

TOWN OF MANSFIELD  
SPECIAL FINANCE COMMITTEE MEETING

Thursday, July 28, 2016

Audrey P. Beck Building  
Conference Room B  
6:30pm

A G E N D A

CALL TO ORDER

APPROVAL OF THE MINUTES

OPPORTUNITY FOR PUBLIC COMMENT

STAFF REPORTS

OLD BUSINESS

1. Policies and Procedures Update
2. Purchasing Ordinance Review
3. Financial Management Goals/Policies – Debt Performance

NEW BUSINESS

COMMUNICATIONS/OTHER BUSINESS/FUTURE AGENDA ITEMS

ADJOURNMENT

TOWN OF MANSFIELD  
FINANCE COMMITTEE MEETING  
MINUTES OF JUNE 13, 2016

Members Present: Ryan (Chair), Raymond

Other Council Members Present: Shapiro, Moran (5:38pm)

Staff Present: Hart, Trahan, LaVoie

Guests: None

1. Meeting called to order at 5:30pm
2. Approval of minutes for May 9, 2013

***Raymond moved and Ryan seconded to approve the minutes of the May 9, 2016 meeting as presented. Motion passed unanimously.***

3. Approval of minutes for May 26, 2013

***Raymond moved and Ryan seconded to approve the minutes of the May 26, 2016 meeting as presented. Motion passed unanimously.***

4. Opportunity for Public Comment – None
5. Staff Reports – None

6. Policies and Procedures Update – Finance Director Trahan provided a Final Fraud Risk Assessment Report from CohnReznick, dated May 20, 2016.

7. Parks & Recreation Subsidy – Trahan noted that this item was reviewed with the Finance Committee in March, 2016. A motion is provided in the packet addressing any concerns regarding the “blank check” support for community service programs. Staff sees Option 2 funding as a goal that Council may modify in any give budget year. Raymond voiced concerns regarding the number of new programs the town is supporting (new park, new arts program); the condition of the fitness equipment at the Community Center; and that we need to be cautious before adding any new programs. Town Manager added that the amount we are spending on Parks & Recreation is less than what we are spending on other services, eg. the Library.

***Ryan moved and Raymond seconded effective June 13, 2016, to adopt the proposed Option 2 Parks & Recreation Funding methodology with the understanding that the Town Council shall periodically review the methodology and may adjust, in any given budget year, the General Fund contribution to the 260 Fund. Motion passed unanimously.***

8. Street Light Purchasing Program – Trahan reviewed her memo dated June 6, 2016 regarding the Connecticut Conference of Municipalities (CCM) program to assist its member towns and cities in reducing street light costs through the purchase and upgrade of those lights to LED technology. Brian LaVoie was in attendance to answer questions from Council members regarding the program and how it works. Staff is requesting the Finance Committee's support in moving forward with this energy and cost savings project. Discussion followed regarding whether to finance the project at 2.5% for 7 years or to pay cash for the project from the Management Services Fund energy account. Pro's and con's were discussed; the Committee will leave the

decision to management. Paying cash, will allow for annual budgetary savings to begin immediately, whereas financing at such a low rate will leave funding available for other energy savings project that may arise from the facilities study. Staff will also make certain that the new LED lights provide enough lighting for the sidewalks and that there will be no prepayment penalty if we finance but chose to pay off early.

***Ryan moved and Raymond seconded effective June 13, 2016, to encourage staff to move forward with the purchase and upgrade of the town's streetlights, the funding mechanism to be determined by management.***

9. Financial Management Goals/Policies – Trahan briefly reviewed the existing Financial Management Goals, recommending that the Committee first review the Debt Performance Goals. The Committee has discussed updating the guidelines for the issuance of debt. Trahan will provide recommended changes and sample policies from other communities for the next Finance Committee meeting.
10. Purchasing Ordinance Review – The Committee reviewed the Purchasing Ordinance in detail through section 76-4(D) Award of Contract, discussing comments and recommendations provided by Trahan and offering additional suggestions. Trahan will update the Ordinance with the Committee's recommendations for continued discussion at the July meeting.
11. Communications/Other Business/Future Agenda Items –
12. Adjournment. The meeting adjourned at 6:45 pm.

***Raymond moved and Ryan seconded to adjourn. Motion passed unanimously.***

Respectfully Submitted,  
Cherie Trahan, Director of Finance



## Town of Mansfield Department of Finance

**To:** Mansfield Finance Committee  
**From:** Cherie Trahan, Director *CT*  
**CC:** Matt Hart, Town Manager  
**Date:** July 28, 2016  
**Re:** Purchasing Ordinance Proposed Revisions

Attached is a red-lined version of the Purchasing Ordinance following the Finance Committee's discussion on the ordinance on June 13, 2016. This version includes the following proposed changes:

