities and can be advantageous in a low interest rate environment. The Town currently issues securities on a fixed interest rate basis only. The Town in certain instances may consider the issuance of variable rate securities.

5.4 Debt Instrument Rating

The Finance Director, with a Municipal Advisor if appropriate, will assess whether a credit rating should be obtained for an issuance and make a recommendation to the First Selectman and Treasurer. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.

5.5 Credit Enhancement

Credit enhancement may be used to improve or establish a credit rating on a Town debt obligation. The Town may elect to utilize bond insurance if it is determined there is benefit to the Town. The Finance Director will recommend to the First Selectman and Treasurer the use of a credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the Finance Director, the use of such credit enhancement furthers the Town's overall financial objectives.

5.6 Capitalized Interest

Generally, interest shall be capitalized for the construction period of a revenue producing project so that debt service expense does not begin until the project is expected to be operational and producing revenues This includes, for lease back arrangements, such as those used for lease revenue bond transactions. When warranted, interest may be capitalized for a period longer than the construction period. Capitalized interest may also be referred to as "funded interest."

5.7 **Call Options/Redemption Provisions**

The Finance Director will recommend to the First Selectman and Treasurer the use of a call option, if any, and call protection period for each issuance.

A call option, or optional redemption provision, gives the Town the right to prepay or retire debt prior to its stated maturity. This option may permit the Town to achieve interest savings in the future through refunding of the bonds with lower interest rates. Often the Town must pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. In addition, if a bond is called, the holder may be entitled to a premium payment ("call premium"). Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issuance:

- Interest rate premium for adding call provision
- The call premium paid to the bond holder
- Level of rates relative to historical standards
- The time until the bonds may be called at a premium or at par
- Interest rate volatility

Generally, 20 year tax-exempt municipal borrowings are structured with an eight year call at no premium. From time to time, market conditions may facilitate shorter call options (five to seven years) with no premium

CHAPTER VI—METHOD OF ISSUANCE AND SALE

The Finance Director and Treasurer will coordinate the issuance of all debt, including issuance size, debt structure, interest rate options, cash flow analysis, and method of sale. The selection of the financing team and the role of the various consultants are discussed in Chapter VII.

6.1 **Method of Sale**

Debt issuances are sold by a single underwriter or to an underwriting syndicate through either a public offering or a private offering. The selected method of sale will be that which is the most advantageous to the Town in the judgment of the Finance Director, in terms of lowest net interest rate, most favorable terms in the financial structure used, and market conditions.

a) **Public Offerings**

Public offerings can be executed through either a competitive sale or a negotiated sale. Method of sale for each bond offering is based on the recommendation of the Finance Director with advice from the Town's Municipal Advisor.

~~i.~~ **Competitive Sale:** In a competitive sale, bids will be awarded on a true interest cost basis (TIC), provided other bidding requirements are satisfied. In such instances where the Town deems the bids received unsatisfactory, it may, at the discretion of the First Selectman and the Treasurer to reject all bids and either elect to seek new bids or enter into negotiation for the sale of the securities. In general, the competitive sale method is recommended for "plain vanilla" or more typical financings with a strong underlying credit rating and generally stable and strong market conditions exist.

ii. **Negotiated Sale:** The negotiated sale process provides the Town with control over the financing structure and the issuance timing, and provides flexibility of distribution. Negotiated sales may be executed when competitive sales are not suitable or not a viable option. Examples of such circumstances include unusual financing terms, market volatility, and weaker credit quality.

b) **Private Offerings:**

When determined appropriate by the First Selectman and the Treasurer, with guidance from the Finance Director, the Town may elect to negotiate financing terms with banks and other financial institutions for specific borrowings on a private offering basis. Typically, private offerings (also referred to as direct purchase transactions) are executed by the Town when particular circumstances, terms or conditions preclude or disfavor public offerings or in order to avoid the costs of a public offering for smaller issuances.

i. **Bidding Parameters:** In a competitive sale, the notice soliciting bids should be carefully drafted so as to ensure the best possible bid for the Town, in light of existing market conditions and other prevailing factors.

Parameters to be examined include:

- Interest rate
- Repayment acceleration
- Call provisions
- Other unique terms

6.2 Initial Disclosure Requirements

The Finance Director, in conjunction with the Town's Bond Counsel and Municipal Advisor, coordinates the preparation of all the necessary documents for disclosure, with input from various other Town departments (as applicable for a particular bond or note issuance) and outside consultants. Each publicly offered debt issuance will satisfy the disclosure requirements of the Securities and Exchange Commission (SEC) and other government agencies before and after the bond sale takes place. The disclosure documents, particularly the Official Statement, will contain full and accurate information concerning the financing and the financial condition of the Town and not omit any material information which would render the information presented misleading.

6.3 Approval Process

In managing the bond approval and issuance process, the Finance Director will work with the Town's Bond Counsel, other relevant Town departments, and outside consultants to obtain the necessary Town bonding authorization and prepare and assemble all bond related documents (see Chapter VII for the role of various outside consultants). The Town's Bond Counsel will assess any legal issues that may arise with respect to the issuance of the bonds.

