COUNCIL OF THE TOWN OF LA PLATA
Resolution 09-9

Introduced By:	**Mayor Roy G. Hale (by request)**
Date Introduced:	**September 22, 2009**
Date Adopted:	**September 22, 2009**
Date Effective:	**September 22, 2009**

A Resolution concerning

Town of La Plata Debt Policy

FOR the purpose of adopting the Town of La Plata Debt Policy; and all matters generally relating thereto.

WHEREAS, the Council of the Town of La Plata is required to establish a Debt Policy, in compliance with requirements set forth in Chapter 693 of the Laws of Maryland of 2009 (House Bill 811), which will become effective October 1, 2009, and submit a copy the policy, along with specified additional required information, to the State Treasurer on or before October 1, 2009; and

WHEREAS, having a formal written debt policy improves the quality of financial decisions and demonstrates a commitment to long-term financial planning,

NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE TOWN OF LA PLATA that the policies and procedures contained in the document attached hereto and titled "Town of La Plata, La Plata, Maryland, Debt Policy," bearing the date of September 22, 2009, is adopted and effective immediately.

SEAL:

COUNCIL OF THE TOWN OF LA PLATA

Roy G. Hale, Mayor

R Wayne Winkler

R. Wayne Winkler, Councilman

(Absent)

C. Keith Back, Councilman

Paretta D. Mudd

Paretta D. Mudd, Councilwoman

ATTEST:

Joseph W Norris

Joseph W. Norris, Councilman

Danielle Mandley, Town Clerk

Date: ____________________

Town of La Plata
La Plata, Maryland
Debt Policy
September 22, 2009

I. Introduction & Legal Authority

The purpose of this Municipal Debt Policy (the "Municipal Debt Policy") of the Town of La Plata (the "Town") is to establish comprehensive guidelines for the issuance and management of the Town's debt.

The Town has authority to borrow money and issue debt payable from its revenues for Town-related purposes pursuant to §§31, *et seq.*, of Article 23A of the Annotated Code of Maryland and §C8-19 through §C8-22 and §C8-24 of the Charter of the Town of La Plata. The Town also has authority to borrow money and incur debt under other particular provisions of State law relating to infrastructure financings and water quality projects. Those specific State financing programs, by their terms, may be beyond the purview of this policy.

This Municipal Debt Policy confirms the commitment of the Mayor and Council of the Town, the Town Manager, other Town management and staff, and advisors to:

- adhere to sound debt issuance and management practices, including the full and timely repayment of all borrowings;
- achieve the lowest practical cost of borrowing commensurate with prudent level of risk, and;
- obtain unfettered access to the capital markets through preserving and enhancing of the quality of the Town's bonds and other debt.

II. Municipal Debt Policy Scope

This Municipal Debt Policy shall govern the issuance and management of all of the debt and capital lease financings of the Town.

While it is the Town's intent to adhere to this Municipal Debt Policy at all times, the Town recognizes that there may be rare instances resulting from extreme and/or unforeseen changes in the economy, financial or credit markets, or the Town's priorities and programs, which may necessitate actions that are not addressed in this policy or that are contrary to this policy, to assure the Town's long-term financial condition. In these instances, the Town may, upon recommendation of the Mayor, approve financing and other related agreements with terms and/or provisions that deviate from this Municipal Debt Policy. The failure of the Town to comply with any provision of this Municipal Debt Policy shall not affect the validity of any debt that is otherwise duly authorized and executed.

III. Municipal Debt Policy Objectives

The objectives of this Municipal Debt Policy are as follows:

- Maintain unfettered, cost-effective access to the capital markets through prudent debt management policies.
- Provide financial support for the Town's strategic and capital plan objectives through debt and equipment lease financing.
- Provide guidelines for the overall management of the Town's debt.
- Achieve the highest practical credit ratings and the lowest possible costs

IV. Compliance with Law and Town Agreements

All Town debt shall be issued in accordance with the Town Charter, and all Federal and State laws, rules and regulations.