1. Section 76-3 A. Included language proposed by Councilor Raymond regarding the procurement of supplies, materials, equipment, property or services pursuant to a competitive process.
2. Section 76-4 D. Removed the requirement to inform the Finance Committee when a contract has been award by means other than a competitive sealed bid. Added statement identifying the Purchasing Agent as having the authority and responsibility to execute contracts for purchase of product and services for the Town, including Professional & Technical Services under \$50,000.
3. Section 76-4 F-3. Removed the requirement to inform the Finance Committee of a Sole Source purchase.
4. Section 76-4 I. Professional Services. Included language to raise the threshold for requiring a Request for Proposal to \$50,000. Included language to allow for State contract pricing or pre-qualified pricing through other municipal support agencies in lieu of issuing our own RFP.
5. Section 76-4 I-2. Clarified that the Town Manager will determine when the scope of work for Professional Services is "less precise".
6. Section 76-4 I-6. Clarified that the Purchasing Agent will be responsible for executing Professional & Technical contracts under \$50,000 and the Town Manager will be responsible for contracts over \$50,000.

A couple of other items were discussed which are not specifically written into the ordinance, but I think should be codified in the Finance Policies and Procedures (FPP). They include the following:

1. Currently, the FPP require the completion of a Best Value Source Selection form for all purchases of \$7,500 or more. This documents the reasons behind the vendor/source selection, which selection method was chosen, and that it was approved by the Purchasing Agent. Given that our FPP now require (3) quotes for any purchase over \$5,000, I recommend that we increase the Best Value Source Selection reporting threshold to \$15,000. The Purchasing Agent will still review all purchases over \$5,000 but the source selection documentation requirement would only be required at \$15,000 or more.
2. Councilor Raymond has requested that a procedure be put in place to review all vendors that cumulatively reach a specified amount paid during the fiscal year. I think this is appropriate to write into the FPP. Given that the Purchasing Agent will already reviewing and documenting individual purchases over \$15,000 and professional and technical services over \$50,000, I recommend a review level of \$100,000 to be done on a quarterly basis by the Finance Director, signed and dated and kept on file.
3. A few miscellaneous additions to the FPP:
  - a. Section 76-3 B. To reiterate that purchasing procedures apply irrespective of the source of funding.
  - b. Section 76-4 A-3. To include transfer of supplies, materials, equipment procedure.
  - c. Section 76-4 A-4. To include sample bid documents.
  - d. Section 76-4 A-7. To include ability and procedures to cancel invitation to bid, RFP, etc.
  - e. Section 76-4 K. To include custody of contracts procedures.

As the Finance Committee continues its discussion of the Purchasing Ordinance, I will provide updated versions for your review.

## Chapter 76. Purchasing

[HISTORY: Adopted by the Town Council of the Town of Mansfield 6-22-2009, effective 7-22-2009.[1] Amendments noted where applicable.]

### GENERAL REFERENCES

Administrative departments — See Ch. 2.

Code of Ethics — See Ch. 25.

Disposal of property — See Ch. 73.

Reserve Fund — See Ch. 85.

[1] Editor's Note: This ordinance also superseded former Ch. 76, Purchasing, adopted 5-29-1990.

#### § 76-1. Title.

This chapter shall be known and may be cited as "The Ordinance for Obtaining Goods and Services."

#### § 76-2. Legislative authority.

This chapter is enacted pursuant to the provisions of Town Charter § C506B(1)(c).

#### § 76-3. Purpose; applicability; environmental considerations.

- A. The purpose of this chapter is to provide a set of procedures designed to obtain the best possible value for the necessary goods and services purchased by the Town of Mansfield, in accordance with Article V, § C506, of the Town Charter. It shall be the general policy and presumption of the Town Council that contracts for the procurement of supplies, materials, equipment, property or services shall be entered into pursuant to a competitive process. The Town Council has also determined that competitive bidding in some instances may be against the best interest of the Town. The Council, therefore, invokes its powers under Article V, § C506B(1)(c), of the Town Charter to establish this chapter designed to better ensure receipt by the Town of the best possible value for necessary goods and services by taking advantage of all prudent purchasing methods and opportunities available in the marketplace, including the open competitive bidding

process, and delegates authority to implement these procedures to the Purchasing Agent. These procedures are further designed to provide for the fair and equitable treatment of all persons involved in public purchasing by the Town of Mansfield.

- B. This chapter shall apply to the purchase of all supplies, materials, equipment and other commodities and contractual services and construction (hereafter referred to as "products and services") required by any department, agency, board or commission of the Town, irrespective of the source of funds, except the purchase of specialized goods and contractual services for the purpose of instruction by the Board of Education. The Mansfield Board of Education and the Region 19 Board of Education shall be encouraged to adopt purchasing regulations similar to the provisions of this chapter. Nothing herein contained shall be construed to prevent the Director of Finance from serving, to the extent requested, as the Purchasing Agent for all requirements of the Board(s) of Education.
- C. In order to increase the development and awareness of environmentally sound products and services, the Town of Mansfield will ensure that all possible and feasible specifications are reviewed for consideration of environmental impacts. Consideration will be given to those products that, from a life cycle perspective, adversely affect the environment in the least possible way. This means that the Town of Mansfield will make a reasonable and responsible effort to choose product and services that:
  - 1) Are produced in an environmentally responsible manner.
  - 2) Are distributed in an environmentally responsible manner.
  - 3) Cause the least possible damage to the environment.
  - 4) Can be removed in an environmentally responsible manner.