All proposed debt financings shall be authorized by the Town Meeting upon recommendation of the Board of Finance except in the case of refundings which simply require the approval of the Board of Selectmen.

SECTION VII—FINANCING TEAM—ROLES AND SELECTION PROCESS

The Finance Director, working with the First Selectman, Chairman of the Board of Finance and Treasurer, shall be responsible for establishing a solicitation and selection~~,~~ process for securing professional services that are required to develop and implement a debt issuance~~.~~ program for the Town. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices.

7.1 Selection and Compensation

The identification of municipal advisors, paying agents, escrow agents and other professionals is accomplished through a selection process conducted by the Finance Director, and may also be based upon recommendations from advisors that are specifically skilled in the type of bond issuance being proposed.

Selection of consultants will be made from either an as-needed pool, which is assembled via a Request for Qualifications (RFQ) process, or a separate RFP issued for a specific bond issuance. Once the selection of a Municipal Advisor has occurred, the Municipal Advisor will assist the Town in the selection of other service providers, including broker-dealers/underwriters, trustees, escrow agents, credit enhancers, verification agents, title and insurance companies, and printers.

The Town may encumber and advance the fees associated with municipal advisory services, which are later reimbursed from the bond proceeds, or may enter into contracts on a contingent basis.

Compensation for the other service providers listed above is typically included in the cost of issuance, and paid from the bond proceeds.

The First Selectman's Office will take the lead in selecting the Town's Bond Counsel, with the guidance of the Finance Director. Bond Counsel compensation is typically paid from bond proceeds but may be paid outside of a bond issue closing in certain circumstances.

7.2 Financing Team: Outside Consultants

Municipal Advisors

As needed, the Finance Director, will identify an independent Municipal Advisor. The primary responsibilities of the Municipal Advisor are to advise and assist the municipal issuer concerning bond offerings, including the transaction structuring, advising on pricing, call provision options and timing of issuance, running debt service cash flow numbers, obtaining ratings on the proposed issuance, ensuring compliance with continuing disclosure obligations and generally acting as a financial consultant and economic and bond market advisor.

The Municipal Advisor, in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder, including the Municipal Advisor Rule, has a fiduciary duty to the Town. Fiduciary duty is generally understood to encompass a duty of loyalty and a duty of care to the Town.

Bond Counsel

The Town will retain external Bond Counsel for all debt issuances. Bond Counsel will prepare the necessary authorizing resolutions, review disclosure documents and draft bond and note documents necessary to execute the financing. In addition, all debt issued by the Town will include a customary approving legal opinion of Bond Counsel.

Broker-Dealer/Underwriters

For a competitive sale, the criteria used to select a broker-dealer/underwriter shall be the bid providing the lowest true interest cost to the Town.

For a negotiated sale debt issuance, the Finance Director, working with the Municipal Advisor, will identify broker-dealers/underwriters. The Finance Director will recommend to the First Selectman and Treasurer the selected broker-dealer/underwriter or a syndicate of broker-dealers/underwriters. Underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed, among other criteria determined for each issuance. The Finance Director will consider the following criteria in selecting a broker-dealer/underwriter and/or a syndicate:

- Experience with the particular type of financing, and size of the financing
- Overall experience
- Familiarity with the Connecticut market
- Marketing expertise
- Distribution capability
- Previous experience as managing or co-managing broker-dealer/underwriter
- Financial strength, as evidenced by the firm's current financial statements
- Experience of the public finance team assigned to the financing
- Resources to complete the financing
- Compensation

Paying Agent/Registrar/Transfer Agent/Certifying Bank

The Town by statute must designate a bank or trust company to certify the issue and to act as paying or disbursing agent. The Town's bond resolution typically authorizes the First Selectman and the Treasurer to appoint a paying agent to pay principal and interest on the Town's bonds or notes from monies provided by the Town. A certifying bank or authenticating agent certifies as to the bonds or notes of the Town including specifically as to the signatures of the First Selectman and Treasurer, the legal opinion of bond counsel and the seal of the Town.

The paying agent solicitation and selection is typically coordinated by the Municipal Advisor in consultation with the Finance Director for a new bond issuance. The Finance Director will monitor the ongoing performance of a paying agent. The Town, in consultation with the Municipal Advisor, may periodically solicit for paying agent services from qualified banks and trust companies.

A registrar maintains the registration books of the Town which identifies registered owners of the bonds or notes.

Typically, one institution serves the role of paying agent, registrar, transfer agent and certifying bank.

Other Service Providers

Other professionals may be selected, at the discretion of the Finance Director, on an as-needed basis. These include the services of credit rating agencies, escrow agents, bond insurance providers, credit and liquidity banks, verification agents, title insurance companies and printers.