V. Appropriate Use of Debt

Except in extraordinary circumstances, Town debt shall only be used for the following purposes:

- to finance capital improvement projects undertaken by the Town including the acquisition, construction, major repair, or enhancement of Town facilities;
- to finance the acquisition of capital assets;
- to finance the purchase of capital equipment;
- to refinance previously issued Town debt, and;
- to finance other large and extraordinary costs as determined by the Town, such as legal judgments or settlements.

Long term debt shall never be used to fund operating costs. The Town shall use proceeds from governmental purpose bonds for public use projects.

VI. Debt Approval Procedures

All proposed debt issuances will be submitted to the Town Council for its approval and authorization. The Town Council shall approve a resolution or ordinance, as appropriate, authorizing each such issuance.

VII. Types, Characteristics and Uses of Municipal Debt

The following terms describe various types and characteristics of debt that the Town may potentially issue, how the types differ, for what purposes and under what conditions each type is best suited.

A. Municipal Notes

Municipal Notes are short term debt obligations that are sold to provide interim financing and/or assure adequate cash flows in anticipation of the receipt of tax revenues in the near future. They typically have a maturity of one year but may be limited by State law or Town Charter.

Prudent financial planning and management should ensure adequate cash flows and minimize the need for the issuance of Notes, however the Town may issue Notes if it determined that doing so is in the Town's financial interest. If Notes are issued they shall have a term of one year or less and shall not be refinanced or redeemed using proceeds of any other Notes or short-term debt instruments.

B. General Obligation (GO) Debt

General obligation debt is long-term debt issued to fund capital projects and/or acquisitions or other outlays that will provide benefits for extended periods of time and whose cost is such that funding them out of current revenues and reserves is either not possible or wouldn't be in the Town's long term financial interests.

GO debt is secured by the "full faith and credit" of the Town. This means the Town has committed to use its general tax revenues to repay the debt, rather than securing the debt with a specific revenue stream or source and will use its taxing authority to ensure there are adequate funds to cover the debt service obligations. GO debt is the most common type of debt the Town issues.

GO debts shall not be used to fund operating activities.

Self-supporting GO debt

Self-supporting GO debt is GO debt that is typically found in enterprise funds that differs from basic GO debt by virtue of the fact that it is secured by the revenues of the enterprise, in addition to the full faith and credit of the Town. In all other respects, self-supporting GO debt is virtually the same as basic GO debt and is used in the same ways, with the same constraints, as basic GO debt.

C. Lease/purchase financing

Lease /purchase financing is short term debt that may be used to finance the acquisition of capital equipment. Like GO debt, this type of financing is typically backed by the full faith and credit of the Town and the assets being acquired.

Lease/purchase financing agreements are essentially loans of a specific amount of money for a specific period of time that offer a bargain purchase option to the Town at the end of the agreement's term. The lender retains a security interest in the asset(s) being acquired throughout the term of the agreement and releases it once all payments have been made and the Town pays a small pre-determined amount, typically one dollar. Once this is done, the asset becomes the Town's asset just as if it had been purchased outright with cash.

Acquiring capital equipment using lease/purchase financing is generally more expensive than buying the assets outright for cash since the lender charges interest on the amount of money it loans the Town, so careful consideration must be given before this option is utilized. This type of financing is advantageous when there is a need to expend significant amounts of capital equipment but minimize annual cash flows. NOTE: The actual purchase of the assets is a totally separate activity from the financing and should be done in accordance with the Town's procurement policies without regard to the financing method.

Interest rates on lease/purchase financing agreements are typically higher than those on long-term debt but this type of financing is better suited to acquisition of lower cost items with shorter useful lives than is long term financing.

