


TOWNSHIP OF SCIO
DEBT MANAGEMENT POLICY

I hereby certify that the *Debt Management Policy*
was adopted by the Board of Scio Township at its regular
meeting held on March 9, 2021 via Zoom.



Jessica M. Flintoft, Township of Scio Clerk

The following debt management policy should be used to provide the general framework for planning and reviewing debt proposals. The Township Board recognizes there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the Township's debt position. Debt decisions should be the result of deliberative consideration of all factors involved.

1. **General Debt Policy**

- 1.1 The Township shall seek to a bond rating of Aa/AA so borrowing costs are minimized and access to credit is preserved. It is imperative that the Township demonstrate to rating agencies, investment bankers, creditors, and taxpayers that Township officials are following a prescribed financial plan. The Township will follow a policy of full disclosure by communicating with bond rating agencies to inform them of the Township's financial condition.
- 1.2 Every future bond issue proposal will be accompanied by an analysis provided by the proposing department, demonstrating conformity to the debt policies adopted by Township Board. The Finance Director will review and comment on each bond issue proposal regarding conformance with existing debt and financial policies, and specific aspects of the proposed financing package and its impact on the Township's creditworthiness.
- 1.3 Bonds will be sold on a competitive basis unless it is in the best interest of the Township to conduct a negotiated sale. Competitive sales will be the preferred method. Negotiated sales may occur when selling bonds for a defeasance of existing debt, for current or advanced refunding of debt, or for other appropriate reasons.

2. **Taxpayer Equity**

- 2.1 Scio Township's property taxpayers and citizens who benefit from projects financed by bonds should be the source of the related debt service funding. This principle of taxpayer equity should be a primary consideration in determining the type of projects selected for financing through bonds. Furthermore, the principle of taxpayer equity shall be applied for setting rates in determining net revenues for bond coverage ratios.

3. **Uses**

- 3.1 Bond proceeds should be limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs as permitted by law. Utility revenue bond proceeds may be used to establish a debt service reserve as allowed by State law. Acceptable uses of bond proceeds can be viewed as items which can be capitalized. Non-capital furnishings and supplies will not be financed from bond proceeds. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bonds proceeds.
- 3.2 The Township will not use short-term borrowing to finance operating needs except in the case of an extreme financial emergency which is beyond its control or reasonable ability to

forecast. Recognizing that bond issuance costs add to the total interest costs of financing, bond financing should not be used if the aggregate cost of projects to be financed by the bond issue does not exceed \$1,000,000.

4. **Decision Analysis**

4.1 Whenever the Township is contemplating a possible bond issue, information will be developed concerning the following four categories commonly used by rating agencies assessing the Township's creditworthiness. The subcategories are representative of the types of items to be considered. This information will be presented by the Finance Director to the Township Supervisor.

4.1.1 Debt Analysis

- Debt capacity analysis
- Purpose for which debt is issued
- Debt structure
- Debt burden
- Debt history and trends
- Adequacy of debt and capital planning
- Obsolescence of capital

4.1.2 Financial Analysis

- Stability, diversity, and growth rates of tax or other revenue sources
- Trend in assessed valuation and collections
- Current budget trends
- Appraisal of past revenue and expenditure trends
- History and long-term trends of revenues and expenditures
- Evidence of financial planning
- Adherence to generally accepted accounting principles
- Audit results
- Fund balance status and trends in operating and debt funds
- Financial monitoring systems and capabilities
- Cash flow projections

4.1.3 Governmental and Administrative Analysis

- Government organization structure
- Location of financial responsibilities and degree of control
- Adequacy of basic service provision
- Intergovernmental cooperation/conflict and extent of duplication
- Overall Township planning efforts

4.1.4 Economic Analysis

- Geographic and location advantages
- Population and demographic characteristics
- Wealth indicators
- Housing characteristics
- Level of new construction
- Types of employment, industry, and occupation
- Evidence of industrial decline

- Trend of the economy

- 4.2 The Township may use the services of qualified internal staff and outside advisors to assist in the analysis, evaluation, and decision process, including bond counsel and financial advisors. Recognizing the importance and value to the Township's creditworthiness and marketability of the Township's bonds, this policy is intended to ensure that potential debt complies with all laws and regulations, as well as sound financial principles.

