

Town of Gibraltar
Wisconsin

Debt Management Policy
2014

Introduction

The foundation of any well-managed debt program is a comprehensive debt management policy. A debt management policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to the Town Board. A debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals and demonstrates a commitment to long-term financial planning.

The standards constitute realistic goals that the Town can expect to meet, and will guide, but not bind, debt management decisions. Adherence to the debt management policy will help ensure that the Town of Gibraltar maintains a sound debt position and that Gibraltar's credit quality is both protected and improved.

The Town of Gibraltar's debt management policy recognizes that binding commitment to full and timely repayment of all debt is an intrinsic requirement for entry into the capital markets.

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- I. Purpose:
 - a. The purpose of this debt management policy is to identify the Town Board's commitment to managing and reducing outstanding debt, while establishing a set of parameters by which future debt obligations will be undertaken by the Town. This policy reinforces the commitment of the Town and its officials to manage the financial affairs of the Town. A debt management policy signals to the public and the rating agencies that the Town is using a disciplined and defined approach to financing capital needs.

- II. Goals:
 - a. The goal of this policy is to assist the decision making of the Town Board in the reduction of outstanding debt and the issuance of future debt, thereby leading to greater stability over a long period of time in the Town's mil rate (property tax rate). It is the desire of the Gibraltar Town Board to avoid future tax spikes of similar magnitude to the 40.5% property tax increase experienced in 2011.

- III. Definition of Debt:
 - a. All obligations of the Town to repay, with or without interest, in installments and/or at a later date, some amount of money utilized for the purchase, construction, or operation of Town resources. This includes, but is not limited to notes, bond issues, capital leases, and loans of any type (whether from an outside source or from an internal fund).

- IV. Approval of Debt:
 - a. Bond anticipation notes, capital outlay notes, grant anticipation notes, and tax and revenue anticipation notes will be submitted to and approved by the Gibraltar Town Board prior to the issuance or entering into the obligation. A plan for refunding debt issues will also be submitted to the Clerk/Administrator prior to issuance. Capital or equipment leases must be submitted to and approved by the Gibraltar Town Board prior to entering into the obligation.

- V. Transparency:
 - a. The Town shall comply with all legal requirements for notice and public meetings related to debt issuance. All notices shall be posted in the customary and required posting locations, including as required local newspapers, bulletin boards, and websites. All costs (including principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the citizens, Town Board, and other stakeholders in a timely manner.
 - b. The terms and life of each debt issue shall be clearly presented and disclosed to the citizens/members, Town Board, and other stakeholders in a timely manner. A debt service schedule outlining the rate of retirement for the principal amount shall be clearly presented and disclosed to the citizens/members, Town Board, and other stakeholders in a timely manner.

- VI. Role of Debt:
 - a. Long-term debt shall NOT be used to finance current operations. Long-term debt may be used for the purchase of property, construction/expansion/rehabilitation of Town buildings or property, road construction of significant magnitude, and certain equipment/vehicles/other assets. Short term debt may be used for certain projects and equipment financing as well as for operational borrowing; however, the Town will minimize the use of short term debt by maintaining adequate cash reserves, close budget management, and making good use of the Town's "Capital Improvement Fund".
 - b. The maturity of the underlying debt shall not be more than the generally accepted useful life of the assets purchased, built or improved with the debt, and the debt shall not be extended beyond the aforementioned useful life.

VII. Types and Limits of Debt:

- a. The Town will seek to limit the total annual minimum payment on outstanding debt obligations to 20% of total annual budgeted revenues – excluding one-time revenues such as but not limited to monies received from the issuance of debt, grant monies and donations. The limitation on total outstanding debt must be reviewed prior to the issuance of any new debt.
 1. The Town may exceed this limit when paying down additional principal and/or retiring debt.
 2. The town's total outstanding debt obligations will be monitored and reported to the Town Board by the Clerk/Administrator.
- b. The Clerk/Administrator shall monitor the maturities and terms and conditions of all obligations to ensure compliance.
- c. The Clerk/Administrator shall report to the entire Town Board any matter that adversely affects the credit or financial integrity of the Town.
- d. The Town will seek to structure debt with level or declining debt service payments over the life of each individual bond issue or loan.
- e. As a matter of policy the Town will not backload, use “wrap-around” techniques or other exotic formats to pursue the financing of projects.
- f. When refunding opportunities, natural disasters, other non-general fund revenues, or other external factors occur, the Town may utilize non-level and exotic debt methods.
 1. The use of such methods must be thoroughly discussed in a public meeting and the Town Board must determine such use is justified and in the best interest of the Town.
- g. The Town may use capital leases to finance short-term projects.

VIII. Use of Variable Rate Debt:

- a. The Town recognizes the value of variable rate debt obligations in some interest rate environments. The Town also recognizes there are inherent risks associated with the use of variable rate debt and if used will implement steps to mitigate these risks; including:
 1. The Town will annually include in its budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration.
 2. Prior to entering into any variable rate debt obligation that is backed by insurance and secured by a liquidity provider, the Town Board shall be informed of the potential effect on rates as well as any additional costs that might be incurred should the insurance fail.
 3. Prior to entering into any variable rate debt obligation that is backed by a letter of credit provider, the Town Board shall be informed of the potential effect on rates as well as any additional costs that might be incurred should the letter of credit fail.
 4. Prior to entering into any variable rate debt obligation the Town Board will be informed of any terms, conditions, fees or other costs associated with the prepayment of variable rate debt obligations.
 5. The Town shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any variable rate debt obligation.