Lease/purchase financing shall only be considered and/or utilized as a financing option for high priority equipment with useful lives of 5 or more years. The minimum amount financed under a single lease/purchase financing contract or program shall typically be $100,000 and the term of lease shall typically be three years but in no case shall it exceed the average useful life of the equipment being financed. All lease/purchase financing agreements the Town enters into should include a funding availability/appropriation clause that allows for the cancellation of the agreement should there not be funding available in subsequent years to cover the debt service on the agreement. If the Town opts to use lease/purchase financing for the acquisition of capital equipment, rate quotes must be obtained from a minimum of five financing companies.

Equipment with a useful life of less than 5 years will be funded on a pay-as-you-go basis.

Short term operating leases for equipment are not covered by this policy.

D. Revenue Debt

Revenue Debt is similar to GO debt in that it is long-term debt issued to fund capital projects and/or acquisitions or other outlays that will provide benefits for extended periods of time and whose cost is such that funding them out of current revenues and reserves is either not possible or wouldn't be in the Town's long term financial interests.

The primary difference between Revenue debt and GO debt is that Revenue debt is that secured with a pledge of a specific revenue stream as opposed to the Town's general revenues. As such, Revenue debt is generally a limited-liability obligation of the Town.

Aside from the difference in the funding source securing the debt, the characteristics of Revenue bonds are essentially the same as GO debt.

Special Facility Debt

If Revenue debt is issued to fund a specific project or facility and the debt is to be repaid solely from the revenues generated by the facility, it may be classified as Special Facility debt.

E. Conduit Debt

Conduit debt is debt issued by a state or local governmental entity for the express purpose of providing capital financing for a specific third party that is not a part of the issuer's financial reporting entity. Although conduit debt obligations bear the name of the governmental issuer, the issuer has no obligation for such debt beyond the resources provided by a lease, loan or other contractual agreement with the third party on whose behalf they are issued.

Prior to issuing conduit debt, the Town shall take actions to ensure the third-party has resources and the ability to complete the project or activity and to repay the debt.

F. Special Assessment Debt

Special Assessment debt is long term debt issued to finance public infrastructure projects and/or improvements that primarily benefit taxpayers in a specifically defined area within the Town. The debt is secured by special taxes assessed on the properties in the designated area. Depending on how the bonds are structured, they may be either limited liability obligations of the Town or not be obligations of the Town at all.

G. Refunding obligations

Refunding obligations are issuances of new debt to refinance (or refund) previously issued and currently outstanding debt. The Town may undertake a refunding in order to:

- achieve debt service savings;
- restructure scheduled debt service;
- convert from or to a variable or fixed interest rate structure;
- change or modify the source or sources of payment and security for the refunded debt; or
- modify covenants otherwise binding upon the Town.

The Town shall review its outstanding debt on a periodic basis to determine if there are opportunities for saving money or otherwise improving the Town's fiscal condition by refunding debt.

H. Long term vs short term debt

For purposes of this municipal debt policy, long term debt is defined as debt with a maturity of five years or more and short-term debt is defined as any debt with a final maturity of less than five years.

The term of a particular debt instrument should be commensurate with the expected life, use or benefit provided by the projects, programs or facilities financed from such debt. The term should never be longer than the life of the asset or outlay being financed.

As is the case with most types of debt, the shorter the term of the debt, the lower the total costs will be but the higher the annual costs will be and vice versa. While minimizing total costs by issuing shorter term debt would seemingly be the preferred alternative, determining the appropriate term for a particular debt instrument requires that both of these costs be evaluated in the context of the Town's overall financial position.

I. Fixed vs. variable rate debt

Fixed rate debt is debt issued on which the interest rate is set at the time of issuance and remains constant over the term of the debt. Fixed rate debt may be issued in one or more series of bonds with differing maturities, all of which pay a fixed rate of interest.

Issuing Fixed-rate debt allows the Town to know what its debt service costs will be for the entire term of the debt, at the time of issuance, and protects it from unexpected increases in costs that could occur if the debt were variable instead of fixed and rates went up. Conversely, if interest rates decline, the rate the Town pays on its debt may be higher than the current market rate.

Variable rate debt is debt on which the interest rate adjusts on some predefined periodic basis to reflect the current market rates as measured by some agreed upon index or measure. With variable rate debt there is no way to know what the actual debt service costs will be for a particular debt instrument until the end of the term. With variable rate debt there is a potential for the debt services costs to increase significantly over the term of the debt if interest rates rise over the period.

Any long term debt the Town issues shall typically be issued as fixed rate debt to assure future costs and to insulate the Town from interest rate risk. The Town may consider issuing variable rate debt on a short-term debt when there is evidence that interest rates are stable or falling and the interest rate risk is minimal. If a decision is made to issue variable rate debt, there shall typically be a rate cap of 12% on the debt.

J. Taxable vs. non-taxable debt

The tax status of debt is a function of a number of factors including the source of the funds, how the funds are being used and whether any particular private party or entity is receiving a unique benefit from the expenditure of the funds or if they have any control over the resulting facility or project. The rules regarding taxability are generally promulgated by the IRS and State statutes.

As a general rule, debt service costs on non-taxable debt are lower because the investors receive a tax break on their interest earnings, making them willing to receive less in interest than they would on taxable debt.

Whenever possible, the Town will issue its debt on a non-taxable basis to minimize costs.

K. Debt service structure

There are a number of ways that debt payments can be structured but the most common of these are level principal vs. level debt service.

Under a level principal structure, the amount of principal paid each year is the same for the entire term of the debt but the amount of interest varies from year to year and the total paid each year varies with the amounts being highest in the first year and decreasing thereafter. This type of structure generally results in lower total debt service costs over the life of the issue than a level debt structure service structure does, however these savings may be reduced or eliminated when the cash flows of the two methods are compared on a present value basis.

Under a level debt service structure, the annual payments are consistent over the life of the issue while the amount of principal and interest paid each year varies, with more of the payments going toward interest than principal in the early years and vice versa in the latter years of the issue. This type of structure provides for equal debt service costs each year but results in higher total debt service costs over the life of the issue than a level principal payment structure does.

In the interest of minimizing total debt service costs and repaying its debt as rapidly as possible, the Town will typically utilize a level principal payment structure.

L. Method of Sale

There are three principal methods for the sale of debt: (i) competitive, (ii) negotiated, and (iii) private placement. The Town shall utilize the method of sale that (a) is reasonably expected to produce the most advantageous interest cost with respect to the debt, and (b) provides the Town with the flexibility necessary or desirable in connection with the structuring, timing or terms of such sale and of the related debt.

Competitive sale

In a competitive sale, the Town would select a date and time at which it would accept bids for its offering from underwriting firms and notify them of its intent to issue the debt via a Notice of Sale. This requires the Town to employ a financial advisor and bond counsel to prepare the Notice of Sale, bid form and disclosure materials prior to the sale date.

The competitive sale of the Town's debt will be appropriate under the following circumstances:

1. The value of the debt is more than five to eight million dollars;
2. The debt is traditional long-term fixed-rate debt;
3. The debt does not include any unusual call provisions or other terms;
4. Prices in the municipal debt market are relatively stable;
5. Market timing is not critical to the pricing of the Bonds; and
6. The municipal debt market is in a period of sufficient stability and receptivity that a competitive sale is deemed to be advantageous.

Competitive sales may be conducted in such manner as the Town shall approve, including through internet-based or other electronic bidding systems.

Negotiated sale

In a negotiated sale, the Town would select a single underwriter for the offering, in advance of the sale, and the underwriters would work with the Town, the Town's financial advisor and bond counsel to structure the offering. This process gives the Town more flexibility in scheduling or postponing the offering if market conditions become unsettled or unfavorable developments occur.

