

## City of Winooski Debt Issuance & Management Policy

### Purpose Statement:

The amount of outstanding debt held by the City of Winooski and the related annual debt service payments are important long-term obligations that must be managed with available resources. When debt is issued it obligates the City to make regular payments for a number of years into the future which can limit flexibility to respond to changing needs and priorities of the community. The issuance of debt should consider the City's specific priorities and needs while protecting the City's ability to meet financial obligations over time and remain affordable for residents. The issuance and management of debt are also governed by a number of legal requirements imposed by federal, state, and local laws, rules and regulations that require proper management to remain in good standing with lenders. The purpose of this policy is to ensure that all debt is issued both prudently and cost effectively and to provide credibility, transparency, and a consistency regarding the City's approach to debt financing.

### Definitions:

**Debt:** the obligation of a borrower to pay money

**Debt Service Payment:** annual payment of principal and interest on outstanding debt obligations.

**Enterprise Fund:** a self-supporting government fund that sells goods or services to the public for a fee

**General Fund:** primary fund used by a governmental entity used to all resource inflows and outflows not meeting another fund type criteria.

**General Obligation Bond:** a municipal bond backed solely by the credit and taxing power of the issuing jurisdiction rather than the revenue from a given project.

**Grand List:** the aggregate valuation of taxable property within a given municipality.

**Lease:** a contract by which one party conveys land or property to another for a specified time usually in return for a periodic payment.



Long-term debt: debt issued with a maturity date of greater than one year.

Short-term debt: debt issued with a maturity date of less than one year

**Applicable Standards:**

1 V.S.A. § 317a  
24 V.S.A. § 1751-1904  
24 App. V.S.A. Ch. 19, § 711, 716

**Statement:**

Using debt to finance long term assets is a valuable strategy to spread the cost of significant long-term assets over their useful life. As a general rule debt financing is not appropriate for any recurring purpose such as current operations or routine maintenance. It is important to involve all stakeholders in the decision to issue debt and to make sure resources are identified to prepare for the issuance, address all reporting requirements and maintain the accounting through the life of the bonds.

The determination to issue new debt should be made as a part of the adoption of the annual capital budget for each fund, which prioritizes capital projects and identifies the various funding sources available for those projects. The City shall use an objective, analytical approach to determine whether it can afford to assume new debt beyond what it retires each year. This decision to assume new debt should be based on the costs and benefits of the proposed project, current bond rates available, the ability to include the new debt service and associated operating costs in the City's projected budget affordably, and any potential impact on the tax rate or service fees charged by the City. Revenue sources that will be utilized to repay any debt and the estimated interest rates used in projections will be conservatively estimate. Debt incurred for use by an enterprise fund, even if backed by a general obligation pledge of the City, shall be self-supporting and repaid solely from the revenues of such fund, unless a general benefit to City residents can be demonstrated.

Debt Limits

The town should not incur indebtedness which, with its previously contracted indebtedness, in the aggregate exceeds 10 times the amount of the last grand list.

Total general fund debt service as a percentage of the total City general fund expenditures should not exceed 15%. Any tax increment financing debt will be considered separately from general fund debt service in light of the dedicated funding sources for repayment. Any debt



service issued for enterprise funds including those debts issued as general obligation bonds will not exceed 20% of annual revenues. These percentages are financing goals and may be exceeded in order to complete projects with financing opportunities that have partnering grants or zero interest that will not be available in the future. Such funding opportunities will be made clear to Council before approval of new debt or sending a ballot item to voters.

### Types of Debt

A line of credit or tax anticipation note may be secured at the discretion of the City Council at the recommendation of the City Manager, Treasurer, or Finance Director to assure cash is available to fund city operations when invoices must be paid and tax revenue may not be realized. This amount of this financing shall not exceed the anticipated tax revenue for the upcoming period and the period the debt is to be outstanding shall not extend beyond the next tax payment deadline. The purpose of this financing is to deal with cash flow issues and cannot be used to fund deficits. Bond anticipation notes will be issued to begin capital projects prior to the Vermont Municipal Bond Bank bond offerings that have specified time lines. City finances should be managed to avoid the use of short-term debt when possible.

