Township of Lower Merion
Debt Management Policy

The Township's Debt Management Policy statement sets forth guidelines for the financing of capital expenditures of the Township. It is the objective of the policy that (1) the Township obtains financing only when necessary and consistent with this policy, (2) the process for identifying the timing and the amount of debt financing be as efficient and open as possible, and (3) the most favorable interest rates and other related costs be obtained.

Debt financing is permitted to be issued or incurred under Commonwealth of Pennsylvania laws and shall only be used to purchase capital assets that will not be acquired from current resources. The payout schedule of any debt the Township issues shall generally not exceed the useful life of the asset or project; this allows for a close match between those who benefit from the asset and those who pay for it.

To enhance creditworthiness and prudent financial management, the Township is committed to systematic capital planning, intergovernmental cooperation and coordination, and long term financial planning. Evidence of this commitment to capital planning will be demonstrated through the annual adoption and periodic review of the six-year Capital Improvement Program (CIP), cash flow analysis of the spending plans, and regular public reporting of the information. The Township Board of Commissioners reserves the right to amend this policy or waive any of its guidelines in order to address fiscal requirements and/or market conditions.

1. Use of Debt Financing

a. Debt financing will not be considered for any recurring purpose such as current operations or maintenance expenditures.

b. The Township will invest any bond proceeds in safe, statutorily approved investment instruments, designed to match the expected cash flow needs of the capital projects. Adherence to the IRS Code and guidelines on arbitrage shall be followed, with the assumption that the Township will strive to meet the IRS spending exceptions that allow for arbitrage-related exemptions from rebate for these funds. The Township will employ an arbitrage rebate service provider for rebate calculations. The Township will fulfill and monitor all post-issuance compliance procedures as required by the IRS.

c. The Township will use debt financing only for one-time capital improvement projects and unusual and long-lived (over 10 years) rolling stock and major equipment purchases under the following circumstances:

    i. The project is included in the Township's capital improvement plan (or as amended) and is in conformance with the Township's operating budget policies;

ii. The projected useful life of the projects and/or equipment will be no less than ten years and collectively be equal to or exceed the term of the financing;

iii. There is anticipated to be revenue sufficient to service the debt, whether from anticipated annual revenue from the General Fund, Sanitary Sewer Fund, or other approved sources.

2. **Structure and Term of Debt Financing**

a. Debt will be issued and structured to match projected capital cash flow needs, minimize the impact upon future budgetary revenue enhancement needs, and maintain a relatively rapid payment of principal.

b. The Township will typically utilize borrowing terms of 20 years or less.

c. General Obligation bonds will be the typical mode of long term debt financing. In certain circumstances the Township may consider the use of direct bank loans, private placement bonds, revenue bonds or other forms of debt financing in consultation with its Financial Advisor, Bond Counsel, and with the approval of the Township Board of Commissioners.

d. Competitive public sales of bonds will be generally preferred, depending upon market conditions.

e. Bond issues will be structured to generally seek level debt service schedules so as to minimize significant changes from year to year in overall debt repayments.

f. The typical structure of bonds will result in level principal and interest (combined) payments over the term of the debt. There shall be no “balloon” payments due at the end of the term.

g. The Township will not use or issue interest rate derivatives or swap instruments without the specific approval of the Township Board of Commissioners.

h. Interest and principal payments will typically commence the calendar/fiscal year following the issuance of the bonds.

i. The Township will be mindful of the potential benefits (from lower interest rates) of issuing bank-qualified bonds, and will pursue such benefits when practical.

j. The Township will typically seek fixed rate financings, especially in times of stable credit markets, based upon the lowest offered True Interest Cost (TIC).

k. The Township may choose to issue bonds that pay a rate(s) of interest that varies according to pre-determined formula from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending upon market conditions and overall composition of the Township's debt portfolio.

l. Call provisions will typically be included in bond issues. The timing of the call provisions will be optimized to provide the Township with maximum flexibility to manage the Township's debt portfolio while taking into consideration the current market conditions.

m. The Township will be mindful of its non-electoral debt limitations established by State law and operate well within such limits at all times.

n. At times, short-term borrowings will be implemented until a bond issue can be undertaken. Also, the Township may implement authorized temporary borrowings from internal funds of the Township, to be reimbursed with bond funds at a future date.

o. The Township will seek to refund/refinance (current and/or advanced) its prior bond issues if favorable market conditions exist. A goal of achieving overall net present value savings of at least 3% net of issuance costs will be a guiding benchmark.

p. The sizing of any debt borrowings of the Township will be made after taking into consideration the probable timing and sizing of future borrowings so as to properly plan for future estimated capital cash flow needs.

3. **Credit Ratings**

a. The Township recognizes the significant value of its Triple A bond credit ratings and will endeavor to protect these top credit ratings in all of its debt, budgetary and financial management undertakings.

b. The Township will take all practical precautions to avoid any financial decision which will negatively impact its Triple A credit ratings on existing or future debt issues. Furthermore, the Township will actively review and monitor its debt ratios in comparison to published Triple A debt ratios and will limit debt so that the Township's debt ratios continue to support the Township's Triple A credit ratings.

c. The Township will take into account the impact of any new debt on overlapping debt and financing plans for the School District and County.

d. The Township will generally employ the external services of a Financial Advisor and Bond Counsel to assist in the preparation of any bond offerings. The Township will issue periodic requests for proposals for multi-year engagements for these services. Prior to any bond offering, the Township will request a specific scope and fee proposal from its Financial Advisor and Bond Counsel in accordance with their existing contract.

e. The Township Manager and Chief Financial Officer (with the assistance of the Financial Advisor) shall be responsible for maintaining relationships with the rating agencies that assign ratings to the Township's debt. This effort will include representing the Township in meetings with and presentations to the rating agencies in conjunction with the Township's existing debt management program and any new debt issuance.

f. The Township will disclose all material facts relating to the Township in its Official Statements accompanying debt issuances, taking into account the guidance on disclosure recommended by the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, and Generally Accepted Accounting Principles (GAAP).

4. **Communication Regarding Debt Management**

a. Good communication with bond credit rating agencies shall be maintained, and a policy of full and timely disclosure on every financial report and bond prospectus shall be followed.

b. The Township, through its Chief Financial Officer, shall fulfill all compliance practices including primary and secondary market disclosures and certifications, arbitrage rebate monitoring and filing, federal and state law compliance, and market and investor relations. These compliance practices shall include, but will not be limited to, fulfilling the requirements of SEC Rule 15c2-12 as promulgated as part of the bond issuance process, filing all appropriate continuing and voluntary disclosure documents and ensuring all documentation is available to the public through the MSRB's EMMA website.

c. In addition to the current policies related to disclosure efforts, the Township will seek to meet future requirements and best practices as prescribed by the SEC, MSRB or any other regulatory body.

d. Forecasts of future debt issuance plans will be disclosed in all Official Statements and Township budgets.

e. The Township will annually update a page on its website to provide citizens and stakeholders with a clear, concise non-technical summary of the Township's outstanding debt, annual debt service payments and legal debt margin.