The negotiated sale of the Town's Bonds will be appropriate under the following circumstances:

1. The debt is not traditional long-term fixed-rate debt;
2. The debt includes unusual call provisions or other terms;
3. Prices in the municipal debt market are relatively volatile;
4. Market timing is important to the pricing of the debt;
5. Volume in the municipal debt market is unusually heavy or unusually light;
6. The structure of the financing is complex or unusual, and is expected to require additional pre-marketing and marketing efforts and activities; and
7. Demand for the debt is expected to be weak, as a result of credit issues, market perceptions, unusual structures or other factors.

Private Placement

In a private placement, the Town would market its securities directly to investors without utilizing the services of an underwriter and possibly a financial advisor. Private placements can be an efficient way of bringing an issue to market with minimal marketing effort.

Private Placement Sales are best suited for complex transactions and/or where the issue is relatively small and the economies of scale make such an offering more efficient than a competitive or negotiated sale.

The Town shall typically utilize private placements for issues of five million dollars or less and shall determine on a case by case basis which method of sale it will use for issues of more than five million dollars.

VIII. Debt Affordability Targets and Policy Limits

The Town has chosen to use the following ratios to measure, manage and limit the amount of debt it issues.

A. Debt as a percent of net assessable value

This ratio relates the Town's debt to its primary source of revenue, real property tax. The lower the ratio, the smaller the amount of tax revenue that has to be utilized to pay debt and the more revenue that is available for operating expenditures and providing services.

The maximum amount of general obligation debt the Town may have outstanding at anytime, subject to compliance with the other provisions of this policy, shall be 3% of the net assessable real property tax base of the Town and the preferred level is 2% or less.

B. Annual debt service costs for general obligation debt as a percent of revenues

The Town 's annual debt service costs on its general obligation debt shall not exceed 15% of the Town's combined projected annual general and capital improvement fund revenue in any given year and shall average 10% or less over a five year period.

C. Annual debt service costs for enterprise debt as a percent of revenues and major facility fee reserves

The Town 's annual debt service costs on its self-supporting general obligation and/or enterprise revenue supported debt shall not exceed 25% of the Town's combined projected annual enterprise fund revenue and Major Facility Fee fund balance in any given year and shall average 15% or less over a five year period.

IX. Pricing of Town Debt

A. Bonds

The Town's Bonds may be sold at such prices, including at par, a premium or a discount, as the Town may determine is likely to produce the most advantageous cost, inclusive of interest and all fees and charges, under then prevailing market conditions.

B. Other Town Debt

Other debt issued or incurred by the Town will be priced at the lowest practical cost, inclusive of interest and all fees, under then prevailing market conditions.

X. Professional Services

The Town may retain professional service providers/consultants as necessary or desirable in connection with (i) the structuring, issuance and sale of its bonded debt; (ii) monitoring of and advice regarding its outstanding bonds; and (iii) the negotiation, execution and monitoring of related agreements, including without limitation bond insurance, credit facilities, investment agreements; and (iv) other similar or related matters. Professional service providers/consultants may include, but not be limited to, financial advisors, bond counsel, disclosure counsel, bond trustees and Federal arbitrage rebate services providers, and may include, as appropriate, underwriters, feasibility consultants, remarketing agents, auction agents, broker/dealers, escrow agents, verification agents and other similar parties.

The Town shall require that its professional service providers/consultants be free of any conflicts of interest and may require that waivers or consents documenting such are provided.

XI. Monitoring

The Town Treasurer shall monitor the Towns debt to ensure it complies with the terms of this policy at all times and promptly inform the Town Manager and Town Council of any variances.

The Town Treasurer shall periodically compare the Town's debt levels and costs against that of other similar jurisdictions in the region (i.e. benchmark) and report the findings to the Town Council.

The Town Manager and Town Treasurer shall review this Municipal Debt Policy on a periodic basis, taking into account the general financial and economic environment, the Town's economic and financial condition, the Town's Capital Improvement plan and the findings of the periodic benchmark comparisons, and, based on this review, may make recommendations for modifications to this policy to the Mayor and Town Council for their consideration and action.