IX. Use of Derivatives

- a. The Town chooses not to use derivatives or other exotic financial instruments.
 1. Prior to any reversal of this policy:

- i. A written management report outlining the potential benefits and consequences of utilizing derivatives or other exotic financial instruments must be submitted to the Town Board.
- ii. The Town Board must adopt a specific amendment to this policy concerning the use of derivatives or other exotic financial instruments. The amendment shall lay out in detail how the new financial instrument will be managed by the Town.

X. Costs of Debt

- a. All costs associated with the initial issuance or incurrence of debt, management and repayment of debt (including interest, principal, and fees or charges) shall be disclosed prior to action by the Town Board in accordance with the notice requirements stated in paragraphs V. (a) and (b).
- b. In the cases of variable interest or non-specified costs, detailed explanation of the assumptions shall be provided along with the complete estimate of total costs anticipated to be incurred as part of the debt issue.
- c. Costs related to the repayment of debt, including liabilities for future years, shall be provided in context of the annual budgets from which such payments will be funded (i.e. General Obligation Bonds in context of the General Fund, Revenue bonds in context of the dedicated revenue stream and related expenditures, loans and notes).

XI. Refinancing Outstanding Debt:

- a. The Town will refund debt when it is in the best financial interest of the Town to do so. The decision to refinance must be explicitly approved by the Town Board, and all plans for current or advanced refunding of debt must be in compliance with both state and federal laws and regulation.
- b. The Town Board will consider the following issues when analyzing possible refunding opportunities:
 1. Onerous Restrictions – Debt may be refinanced to eliminate onerous or restrictive covenants contained in existing debt documents, or to take advantage of changing financial conditions or interest rates.
 2. Restructuring for Economic Purposes – The Town will refund debt when it is in the best financial interest of the Town to do so. Such refunding may include restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, or to release reserve funds.
 3. Term of Refunding Issues – The Town will refund bonds within the term of the originally issued debt. However, the board may consider maturity extension, when necessary to achieve a desired outcome. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

XII. Debt Ceiling

- a. The Town Board acknowledges that both in theory and in practice sound fiscal management cannot be achieved with unsustainable debt to revenue ratios.
- b. The Town Board of the Town of Gibraltar will use a self-imposed debt ceiling/limit. The debt ceiling/limit for General Obligation Debt (GO) shall be 4 times the previous year's total annual revenue per the auditor.
 1. The calculation for total annual budget shall exclude onetime items such as but not limited to monies received from the issuance of debt, grant monies, sale or disposition of assets and donations.
 2. The calculation for total annual budget shall include all forms of normal revenue that the town receives annually (such as dock revenues, fees collected, room tax revenue, etc.).

3. The calculation for total debt shall be the sum of all outstanding GO debt at the time of calculation that has been financed for a period of more than twelve (12) months.
 - i. Unfinanced GO debt if any shall be excluded from this calculation.
- c. The Board recognizes that by adopting a floating Debt ceiling for GO debt that the ceiling will gradually increase overtime as revenues rise.
- d. This annually adjusted Debt Ceiling is based on simple math and provides Gibraltar with a sustainable GO debt limit both now and in the future.
- e. As the Town is adopting a floating Debt ceiling it shall be calculated annually by the auditor and included in the annual town audit report.
- f. An increase to the Debt Ceiling limit of 4 times revenues shall require not less than a super majority of the Town Board as follows:
 1. A three person board shall require 3 votes.
 2. A five person board shall require 4 votes.
 3. A seven person board shall require 5 votes.
 4. A nine person board shall require 7 votes.

XIII. Debt Reduction:

- a. The Gibraltar Town Board recognizes that the reduction of debt over time is necessary to achieve:
 1. Low property taxes relative to the value of US currency.
 2. A stable property tax environment relative to the value of US currency.
 3. The ability to provide adequate funding for road maintenance, emergency services, tourism, parks and building maintenance.
 4. The flexibility for the Board to be able to make timely investments in our community such as infrastructure maintenance/upgrades or other community improvement investments.
- b. The Town will achieve the majority of its debt reduction simply by making its minimum payments and adhering to policies in paragraphs VI. (a) and (b).
- c. Therefore as a matter of policy:
 1. In the majority number of years of each decade the Town Board will seek to not issue new debt.
 2. If the Town Board feels it is necessary to issue new debt in more than the minority number of years of each decade the Board shall thoroughly discuss the matter at a regular monthly meeting, including but not limited to evaluating the Town debt management policy, 20 year plan and other goals of the Town Board.
 3. Following all years that a budget surplus is reported to the Town Board by the auditor. It shall be at minimum a discussion item on a Town agenda that calendar year to consider using some monies, either surplus funds or capital improvement funds, to pay down additional principal on outstanding debt obligations.
 4. Whenever possible the Town Board will seek to retire debts through pre-payment ahead of schedule.