§ 76-4. Solicitation and award procedures.

- A. As provided in the Town Charter, the Director of Finance shall serve as the Purchasing Agent for the Town, and shall be responsible for the procurement of all products and services for the Town. Subject to the limitations set forth in the Charter and in § 76-3B of this chapter, the Purchasing Agent shall have the authority to approve all contract specifications, prescribe the method of source selection to be utilized in the procurement of all products or services, award all contracts for products and services based on a determination of the bidder who offers the best value to the Town, and shall have the authority necessary to enforce the purchasing provisions of the Charter and these rules. In addition, the Purchasing Agent shall have the following specific duties:
  - 1) To inspect all supplies, material and equipment ordered by and delivered to the Town to ensure compliance with specifications and conditions affecting the purchase

thereof, or delegate the inspection thereof to such Town employees as are authorized to purchase said supplies, materials or equipment in accordance with Subsection B of this section.

- 1)2) To procure and award contracts for, or supervise the procurement of, all products and services needed by the Town, and to maintain custody and care of all contracts for goods and contractual services to which the Town is a party.
- 2)3) To transfer between offices or sell, trade, or otherwise dispose of surplus supplies, materials, or equipment belonging to the Town.
- 3)4) To prepare, issue, revise, and maintain all bid specifications and to establish and maintain programs for specification development, and the inspection, testing, and acceptance of products and services.
- 4)5) To prepare and adopt operational procedures governing the procurement functions of the Town.
- 5)6) To have the discretion and authority for cause to disqualify vendors and to declare them to be irresponsible bidders and to remove them from receiving any business from the Town.
- 6)7) To cancel, in whole or in part, an invitation to bid, a request for proposals, or any other solicitation, or to reject, in whole or in part, any and all bids or proposals when to do so is in the best interests of the Town.
- 7)8) To require, when necessary, bid deposits, performance bonds, insurance certificates, and labor and material bonds or other similar instruments or security which protect the interests of the Town.
- 8)9) To procure for the Town all federal and state tax exemptions to which it is entitled.
- 9)10) To ensure that the Town is exempt from state fair trade laws as provided by the Connecticut General Statutes.
- 10)11) To join with other units of government and with private sector organizations in cooperative purchasing plans when the best interests of the Town would be served.

B. Delegation to other Town officials. With the written approval of the Town Manager, the Purchasing Agent may delegate any portion of the authority to purchase certain products and services to other Town employees, if such delegation is deemed necessary and appropriate for the effective and efficient operation of Town government and for the procurement of those items. The Purchasing Agent, with the written approval of the Town Manager, may revoke such delegation at any time. The person to whom such authority is delegated shall be responsible for complying with the requirements of the

Charter, this chapter and any rules or regulations which may exist relating to the execution of the procurement process.

C. Methods of source selection. In accordance with Article V of the Town Charter, unless otherwise prescribed by law, the Purchasing Agent shall take advantage of all prudent purchasing methods and opportunities available in the marketplace. This includes, but is not limited to, such methods as competitive sealed bids, competitive sealed proposals, competitive negotiation, sole-source procurement, small purchase procedures, credit card procedures, bulk ordering, emergency purchases, multi-step bidding, Internet purchasing, use of cooperative purchasing plans and public auctions. In deciding which method to utilize, the Purchasing Agent may take into consideration the following factors:

- 1) How to obtain the best value for the commodity.
- 2) Whether or not to utilize a fixed-price or fixed-service contract under the circumstances.
- 3) Whether quality, availability, or capability is overriding in relation to price.
- 4) Whether the initial installation needs to be evaluated together with subsequent maintenance and service capabilities and what priority should be given to these requirements.
- 5) What benefits are derived from product or service compatibility and standardization and what priority should be given to these requirements.
- 6) Whether the marketplace will respond better to a solicitation permitting not only a range of alternative proposals, but evaluation, discussion, and negotiation of them before making the award.
- 7) What is practicable and advantageous to the Town.
- 8) The availability of vendors.
- 9) The efficiency of the process.
- 10) The fair and equitable treatment of potential participants.
- 11) The degree to which specifications can be made clear and complete.
- 12) The timeliness of the process to the needs of the Town.

