

Town of Bar Harbor

The following policy is hereby enacted to standardize the issuance and management of debt.

Purpose of Policy

The objective is to establish conditions for the managed use of debt and to create procedures and policies that minimize the Town's debt service and issuance costs, obtain and then retain the highest practical credit rating, and to maintain full and complete financial disclosure and reporting. The policy applies to all general obligation debt issued by the Town, including leases, debt guaranteed by the Town, and any other forms of obligation of indebtedness.

A regular, updated debt policy can be an important tool to ensure the optimal use of the Town's resources to meet its ongoing commitments, to provide needed services to its citizens, to improve its infrastructure for the taxpayers of Bar Harbor, to maintain sound financial management practices, to impose a discipline in the process and to protect the Town's credit quality. A good debt policy provides bondholders with assurances that debt burdens will be kept at manageable levels while simultaneously meeting capital needs on an ongoing basis. This policy is therefore a guideline for general use, and allows for exceptions in extraordinary conditions.

The policy has been adopted by the Town Council by resolution and, with advance notice and an affirmative vote of five Councilors, can be adjusted at any time by resolution of the Town Council.

Debt/Credit Policy Objectives

Credit Ratings: The Town of Bar Harbor seeks to maintain the highest possible credit rating for its short and long-term General Obligation debt that can be achieved without compromising the delivery of basic Town services and the achievement of adopted policy objectives. *Managing debt* is one of five key components typically examined by the rating agencies. The other four components are *administrative, financial, economic and legal restriction* factors.

Financial Disclosure: The Town is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, Town departments and agencies, other levels of government, and the general public to share clear and accurate financial information. The Town is dedicated to meeting secondary disclosure requirements on a timely and comprehensive basis, as required by appropriate regulatory authorities.

The Official Statements accompanying new debt issues and the financial reports shall meet (at a minimum) the standards articulated by the Government Accounting Standards Board (GASB), the Securities and Exchange Commission (SEC) and Generally Accepted

Accounting Principles (GAAP). The Finance Director shall be responsible for ongoing debt disclosure to the established national information repositories in accordance with SEC Rule 15c2-12.

The annual budget processes currently provide annual full disclosure of all debt associated with municipal related tax-supported debt and user fee supported wastewater and water supported debt.

Capital Planning: To enhance creditworthiness and prudent financial management, the Town is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning is demonstrated through adoption and periodic adjustment of five-year Capital Improvement Plans (CIP) for its Municipal CIP Fund, its Wastewater CIP fund and its Water CIP fund.

Debt Limits: The Town hereby sets a maximum target for the Town's outstanding debt at 2/3rds of the limit prescribed by State statute (30A MRSA 5702), or five percent ($7\frac{1}{2}\% \times 66.7\%$) of actual full state assessed value of property of the Town (excluding school, storm & sanitary sewer purposes debt). These levels are consistent with the Town's present creditworthiness objectives highlighted in the budget process each year. The statutory total of all debt is 15% of full state valuation. Tax Anticipation Notes (TAN's) are outside of the debt limit, as they are temporary loans which communities typically pay back in full within the tax year.

Benchmarks: In a December 2020 S & P Global release of debt measurements standards, *net debt as a percent of total market valuation* is considered "low" when it is below 3%. Maine Bond Bank does not wish to see rates above 5%. During the FY23 budget process, the Town's debt ratio was less than 1% of valuation—a favorable ratio, and indicates a capacity to borrow without adding an excessive burden onto the tax base.

Another target or measurement standard is *annual debt service* (less self supporting) calculated *as a percent of current year's budgeted expenditures*, excluding assessments. 2 – 7% is considered low; 8 -12% medium; over 12% is considered a high tax burden. During the FY23 budget process, the Town's annual debt service percentage stood at 5.8% while meeting reasonable annual funding pay-as-you-go CIP commitments. In the FY23 budget year, the CIP funding from taxation stood at a "reasonable" 13.6% level of total taxes raised.

Purposes and Uses of Debt

Capital Financing: The Town normally relies on internally generated funds and/or grants from other governments to finance its capital needs. Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users, or in the case of an emergency capital need. Other than TANS, debt shall not fund operational expenses.

Asset Life: The Town will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years. Debt will be used only to finance capital projects and equipment, except in the case of an emergency. Town debt will not be issued for a period that exceeds 120% of the useful life or average useful life of the project or projects to be financed.

Approval

Bonds can be issued according to the authority outlined in the Town Charter. Action must be taken by affirmative Town Council votes and by the majority of voters at Town Meeting.

Debt Standards and Structure

Length of Debt: Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users.

Debt Structure: Debt will be structured to achieve the lowest possible net cost to the Town, given the market conditions, the urgency of the capital project, the type of debt being issued, and the nature and type of repayment source (taxes or user fees). Moreover, to the extent possible, the Town will design the repayment of its overall debt so as to rapidly recapture its credit capacity for future use. As a guideline, the Town shall strive to repay from 30 to 50 % of the principal amount of its general obligation debt within five years and at least 60 % within ten years.

