

## **Town of Bladensburg Debt Policy**

Purpose: Town of Bladensburg (the “Town”) recognizes the foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes 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. The debt policy recognizes a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that credit quality is protected.

Current Operations and Normal Maintenance: Long-term borrowing normally will not be used to finance current operations or normal maintenance, unless the terms of the financing provide significant benefits to the Town. The Town intends to set aside sufficient current revenues to finance ongoing operations and maintenance needs and to provide periodic replacement and renewal consistent with its philosophy of keeping its capital facilities and infrastructure systems in good repair and to maximize a capital asset’s useful life.

Long-Term Borrowing for other Non-Capital Costs: The Town will incur long-term financing for non-capital costs (*e.g.*, funding pension or other post-employment benefit obligations) only when funding such expenses from current revenues would be unduly burdensome to the Town and only to the extent long-term borrowing for such types of obligations have become acceptable in the municipal capital markets.

Tax Anticipation Notes: The Town will not issue tax or revenue anticipation notes, except when necessitated by cash flow or other “emergency” situations.

Pay-As-You-Go: The Town will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements and other debt obligations.

Planning Town Debt: The Town will plan long- and short-term debt issuance to finance its capital program and other debt obligations based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Town Administrator, with the assistance of the Town Treasurer and other finance professionals when necessary (*e.g.*, bond counsel, a financial advisor, etc.), oversees and coordinates the timing, issuance process and marketing of the Town’s borrowing and capital funding activities required in support of its financing and capital improvement plans.

General Funding Guidelines of Capital Improvements: Whenever possible, the Town will first attempt to fund capital projects with grants or developer contributions. When such funds are insufficient, the Town will use dedicated revenues to fund projects to the extent available therefor. If these are unavailable, the Town will use general revenues, excess

surplus from any rainy day fund, if applicable, and bond financing. The Town will be guided by three principles in selecting a funding source for capital improvements: equity, effectiveness and efficiency.

1. Equity: Whenever appropriate, the beneficiaries of a project or service will pay for it. For example, if a project is a general function of government, the project may be paid for with general fund revenues or financed with general obligation bonds. If, however, the project benefits specific users, the revenues will be derived through user fees or charges and targeted taxes and assessments, if available.

2. Effectiveness: In selecting a source or sources for financing projects, the Town will select one or more that effectively funds the total cost of the project. For example, funding a capital project, or the debt service on a project, with a user fee that does not provide sufficient funds to pay for the project is not an effective means of funding the project, unless such project provides a general benefit to the Town independent of any special benefit derived by specific users.

3. Efficiency: If grants or current revenues are not available to fund a project, the Town will select a financing technique that provides for the lowest total cost consistent with acceptable risk factors and principles of equity and effectiveness.

The Town recognizes that it may be required to pledge its full faith and credit and unlimited taxing power to the payment of debt that it intends to pay in the first instance from identified revenues, fees, special assessments or other charges.

Borrowing Limitations: Any short-term borrowing for temporary or emergency needs shall be incurred within the limitations set forth in the Town Charter. Subject to any applicable Charter limitations, the Town will endeavor not to issue any long-term general obligation debt if such issuance will cause the outstanding principal amount of the Town's long-term general obligation debt to exceed 10 percent of the assessed value of taxable property of the Town.

Term of Debt Repayment: The terms of any capital borrowings by the Town will not exceed the economic life of the improvements that they finance. The Town will not finance improvements with a probable useful life of less than three years, but instead will use pay-go funding for such needs.

Average Maturity: The Town intends the average maturity of general obligation bonds to be at or below 20 years.

Interest Rates: The Town intends to use fixed-rate debt generally to finance its capital needs, except for interim financings (*e.g.*, bond anticipation notes) that will be repaid or refinanced in the near term and that may be issued on a variable rate basis. Long-term debt for which the rate is reset periodically will be issued only if market conditions are such that investors will not accept long-term fixed rate debt.

Method of Sale: The Town will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions and explain the rationale for its decision.

A. Competitive Bids at Public Sales. Debt obligations often are issued through a competitive bid at public sale process. The Town and any financial advisor will set the terms of the sale to encourage as many bidders as possible. By maximizing bidding, the Town seeks to obtain the lowest possible interest rates on its bonds. Competitive bids at public sale will be utilized for larger general obligation bond issues unless market conditions dictate otherwise.

B. Negotiated Sales. When conditions favorable for a competitive sale do not exist (*e.g.*, size of issue or a complicated structure that could benefit from a negotiated underwriting) and when a negotiated sale will provide significant benefits to the Town that would not be achieved through a competitive sale, the Town may determine to sell its debt obligations through a private or negotiated sale, upon approval by the Town governing body. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. The Town will endeavor to select the underwriting team or purchaser, as applicable, determined through a competitive process.

Refinancing Outstanding Debt: The Town may undertake refinancing of outstanding debt when such refinancing allows the Town to realize significant debt service savings without materially lengthening the term of refinanced debt and without materially increasing debt service in any subsequent fiscal year. The Town will look for opportunities to refinance outstanding debt when market conditions allow. A target savings level of at least 3 percent of the present value of debt service will be the goal, but the Town may determine to undertake refinancings that do not achieve said goal as long as the objectives of any applicable law are satisfied and the Council determines that such refinancing achieves a public purpose.

Conduit Financings: Conduit financing are securities issued by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. The Town may sponsor conduit financings for those activities (*e.g.*, economic development, housing, volunteer fire departments, manufacturing facilities) that have a general public purpose and are consistent with the Town's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the Town's faith and credit.

TIF/STD Financings: The Town will not undertake tax increment financing or special tax district bond issues unless it selects appropriate professionals to advise it in weighing whether or not to issue such debt.

Credit Rating: The Town Treasurer is responsible for maintaining relationships with the rating agencies that assign ratings to the Town's various debt obligations, if applicable.

This effort requires providing periodic updates on the Town's financial condition, along with coordinating meetings and presentations in conjunction with a debt issuance offered to the public to the extent any of the Town's debt is rated, the Town will maintain good communications with the applicable rating agencies. .