D. Award of contract. Contracts shall be awarded, by the Purchasing Agent to the vendor who offers the best value to the Town. ~~The Finance Committee shall be advised in the next quarterly financial report, or sooner when appropriate, when the Purchasing Agent~~

~~awards a contract for goods or services (but not professional services as defined in Subsection I) other than by competitive sealed bid in accordance with Article V, § C506B(1)(c), of the Town Charter. Best value shall be determined by consideration of some or all of the following factors as deemed appropriate by the Purchasing Agent: On behalf of the Town, the Purchasing Agent shall have the authority and responsibility to execute contracts for the purchase of all products and services for the Town, including professional and technical services under \$50,000.~~

- 1) The quality, availability, adaptability, and efficiency of use of the products and service to the particular use required.
- 2) The degree to which the provided products and services meet the specified needs of the Town, including consideration, when appropriate, of the compatibility with and ease of integration with existing products, services or systems.
- 3) The number, scope, and significance of conditions or exceptions attached or contained in the bid and the terms of warranties, guarantees, return policies, and insurance provisions.
- 4) Whether the vendor can supply the product or service promptly, or within the specified time, without delay or additional conditions.
- 5) The competitiveness and reasonableness of the total cost or price, including consideration of the total life-cycle cost and any operational costs that are incurred if accepted.
- 6) A cost analysis or a price analysis including the specific elements of costs, the appropriate verification of cost or pricing data, the necessity of certain costs, the reasonableness of amounts estimated for the necessary costs, the reasonableness of allowances for contingencies, the basis used for allocation of indirect costs, and the appropriateness of allocations of particular indirect costs to the proposed contract.
- 7) A price analysis involving an evaluation of prices for the same or similar products or services. Price analysis criteria include, but are not limited to: price submissions of prospective vendors in the current procurement, prior price quotations and contract prices charged by the vendor, prices published in catalogs or price lists, prices available on the open market, and in-house estimates of cost.
- 8) Whether or not the vendor can supply the product or perform the service at the price offered.
- 9) The ability, capacity, experience, skill, and judgment of the vendor to perform the contract.
- 10) The reputation, character and integrity of the vendor.

- 11) The quality of performance on previous contracts or services to the Town or others.
- 12) The previous and existing compliance by the vendor with laws and ordinances or previous performance relating to the contract or service, or on other contracts with the Town or other entities.
- 13) The sufficiency, stability, and future solvency of the financial resources of the vendor.
- 14) The ability of the vendor to provide future maintenance and service for the use of the products or services subject to the contract.

E. Common specifications and standards.

- 1) In accordance with this chapter, all of the Town's departments, agencies, boards and commissions shall work together with the Purchasing Agent to identify common needs and establish standard specifications for the purchase of goods and contractual services which are commonly used by more than one department, agency, board, or commission.
- 2) The Purchasing Agent shall be responsible for identifying goods and contractual services common to the needs of the Town, School Department and their boards and commissions and for preparing and utilizing standard written specifications submitted for such goods and contractual services. After adoption, each standard specification shall, until revised or rescinded, apply in terms and effect to every purchase and contract for said goods or contractual service. The Town Manager may exempt any using agency of the Town from the use of the goods or contractual services in such standard specification if, in his/her judgment, it is in the best interest of the Town to so do.

F. Sole-source procurement and brand name specification.

- 1) It is the policy of the Town to encourage fair and practicable competition consistent with obtaining the best possible value for the necessary products and services required by the Town. Since the use of sole-source procurement or a brand name specification is restrictive, it may be used only when the Purchasing Agent makes a written determination that there is only one practical source for the required product or service or that only the identified brand name item or items will satisfy the Town's needs and the Town Manager concurs with such finding. A requirement for a particular brand name does not justify sole-source procurement if there is more than one potential vendor for that product or service.

- 2) Any request by a using agency that procurement be restricted to one potential contractor or be limited to a specific brand name shall be accompanied by an explanation as to why no other will be suitable or acceptable to meet the need.
  - 3) A record of all sole-source procurements and brand name specifications shall be maintained. Sole-source records shall list each contractor's name; the amount and type of each contract; a listing of the products or services procured under each contract; and the effective dates of the contract. Brand name records shall list the brand name specification used, the number of suppliers solicited, the identity of these suppliers, the supplier awarded the contract, and the contract price. ~~The Town Council Finance Committee shall be advised, in the next quarterly financial report, or sooner when appropriate, when the Purchasing Agent and the Town Manager have made a determination of brand name or sole source selection.~~
- G. All purchases made and contracts executed by the Purchasing Agent shall be pursuant to a written or electronic purchase order from the head of the office, department or agency whose appropriation will be charged, and no contract or order shall be issued to any vendor unless and until the Director of Finance certifies that there is to the credit of such office, department or agency a sufficient unencumbered appropriation balance to pay for the supplies, materials, equipment or contractual services for which the contract or order is to be issued. This requirement may be deferred in the event that an emergency situation requires prompt action by the Purchasing Agent. This subsection will not prevent the use of open purchase orders or the use of a purchasing card program designed to consolidate many small transactions onto a single monthly invoice.
- H. The responsible head of each department, office, institution, board, commission, agency or instrumentality of the Town shall certify, in writing, to the Purchasing Agent the names of such officers or employees who shall be exclusively authorized to sign purchase orders for such respective department, office, institution, board, commission, agency or instrumentality, and all requests for purchases shall be void unless executed by such certified officers or employees and approved by the Purchasing Agent.
- I. **Professional services.** As the procurement of professional services is generally exempt from the requirements of competitive sealed bidding, all contracts for professional services, including legal services, shall be obtained in accordance with the following guidelines, with the exception of the Town Attorney who shall be chosen in accordance with Article III, § C305, of the Town Charter. The Town Manager shall execute an agreement for professional services with the appointed Town Attorney.
- 1) A request for proposal (RFP) or request for qualifications (RFQ) shall be written for all requests for professional services [except as described in Subsection I(3) below] in excess of ~~\$40,000~~\$50,000. The RFP or RFQ shall be written in such a manner as to describe the requirement to be met, without having the effect of exclusively requiring a proprietary product or service, or procurement from a sole source, unless approved in accordance with the requirements of this section. This requirement may be met by using State contracted pricing or pre-qualified pricing through other municipal support agencies including but not limited to the Connecticut Conference of Municipalities (CCM) and Capital Region Council of Governments (CRCOG).

- 2) When the scope of work is less precise as determined by the Town Manager, the preferred method of obtaining professional services shall be through the use of competitive negotiation. The process used for the solicitation of proposals shall assure that a reasonable and representative number of vendors are given an opportunity to compete. The Town Manager may limit the number of qualified vendors considered and may approve solicitation by invitation or public notice.
- 3) In accordance with Article III, § C305C, of the Town Charter, the Town Manager, with the approval of the Town Council, may obtain special legal services other than the Town Attorney. In obtaining those services, the Town Manager may consider, in addition to hourly rate, the reputation, character and integrity of the firm, the quality of performance on previous contracts and services to the Town, the ability of the firm to provide these services over an extended period, and the ability, capacity, experience, skill and judgment of the attorneys performing the service.
- 4) The award of a professional services contract shall be done in a manner designed to obtain the best possible value to the Town and with consideration of the factors listed in Subsection D of this section, titled "Award of contract."
- 5) Professional services defined.

a. Professional services are defined as:

- i. Work requiring knowledge of an advanced type in a field of study and which frequently requires special credentialing, certification or licensure. Such areas include but are not limited to engineers, architects, appraisers, medical service providers, consultants, actuaries, banking services, and legal; or
- ii. Work that is original and creative in character in a recognized field or artistic endeavor or requires special abilities and depends primarily on a person's invention, imagination, or creative talent. Such fields or artistic endeavors include but are not limited to the following: health and fitness, cultural arts, crafts, ice skating, and specialty area instructors; and
- iii. Work that requires consistent exercise of independent discretion and judgment to perform according to a provider's own methods and without being subject to the control of the Town except as to the result of the work.

b. Professional service providers shall not be dependent on the Town as their sole client, and must be clearly considered an independent contractor as opposed to an employee as defined by state and federal laws, regulations, and court decisions.

- 6) On behalf of the Town, the Purchasing Agent shall have the authority and responsibility to execute professional service contracts up to \$50,000. †The Town Manager shall have the authority and responsibility to execute professional service contracts in excess of ~~\$40,000~~\$50,000.

- J. Invoice schedule. All contracts for goods, contractual services and professional services to which the Town is a party shall include a provision requiring the vendor or contractor to invoice the Town in a timely manner, pursuant to a schedule established by the Purchasing Agent.
- K. Custody of contracts. All contracts for goods, contractual services and professional services to which the Town is a party shall be kept in the office of the Purchasing Agent and shall be under the care and custody of the Purchasing Agent unless the Purchasing Agent has delegated the authority to take custody of such a contract to another Town official in accordance with Subsection B of this section. All other contracts to which the Town is a party or to which any officer or board, bureau or commission of the Town, acting in behalf of the Town, is a party shall be kept on file in the Town Clerk's office and shall be under the care and custody of the Town Clerk. When any officer, board, bureau or commission of said Town shall require any original contract in which the Town is interested, as aforesaid, the contract shall not be taken from the Town Clerk's or Purchasing Agent's office until such officer, board, bureau or commission has given a receipt therefor, and a copy of such contract shall be filed with the Town Clerk or Purchasing Agent as soon as the same can be made. The above provisions shall not apply when any such contract is needed for temporary use in the Town building and is returned on the same day that it is taken.

The Debt Performance Goals adopted by the Town Council on March 9, 1987, and amended November 25, 1996 are as follows:

**DEBT PERFORMANCE GOALS**

- Long-term debt will be limited to those capital improvements that should not be financed from current revenues.
- The maturity date for any debt will not exceed the reasonably expected useful life of the project so financed.
- The total direct general obligation debt will not exceed three percent (3%) of the full assessment value of taxable property.
- As a means of further minimizing the impact of debt obligations of the taxpayers:
  - a. long-term net debt will not exceed \$500 per capita; and
  - b. these limitations will not apply to any debt incurred for emergency purposes.
- The issuance of bond, tax and revenue anticipation notes will be avoided.
- Special assessments, revenue bonds and/or any other available self-liquidating debt measures will be used instead of general obligation bonds where and when possible and applicable.
- An official statement will be prepared to be used in connection with all sales of bonds and notes.
- Good relations will be maintained with financial and bond rating agencies, and a policy of full and open disclosure on every financial report and bond prospectus will be followed.



## BEST PRACTICE

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# Debt Management Policy

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### BACKGROUND:

Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations. A debt management policy should improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and therefore is likely to meet its debt obligations in a timely manner. Debt management policies should be written with attention to the issuers specific needs and available financing options and are typically implemented through more specific operating procedures. Finally, debt management policies should be approved by the issuers governing body to provide credibility, transparency and to ensure that there is a common understanding among elected officials and staff regarding the issuers approach to debt financing.

### RECOMMENDATION:

GFOA recommends that state and local governments adopt comprehensive written debt management policies. These policies should reflect local, state, and federal laws and regulations. To assist with the development of these policies GFOA recommends that a governments Debt Management Policy (Policy) should be reviewed periodically (and updated if necessary) and should address at least the following:

**1. Debt Limits.** The Policy should consider setting specific limits or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial reasons.

a. *Legal restrictions* may be determined by:

- State constitution or law,
- Local charter, by-laws, resolution or ordinance, or covenant, and
- Bond referenda approved by voters.

b. *Public Policies* will address the internal standards and considerations within a government and can include:

- Purposes for which debt proceeds may be used or prohibited,
- Types of debt that may be issued or prohibited,
- Relationship to and integration with the Capital Improvement Program, and
- Policy goals related to economic development, including use of tax increment financing and public-private partnerships.

c. *Financial restrictions or planning considerations* generally reflect public policy or other financial resources constraints, such as reduced use of a particular type of debt due to changing financial

conditions. Appropriate debt limits can have a positive impact on bond ratings, particularly if the government demonstrates adherence to such policies over time. Financial limits often are expressed as ratios customarily used by credit analysts. Different financial limits are used for different types of debt. Examples include:

- *Direct Debt, including general obligation bonds*, are subject to legal requirements and may be able to be measured or limited by the following ratios:
  - Debt per capita,
  - Debt to personal income,
  - Debt to taxable property value, and
  - Debt service payments as a percentage of general fund revenues or expenditures.
- *Revenue Debt* levels often are limited by debt service coverage ratios (e.g., annual net pledged revenues to annual debt service), additional bond provisions contained in bond covenants, and potential credit rating impacts.
- *Conduit Debt* limitations may reflect the right of the issuing government to approve the borrowers creditworthiness, including a minimum credit rating, and the purpose of the borrowing issue. Such limitations reflect sound public policy, particularly if there is a contingent impact on the general revenues of the government or marketability of the governments own direct debt.
- *Short-Term Debt Issuance* should describe the specific purposes and circumstances under which it can be used, as well as limitations in term or size of borrowing.
- *Variable Rate Debt* should include information about when using non-fixed rate debt is acceptable to the entity either due to the term of the project, market conditions, or debt portfolio structuring purposes.

**2. Debt Structuring Practices.** The Policy should include specific guidelines regarding the debt structuring practices for each type of bond, including:

- Maximum term (often stated in absolute terms or based on the useful life of the asset(s)),
- Average maturity,
- Debt service pattern such as equal payments or equal principal amortization,
- Use of optional redemption features that reflect market conditions and/or needs of the government,
- Use of variable or fixed-rate debt, credit enhancements, derivatives, short-term debt, and limitations as to when, and to what extent, each can be used, and
- Other structuring practices should be considered, such as capitalizing interest during the construction of the project and deferral of principal, and/or other internal credit support, including general obligation pledges.

**3. Debt Issuance Practices.** The Policy should provide guidance regarding the issuance process, which may differ for each type of debt. These practices include:

- Selection and use of professional service providers, including an independent financial advisor, to assist with determining the method of sale and the selection of other financing team members,
- Criteria for determining the sale method (competitive, negotiated, private placement) and investment of proceeds,
- Use of comparative bond pricing services or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results,
- Criteria for issuance of advance refunding and current refunding bonds, and

- Use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services.

**4. Debt Management Practices.** The Policy should provide guidance for ongoing administrative activities including:

- Investment of bond proceeds,
- Primary and secondary market disclosure practices, including annual certifications as required,
- Arbitrage rebate monitoring and filing,
- Federal and state law compliance practices, and
- Ongoing market and investor relations efforts.

**5. Use of Derivatives.** The Debt Management Policy should clearly state whether or not the entity can or should use derivatives. If the policy allows for the use of derivatives, a separate and comprehensive derivatives policy should be developed (see GFOAs Advisory, Developing a Derivatives Policy and Derivatives Checklist).

**Notes:**

- Post Issuance Compliance Checklist
- Debt Issuance Checklist: Considerations When Issuing Bonds

**References:**

- GFOA Advisory, Using Variable Rate Debt Instruments, 2010.
- GFOA Advisory, Use of Debt-Related Derivatives Products and the Development of a Derivatives policy, 2010.
- GFOA Derivatives Checklist, 2010.
- GFOA Best Practice, Selecting Bond Counsel, 2008.
- GFOA Best Practice, Selecting Financial Advisors, 2008.
- GFOA Best Practice, Selecting Underwriters for a Negotiated Bond Sale, 2008.
- GFOA/NABL Post Issuance Compliance Checklist, 2003.
- *Benchmarking and Measuring Debt Capacity*, Rowan Miranda and Ron Picur, GFOA, 2000.
- *A Guide for Preparing a Debt Policy*, Patricia Tigue, GFOA, 1998.