Long-term debt should be issued for the acquisition, construction, or improvement of land, buildings, infrastructure, and public improvements that cannot be financed from current revenues or other resources. Current year budget appropriations, accumulated reserve funds, grants, and any specific fundraising should be used to minimize the amount of long-term borrowing that is required. General obligation debt funded by general fund property taxes shall be used for projects that provide a general benefit to City residents and that cannot otherwise be self-supporting.

The City will primarily utilize tax exempt debt available from the Vermont Municipal Bond Bank (VMBB), the State Revolving Loan Fund, and the State Municipal Equipment Loan Fund in order to minimize interest expense. Only in situations where a project has been in part determined to be ineligible for tax exempt financing by bond counsel will the City seek financing through taxable loans through the Vermont Municipal Bond Bank or a local financial institution. Such issuance would be limited to the amount of the project that is considered ineligible for tax exempt financing and multiple quotes shall be obtained. Variable rate financing will be avoided due to the risk to future City finances.

The City may enter into leases, lease-purchase agreements, installment sales agreements, and similar agreements to acquire assets for the municipality. Such an agreement if not voted on in advance by residents must contain a "non-appropriation clause" that states that the annual payments by the municipality must be approved by the voters as part of the annual budget.



### Debt Issuance

The City of Winooski will utilize the Vermont Municipal Bond Bank to issue tax exempt general obligation debt, so their procedures detail the bond issuance process. For financing such as leases or commercial loans City procedures will be established to ensure that the residents are receiving the best terms available at the time of issuance. Bond proceeds will be invested in accordance with the provisions of state statute, bond requirements, and the City's investment policy. Federal arbitrage laws are intended to discourage entities from issuing tax exempt debt unnecessarily or to exclusively gain investment interest on borrowed funds therefore the City will not issue debt except for identified projects as close to the date expenses are expected to be incurred to enable the proceeds to be spent in accordance with Federal tax requirements.

### Bond Counsel

For any bond or commercial loan issuance the City will consult with bond counsel to determine the tax status of the issued debt, affirm that the City is authorized to issue debt, and that the City has met all state constitutional and statutory requirements necessary. Bond counsel will be used through the firm serving as the City Attorney selected following the City's purchasing policies and procedures.

### Debt Terms

The maturity of long-term debt shall be kept as short as possible to minimize the overall impact on the taxpayers during the life of the debt. At the same time, it should not be so short that the repayment will create an unreasonable burden. In no event shall the life of the debt exceed the life of the improvement being financed.

### Repayment of Debt

The City will ensure that debt principal and interest payments are made timely, accurately and on a cost-effective basis to remain in good financial standing with creditors and avoid default or late fees. The City will establish procedures, including identification of backup staff and continuity plans, that identify parties responsible for making debt service payments and ensure their financial and operational responsibilities are fulfilled.

### Post Issuance Compliance

The City of Winooski will adopt debt procedures that cover post-issuance compliance which at a minimum meet the requirements of the Vermont Municipal Bond Bank. The Finance Director is responsible for ensuring that compliance with any post issuance rules or



regulations as dictated by the lender, federal law, or state laws until the related bonds are no longer outstanding. Any project financed by tax exempt means will be monitored for private use so that the tax-exempt status of the bonds are maintained. Annual review of bond files will be conducted to identify and correct possible violations that might occur during the term that bonds are outstanding.

**References:**

GFOA Debt Management Policy Best Practice  
GFOA Debt Service Payment Procedure Best Practice  
GFOA Issuing Taxable Debt Best Practice  
GFOA Post-Issuance Policies and Procedures Best Practice  
VLCT Debt Management Model Policy and Guidance

**Author:**

Angela Aldieri, Finance Director

**Review/Approval:**

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City Council Approval:

