

Town of Stowe
General Fund Operating & Capital Fund
Debt Management Policy

PURPOSE - The purpose of this Policy is to establish the guidelines for the issuance of general obligation debt issued by the Town of Stowe with the annual debt service to be paid for out of the General Fund Operating Budget. Debt levels and the related annual debt service expenditures are important long-term obligations that must be managed with available short-term and long-term resources. This policy also addresses the level of general obligation indebtedness that the Town can reasonably expect to support through its General Fund Operating Budget without jeopardizing its existing financial position.

Adherence to a debt management policy, along with the utilization of other sound and prudent financial practices and the Town's other financial policies, will assure the lending market that the Town is well managed and will meet its obligation in a timely manner.

PLANNING AND PERFORMANCE - Debt management means adopting and maintaining financial plans for both the issuance and repayment of debt. The determination to issue new debt should be made as a part of the adoption of the annual operating and capital budget, which prioritizes capital projects and identifies the various funding sources available for those projects. Planning for the repayment of debt will include analysis of the operating budget to determine if the Town General Fund can support the annual debt within the debt ratios outlined in this Policy. In order to address unexpected emergencies, a minimum of \$250,000 in unallocated reserves should be maintained in the General Fund Capital Budget. If it is necessary to reduce the unallocated reserves below this level, it should be a goal as soon as reasonably practical without jeopardizing public safety to rebuild the unallocated reserves to this minimum.

USE OF SHORT-TERM AND LONG-TERM DEBT - Short-term debt of less than one year should be limited to borrowing to cover short-term, temporary cash flow shortages within the Town's fiscal year through the use of tax anticipation notes in those instances where there is an inadequate level of cash flow, or through the use of bond anticipation notes when case is required to initiate a capital project prior to the receipt of bond proceeds. The municipality should manage the Town's finances so as to avoid the use of short-term debt when possible. In order to help achieve this objective, the Town will strive to reach and maintain a 10% undesignated surplus in its General Fund. If it is necessary to reduce the unallocated reserves below this level, it should be a goal as soon as reasonably practical without jeopardizing public safety to rebuild the undesignated surplus to this minimum.

Long-term debt should be issued for the acquisition, construction, or improvement of land, buildings, infrastructure, and public improvements that cannot be financed from current revenues or other resources. Generally long-term debt will be issued for projects anticipated to cost over \$500,000 that can't be readily financed through pay-as-you-go spending through the General

Fund Capital Fund or Operating Budget. Current year budget appropriations and accumulated reserve funds should be used to minimize the amount of long-term borrowing that is required. Proceeds from long-term debt will not be used for current, ongoing operations.

PURPOSE OF DEBT - General obligation debt funded by general fund property taxes shall be used for projects that provide a general benefit to Town residents and that cannot otherwise be self-supporting. Debt incurred for use of an enterprise fund, even if backed by a general obligation pledge of the Town, shall be self-supporting and repaid solely from the revenues of such fund, unless a general benefit to the Town residents can be demonstrated in part or whole.

REPAYMENT OF DEBT - The municipality will conservatively project the revenue sources that will be utilized to repay any debt, and will analyze the impact on voters of both the additional debt service as well as any additional operating expenses resulting from the improvement, to determine if new debt should be issued and to structure the appropriate repayment terms for each debt issue. The maturity of long-term debt shall not exceed the life of the improvement being financed.

MAXIMUM DEBT - The following guidelines will be used when determining the outer limits of debt issuance:

1. Total outstanding General Obligation Debt (principal) as a percentage of its municipal Grand List (total taxable property divided by 100) shall not exceed 10%.
2. Total annual General Fund debt service (principal and interest) as a percentage of total Town General Fund Operating Budget expenditures shall not exceed 20%.

FISCAL CAPACITY - It is recognized that the outer limits of debt that should not be issued unless an emergency necessitates it. Future debt capacity should be preserved in order to be able to address emergencies, infrastructure needs, and regulatory requirements. It is also understood that by committing to long term debt today's electorate may diminish future voter's ability to fund their needs, wants, and desires. Therefore, for capital programming the following debt ratios should be used to determine appropriate annual debt service limits for capital planning purposes.

1. Total outstanding General Obligation Debt (principal) as a percentage of its municipal Grand List (total taxable property divided by 100) should not exceed 8.5%.
2. Total annual General Fund debt service (principal and interest) as a percentage of total Town General Fund Operating Budget expenditures should not exceed 17%.

The foregoing Policy is hereby adopted by the Selectboard of the Town of Stowe, Vermont, and this 8th day of May, 2017 and is effective as of this date until amended or repealed.