## DEBT MANAGEMENT POLICY

The Debt Management Policy provides the conceptual framework for the issuance and management of debt.

### *Policy Purpose*

The purpose of this document is to provide a comprehensive and viable debt management policy which recognizes the infrastructure needs of the Town as well as the taxpayer's ability to pay while taking into account existing legal, economic, financial and debt market considerations.

### *Objective*

Town debt will be issued for the purpose of funding capital projects as authorized and in compliance with State statutes and the Town Charter. The Town plans long and short-term issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Town will strive to increase each year the percentage of capital improvements financed by current revenues and thereby follow a "pay as you go" plan. The Debt Management Plan is structured to layer in debt issues for the ensuing five years based on approved projects and anticipated needs. *=Formal Debt Management Plan to be prepared and included in the annual budget=*

This Policy establishes the standards regarding the timing and purpose for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated in the Town's Debt Management Plan. The standards constitute realistic goals that the Town can expect to meet, and will guide, but not bind, debt management decisions. Advantages of a debt policy are as follows:

1. Enhance the quality of decisions by imposing order and discipline and promoting consistency and continuity in decision making
2. Rationalize the decision-making process
3. Identify objectives for staff to implement
4. Demonstrate a commitment to long-term financial planning objectives

### *General Policy*

1. *Borrowing authority* -- the Town shall have the power to incur indebtedness in according with the Town Charter, Section C407. The Council, after approval of consecutive actions of the Council and a Town meeting, may authorize, in any one fiscal year, the issuance of bonds and borrowing in anticipation of bonds in an aggregate amount not to exceed 1% of the annual budget. The authorization, in any one fiscal year, of the issuance of bonds and borrowing in anticipation of bonds in an amount exceeding 1% of the annual budget may be approved by consecutive favorable action of the Council and a referendum of the voters of the Town if the favorable vote is at least 15% of the voters on the registry list.

2. *Types of permissible debt* -- whenever possible, the Town will first attempt to fund capital projects with state and federal grants or other revenues. When such funds are insufficient, the Town may use dedicated revenues from Special Revenue Funds, development fees, and capital and non-recurring expenditure or general fund revenues to fund projects. If these are not appropriated, the Town will use bond financing. General obligation bonds will be issued to finance traditional public improvements. Revenue or limited obligation bonds may be used within statutory parameters to finance those special projects or programs which directly support the Town's long-term economic development or housing interests or which service a limited constituency and are clearly self-supporting.

The Town may use short-term financing in the form of Bond Anticipation Notes ("BANS"). BANS may be used to provide interim cash flow, facilitate the timing of bond sales, finance less significant borrowing needs, avoid locking in high long-term interest rates during periods of market turmoil or to finance projects whose final cost is uncertain or is expected to be mitigated by grants and/or investment earnings. BANS are not to be used to defer the operating budget impact of bonded debt service or to speculate on market rates. BANS will be retired either through cash reserves or through the issuance of long-term bonds in accordance with the Town's debt management strategy and as market conditions permit.

A growing part of the public finance market is the use of interest rate swaps and other primary market derivatives by municipal bond issuers. Swaps in particular are often an integral part of a municipal bond issuer's risk management program. Such strategies should be undertaken with the goal of reducing risk and/or for the purpose of diversification. Any alternative method of financing, such as the use of swaptions, forwards, interest rate or debt derivative transactions, etc., if deemed appropriate, should be fully disclosed, reviewed and approved by the Town Council. Such financings should be based on formally approved management policies and procedures that simultaneously minimize the risks and maximize the rewards for such transaction. *=Review with Financial Advisor to make sure this is up-to-date=*

Long-term capital leases or lease-purchase obligations may be used for copiers, computers, major equipment or rolling stock and other capital items when it is cost justifiable to do so.

3. *Purpose of debt* -- the town will confine long-term borrowing to capital improvements or projects that cannot be financed with current revenues. The Town will not fund current operations from the proceeds of borrowed funds. Whenever appropriate the beneficiaries of a project or service will pay for it. For example, if a project is a general function of government that benefits the entire community, such as a school or library, the project will be paid for with general tax revenues or financed with general obligation bonds. Projects benefiting specific users, such as water and sewer facilities, will be issued as general obligation bonds by the Town, using its full faith and credit pledge. The revenues will be derived from user fees or charges and targeted taxes and assessments will be used to offset the general obligation debt service.
4. *Refunding debt* -- the Town will continually monitor its outstanding debt in relation to existing conditions in the debt market and will refund any outstanding debt when

sufficient cost savings can be realized. The target threshold for net present value savings should be a minimum of 2%.