5. **Communication and Disclosure**

- 5.1 Significant financial reports affecting or commenting on the Township will be forwarded to the rating agencies. Each bond prospectus will follow the disclosure guidelines of the Government Finance Officers Association of the U.S. & Canada.
- 5.2 The Township should attempt to develop coordinated communication processes with all other jurisdictions with which it shares a common property tax base concerning collective plans for future debt issues. Reciprocally, shared information on debt plans including amounts, purposes, timing, and types of debt would aid each jurisdiction in its debt planning decisions.

6.

7. **General Obligation Bonds**

- 7.1 Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.
- 7.2 Generally, bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The Township will attempt to keep the average maturity of general obligation bonds at or below 20 years. The Township will limit the total of its general obligation debt to 8% of the Township's assessed value.
- 7.3 Whenever possible, the Township will finance capital projects by using self-supporting revenue bonds. Revenue bonds assure the greatest degree of equity because those who benefit from a project and those who pay for a project are most closely matched.

8. **Unlimited Tax General Obligation Debt**

- 8.1 Unlimited-tax general obligation bond borrowing where the Township asked the voters to levy a tax to pay for debt service should be planned and the details of the plan must be incorporated in the Township Capital Improvement Plan.
- 8.2 Unlimited-tax general obligation bond issues should be included in at least two Capital Improvement Plans preceding the year of the bond sale. The first inclusion should contain a general description of the project, its timing, and financial limits; subsequent inclusions should become increasingly specific.

9. **Limited Tax General Obligation Debt**

- 9.1 Limited tax general obligation bonds should be considered only when constraints preclude the preferred practice of voter approved general obligation bonds (see section 7). As a

precondition to the issuance of limited tax general obligation bonds, all alternative methods of financing should have been investigated. Consideration should always be given to provide a pledge of facility revenue to accompany the basic pledge of limited tax revenues.

9.2 Limited tax general obligation bonds should only be issued under certain conditions:

9.2.1 A project to be financed will generate positive net revenues, i.e., additional revenues generated by the project will be greater than the debt service requirements. The net revenues should be positive over the life of the bonds, and be positive each year if possible. The Township recognizes that net revenues may not be positive in the early years of certain projects, but should be positive within a reasonable time period of five to seven years. These calculations will be made on a conservative basis so that the potential for a long-term net decrease in general fund revenues is minimized.

9.2.2 Matching fund monies are available which may be lost if not applied for in a timely manner.

9.2.3 Catastrophic conditions.

10. **Revenue Bonded Debt**

10.1 It will be a long-term goal that each utility or enterprise will ensure future capital financing needs are met by using a combination of current operating revenues and revenue bond financing. Therefore, a goal is established that 15% of total project costs should come from operating funds of the utility or enterprise.

10.2 It is Township policy that each utility or enterprise should provide adequate debt service coverage. A specific factor is established by this policy that projected operating revenues in excess of operating expenses less capital expenditures, depreciation and amortization in the operating fund should be at least 1.25 times the annual debt service costs. An example of the debt coverage calculation is on the following page.

Debt Coverage Example:

Operating Revenues	\$13,903,166
Operating Investment Income	<u>751,270</u>
Total Operating Revenue	\$14,654,436
Operating Expenses	\$11,044,355
Less: Depreciation and Amortization	<u>855,004</u>
Net Expenses	\$10,189,351
Net Revenue Available for Debt Service	\$ 4,465,085 (1*)
Principal	\$ 1,520,000

Interest	<u>1,963,116</u>	
Total Debt Service	\$ 3,483,116	(2*)

Debt Coverage Ratio (1* divided by 2*)	1.28
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11. **Short Term Financing/Capital Lease Debt**

- 11.1 Short-term financing or capital lease debt will be considered to finance certain equipment and rolling stock purchases when the aggregate cost of equipment to be purchased exceeds \$25,000. Adequate funds for the repayment of principal and interest must be included in the requesting department's approved budget.
- 11.2 The term of short-term financing will be limited to the usual useful life period of the vehicle or equipment, but in no case will exceed ten years.
- 11.3 Departments requesting capital financing must have an approved budget appropriation. Departments shall submit documentation for approved purchases to the Finance Director each year within sixty days after the annual budget is adopted. The Finance Director will consolidate all requests and may solicit competitive or negotiated proposals for capital financing to insure the lowest possible interest costs.