SECTION VIII—REFUNDING OF TOWN INDEBTEDNESS

The Town will consider refunding its existing debt when benefits of the refunding outweigh the costs and risks.

8.1 Types of Refunding

a) **Current Refunding**

A current refunding is one in which the refunding bonds are issued less than 90 days before the date upon which the refunded bonds will be redeemed.

b) **Advance Refunding**

The Tax Cuts and Job Act of 2017 repealed the authority of municipal issuers to issue tax-exempt advance refunding bonds (bonds issued more than 90 days before the redemption date of the refunded bonds) after December 31, 2017. To the extent advance refunding transactions are reauthorized by Congress, the issuance of advance refunding bonds shall be an option for the Town.

8.2 Refunding Considerations

Refundings may be undertaken to:

- Take advantage of lower interest rates and achieve debt service cost savings
- Eliminate restrictive or burdensome bond covenants
- Restructure debt to either shorten/lengthen the duration of debt or free up reserve funds/smooth out debt service payments
- Refund outstanding indebtedness when existing financial structures impinge on prudent and sound financial management

Generally, the Town will consider a refunding only when there is a net economic benefit; i.e., when there is an aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds, at 2% and above for a current refunding and 3% and above for an advance refunding. In addition, in the case of an advance refunding, consideration is to be given to the impact of inefficient investment yields in the refunding escrow account (i.e., yield on the escrow investment is less than the yield on the refunding bonds. This inefficiency is also known as negative arbitrage.) Aggregate net present value savings should be greater than the aggregate amount of negative arbitrage to achieve an economic benefit. These savings requirements for a refunding may be waived by the First Selectman and Treasurer upon a finding that such a restructuring is in the Town's overall best financial interest.

8.3 **Refunding Escrows**

The Town will seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows, when available. However, upon the approval of the First Selectman and Treasurer, after consulting with the Finance Director and Town's Municipal Advisor, the Town may choose to fund an escrow through purchase of treasury securities on the open market when market conditions make such an option financially preferred or necessary or when SLGS are not available.

SECTION IX—POST ISSUANCE COMPLIANCE AND ADMINISTRATION

9.1 **Expenditure and Investment of Bond Proceeds**

The proceeds of the bond sales will be expended and invested until used for the intended purposes in order to maximize utilization of the public funds. The investments will be made in accordance with the Town's Investment Policy and the Town's tax regulatory agreements and tax compliance certificates. The Treasurer or escrow agent, as directed in the escrow agreement, will invest the bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions. The Town has adopted Post-Issuance Compliance Procedures (the "Post-Issuance Procedures") regarding the expenditure and investment of bond proceeds and shall comply with the requirements of such Post-Issuance Procedures.

9.2 **Arbitrage Compliance**

The Finance Director shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by the federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the Town's outstanding debt issuances.

Additionally, general financial reporting and other requirements embodied in tax regulatory agreements and tax compliance certificates and the Post-Issuance Procedures shall be monitored and reviewed to ensure that all requirements are met. The ongoing compliance verification function will be managed by the Finance Director.

9.3 **Ongoing Disclosure**

The Town will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by-SEC Rule 15c2-12. The Finance Director shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The Finance Director is responsible for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The Town may also employ the services of firms, such as the Municipal Advisor, to improve the availability of, or supplement, the Town's EMMA filings.

The Town will provide full and complete financial disclosure to rating agencies, institutional and individual investors, other government authorities, and other persons required by applicable law using the appropriate channels/policies/procedures.

The Town shall comply with all requirements contained in its Post-Issuance Procedures to ensure its meeting its continuing disclosure requirements.

9.4 **Compliance with Other Bond Terms/Covenants**

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the Town is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments
- Taxes/fees are levied and collected where applicable
- Timely transfer of debt service/rental payments to the paying agent or trustee, if applicable
- Compliance with insurance requirements
- Compliance with rate covenants where applicable
- Recordkeeping and continued public use of financed asset
- Compliance with tax covenants including the timely spend-down of project fund proceeds
- Compliance with all other bond terms/covenants

The Finance Director will coordinate verification of covenant compliance and will work with the Town's Bond Counsel~~,~~ and all other responsible entities to monitor compliance with the aforementioned compliance requirements.

9.5 **Compliance with State and Federal Reporting Requirements**

The Town will meet required State and Federal reporting requirements related to debt obligations. The Town shall also comply with all record keeping requirements set forth in the Town's Post-Issuance Procedures.

CHAPTER X—COMPLIANCE WITH TOWN'S DEBT MANAGEMENT POLICY

Any proposed exceptions from this Debt Management Policy a particular bond or note issue should be identified by the Finance Director and then discussed and approved by the Treasurer, First Selectman and Board of Finance.

The Board of Finance will review and evaluate the Debt Management Policy annually or as needed. Implementation of this Policy is not intended to release or alter the Town's current or future obligations to complete specific CIP projects by specified deadlines, as may be imposed by court order, or order of any federal, state or local regulatory agency.

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