5. *Interest rates* -- the Town will attempt to issue debt that carries a fixed interest rate. However, it is recognized that certain circumstances may warrant the issuance of variable rate debt. In those instances, the Town should attempt to stabilize debt service payments through the use of an appropriate stabilization arrangement. Town Council approval is needed to issue variable rate debt. The Town will plan and schedule bond sales to obtain a true interest cost at or below the bond yield averages for comparable debt.
6. *Planning and structuring each bond sale* -- balanced consideration should be given to each of the following objectives: a) provide cash in advance to meet project expenses; b) retire debt in the shortest period of time which is fiscally prudent; c) finance projects for a period commensurate with the useful life of the asset; d) schedule new debt to coincide with the retirement of past debt to lessen the impact upon the mill rate; and e) minimize the impact of debt service payments on annual cash flow. Moreover, whenever possible, projects with an estimated cost of less than \$100,000 shall not be financed with long-term debt.
7. *Federal regulations* -- the Town will a) adhere to the requirements of Rule 15c2-12(b)(5), promulgated by the Securities and Exchange Commission when issuing bonds and will provide to any nationally recognized municipal securities repository, or "NRMSIR", annual financial information and operating data and timely notices of material events with respect to the bonds; b) comply with and keep current with all Federal regulations for tax-exempt bonds, and c) comply with arbitrage regulations of the Internal Revenue Code of 1986, Section 148.

The Town will comply with Federal reimbursement regulations for tax-exempt bond proceeds used to reimburse capital expenditures by: a) declaring reasonable intent in authorizing ordinances; b) issuing bonds within one year after the expenditure was paid or project was put into service, and c) qualifying expenditures as capital expenditures under general income tax principles.

8. *Bond structure:*

Bond term -- all capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event to exceed 20 years (30 years for sewer projects) in accordance with Connecticut General Statutes.

Bank qualification -- whenever possible, the Town will issue \$10 million or less in tax-exempt securities per calendar year to receive the "Bank Qualified" status on the issue to minimize interest rates paid for bonded projects. (Bank Qualification allows commercial banks to deduct 80% of their interest cost of carrying tax-exempt bonds.)

Small Issuer exemption -- whenever feasible, to qualify under the IRS arbitrage rebate exemption provision as a "Small Issuer", the Town will not issue more than \$15 million in debt in any calendar year of which not more than \$5 million of the issue may be for non-school construction expenditures.

Call provision -- the Town seeks to minimize the cost from optional redemption call provisions, consistent with its desire to obtain the lowest possible interest rates on its bonds. The Town Manager and Finance Director will evaluate optional redemption provisions for each issue to assure that the Town does not pay unacceptable higher interest rates to obtain such advantageous calls.

Credit or liquidity enhancement -- the Town may seek to use credit or liquidity enhancements when such enhancement proves to be cost-effective or to improve or establish a credit rating on BANS or bond issues. Selection of enhancement providers is subject to a competitive bid process or at the option of the underwriter. =discuss with financial advisor=

Debt service for bonds and notes paid each year shall not exceed %TBD of the General Fund budget of the Town, excluding: a) tax anticipation notes and other indebtedness with a maturity of one year or less; b) bonds or other indebtedness of the Town payable from revenues for special tax districts; and c) self-supporting bonds or other debt.

9. *Method of sale* -- debt obligations are generally issued through competitive sale. Upon recommendation of the Town Manager and Finance Director, the Town Council will authorize the method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions. =to be discussed=

When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the Town that would not be achieved through a competitive sale, the Town may elect to sell its debt obligations through a private or negotiated sale, upon approval by the Town Council. The underwriting team for bonds and notes is selected through a competitive process, but the ultimate decision will be based upon the strength of the team's proposal, including qualifications and pricing. For long-term capital leases or lease-purchase obligations the Town will also seek to solicit competitive pricing whenever practicable.

#### *Provisions - Debt Affordability Measures*

The Town Manager and Finance Director will analyze the Town's debt position and the various indicators of municipal credit relative to credit industry standards and the Town's own financial ability. They will examine the following statistical measures to determine debt capacity and compare these ratios to other towns, rating agency standards and the Town's historical ratios to determine debt affordability. In order to determine the Town's relative debt position, the Town uses the following measures:

- 1) Debt measured against the population on a per-capita basis to be capped at \$TBD
- 2) General Fund bonded debt as a percent of full market value to be capped at %TBD
- 3) General Fund debt service as a percent of total General Fund expenditures to be capped at %TBD
- 4) Other measures the Town deems appropriate

An executive summary of the results will be submitted annually to the Town Council as part of the Debt Management Plan.

The Town's overall debt structure, including overlapping debt, should fall well within statutory limits and should decrease as rapidly as is financially feasible. Whenever feasible, the Town will maintain debt at levels equal to or below the median debt ratios used by investors (underwriters) and credit analysts when reviewing the Town's creditworthiness. The municipal medians will be updated annually when published by the State of Connecticut Office of Policy and Management or other recognized published medians.