Backloading: The Town will seek to structure its total debt with level principal and interest payments over the life of the debt. “Backloading” (balloon payments, e.g.) of costs, using *term bonds* of 10 years or less, as defined in MRSA 30A 5772 (3) & (5), will be considered only when: natural disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive; when the benefits derived from the debt issuance can be clearly demonstrated to be greater in the future than in the present; or when such structuring will allow debt service to more closely match project revenues during the early years of the operation. Generally, *level principal payments* are recommended for *tax supported debt*, but *level principal & interest* can be used for *fee based debt* to maintain rate stabilization goals.

Refundings: Periodic reviews of all outstanding debt will be undertaken by the Finance Director to determine refunding opportunities. Refunding will be considered if and when there is a net economic benefit to the refunding. In general, refunding will be considered when a net present value savings of at least 5% of the refunded debt can be achieved.

Credit Enhancements: Credit enhancements (letters of credit, bond insurance, etc.) may be used, but only when anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement by at least 2%.

Investment of Bond Proceeds: All general obligation and revenue bond proceeds shall be invested separate from the Town’s consolidated cash pool. In order to maintain

safety and liquidity of the funds, all investments will be consistent with and adhere to the federal tax code, state law and the Town Council's Investment Policy.

Costs and Fees: All costs and fees related to issuance of bonds will be paid out of bond proceeds and allocated across all projects receiving bond proceeds from the issue.

Call Features: Whenever possible, financings in excess of 10 years will include optional redemption provisions.

Competitive Sale: In general, Town debt will be issued through a competitive bidding process. Bids will be awarded on a true interest cost basis, providing other bidding requirements are satisfied. Exceptions to this would be bonds issued in part through the Maine Bond Bank on behalf of the State Revolving Loan Program, the Maine Drinking Water Program, the School Revolving Renovation Program, a grant that ties the remaining monies to a loan (Rural Development, e.g.), or due to the small size of the loan making a competitive bid process less than cost effective.

Bond Counsel: The Town will retain external Bond Counsel for all debt issues. All debt issued by the Town will include a written opinion by Bond Counsel affirming that the Town is authorized to issue the debt, that the Town has met all State constitutional and statutory requirements necessary for issuance, and that Counsel has determined the debt's federal income tax status. Bond Counsel must have comprehensive municipal debt experience and a thorough understanding of Maine law as it relates to the issuance and structuring of municipal debt and must be included in *The Bond Buyer's Municipal Marketplace* (the "Red Book") list of Municipal Bond Attorneys ("recognized Bond Counsel").

Financial Advisor: The Town will retain an external independent financial advisor who shall not have any conflicting relationship with any underwriters. The utilization of the financial advisor for particular bond sales will be at the discretion of the Finance Director on a case-by-case basis and pursuant to a financial advisory services contract. The major criteria in the selection process for a financial advisor will be comprehensive municipal debt experience in Maine, experience in the pricing structure of municipal securities, as well as overall cost of services.

Other Service Providers: The Treasurer shall have the authority to periodically select other service providers (e.g., escrow agents, trustees, etc.) as necessary to meet legal requirements and minimize net Town debt service costs, but this authority shall not conflict with other Town Council policies.

Arbitrage Compliance: The Treasurer's office shall maintain a system of record keeping and reporting to meet any arbitrage rebate compliance requirements of the federal tax code.

Financing Proposals: Any capital financing proposal by a Town department that involves the pledge or other extension of the Town's credit through the sale of securities,

execution of loans or leases, marketing guarantees, or is otherwise a pledge of the Town's credit, shall be referred to the Treasurer's Office for review. The Treasurer's Office will then determine a recommendation to be forwarded to the Town Council for approval. Any tax-exempt financing will require the submission of IRS form 8038-G.

History of Bar Harbor's Bond Ratings:

March 2018	Moody's	Aa2, affirmed		
Oct 2017			S & P Global	AAA, affirmed
March 2019	Moody's	Aa2, affirmed	S & P Global	AAA, affirmed
March 2020	Moody's	Aa2, affirmed	S & P Global	AAA, affirmed

Benchmarks of Investment Grade Bond Ratings	
Moody's Investors Service	S & P Global Service
Aaa	AAA
Aa1	AA+
Aa2	AA
Aa3	AA-
A1	A+
A2	A
A3	A-
Baa1	BBB+
Baa2	BBB
Baa3	BBB-

Both credit ratings scores indicate extremely strong capacity to meet financial commitments.

LEGISLATIVE HISTORY

6-6-08	New policy proposed by Staff
6-11-08	Original policy adopted by Council
5-11-10	Amendment Proposed by Treasurer
5-18-10	Amendment Adopted by Council
10-03-22	Amendment Adopted by Council