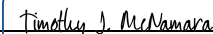




City of Lebanon
New Hampshire

COUNCIL POLICIES & PROCEDURES

DEBT MANAGEMENT POLICY

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Section 1.0: Purpose

The incurring of debt to fund public infrastructure is a key component of the City's strategy to spread the cost of significant long-term assets over their useful life. Further, by spreading the cost of the asset over a longer period of time ensures that future users will help to pay for the cost. This document outlines the City's policy regarding debt limits, debt structuring, debt issuance and debt management.

Section 2.0: Scope

This policy applies to debt issued for municipal purposes as defined and permitted by NH RSA Chapter 33 (Municipal Finance Act) and not for debt issued in connection with either the Lebanon School District or Grafton County.

This debt policy will be all-inclusive of debt issued by the City, but not be limited to general obligation debt, government purpose revenue debt, economic development related debt, lease obligations, and all forms of debt having an annual appropriation of City revenues.

This debt policy contains certain elements on procedures and practices to achieve the objectives of the policy and to ensure that professional standards are defined and met in the policy's implementation.

Authority for the issuance of debt is delegated to the City Manager and City Treasurer in accordance with RSA Chapters 33 and 33B and City Charter Section 419:41, 419:43 and 419:49. The City Treasurer shall be responsible for all transactions undertaken.

Section 3.0: Definitions

Debt Ceiling- the maximum amount of principal owed by the City in long term debt in each fund.

Debt Service- the combination of principal and interest payments

Financial Obligation- means a (i) debt obligation; (ii) derivative instrument entered into in connection with or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). Some examples of financial obligations include but are not limited to:



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- Direct placements, loans, lines of credit or other credit arrangements with private lenders or commercial banks.
- Letters of credit issued in connection with variable rate debt issuance.
- Interest rate swaps entered into in connection with debt issuance.
- Vehicle or equipment leases whether they include a non-appropriation clause or not

Section 4.0: Policy Detail

4.1 Debt Limits

Legal Restrictions:

All debt legally permitted to be issued by the City is typically General Obligation Debt, supported by the full-faith-and-credit of the City. Debt is issued pursuant to NH RSA 33, the Municipal Finance Act, RSA 33-B, Municipal Revenue Bonds, Lebanon City Charter Section 419:49 Borrowing Procedure and resolutions of the City Council which must be passed by at least 2/3 of all the members present.

4.1.1 General Fund Debt Limits

This policy sets debt limits for the City's General Operating Fund that are in compliance with present statutes and meets the goals of the City. There are several factors that comprise this policy.

1. The initial debt ceiling will be set based upon the present amount of long-term debt that is owed by the City as of the 2021 Budget Year that is applicable to the General Fund. This does not include debt that is applicable to other funds such as the various enterprise funds.
2. The debt ceiling will be adjusted annually based upon the rate of increase/decrease of the Consumer Price Index for the Northeast Region for Urban Wage Earners. The period will be fixed looking back from June 30th to the previous June 30th. The average over this period of time will be the adjustment factor.
3. New projects or portions of new projects that involve long term debt that either result in or are projected to generate revenue to substantially offset the debt service payments or substantially offset operating costs that would substantially pay for the debt service payments are not included in the debt ceiling calculation.



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4. The Capital Improvements Plan would be developed using a six-year rolling debt capacity for that period of time. To the extent that a large project, or projects, may require the need for appropriations exceeding the debt ceiling calculation, no additional debt shall be incurred until the debt levels drop below the debt ceiling.
5. Projects involving long term debt that are located within Tax Increment Finance Districts or Special Assessment Districts in which the debt service is paid for solely by TIF or SAD District Funds are not included in the debt ceiling calculation. The proportional debt service that is paid by TIF or SAD District Funds as it relates to the amount of principal for long term debt shall not be included in the debt ceiling. This relates to situations in which part of the debt service is paid for by TIF or SAD District Funds. There may be situations in which projects and their related debt service are partially attributed to these districts or start out being the responsibility of the General Fund and then transition to the appropriate district fund.

4.1.2 Water and Sewer Funds Debt Limits

This policy sets debt limits for the City's Water and Sewer Funds that are in compliance with present statutes and meets the goals of the City. There are several factors that comprise this policy.

1. Debt limits in the Water Fund and Sewer Fund are limited to the funds that can be raised to offset debt service payments and that would otherwise be needed for operating expenses within the Water Fund and Sewer Fund respectively.
2. The annual increase in rates in each fund shall be set by two components. A fixed percentage and a variable percentage. Water rates would increase by a fixed 5% (effective January 2024) and Sewer rates by a fixed **% (to be determined prior to January of 2024)¹ with a variable inflator added to those percentages based on the Consumer Price Index for the Northeast Region for Urban Wage Earners. The period will be fixed looking back from June 30th to the previous June 30th. The average CPI over this period of time will be the adjustment factor.
3. In no event shall the calculations in section 2 result in an annual rate increase exceeding 8% in the Water Fund or **% in the Sewer Fund.

¹ An analysis of the infrastructure needs in the City's sewer system will not be completed until sometime in 2022.



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4. As stated in 1 above the amount of debt that could be incurred would be relative to the amount of revenue generated in 2 above to pay for debt service and the operating budget of the water and/or sewer funds.
5. New capital expenditures that either result in projects that are projected to generate revenue to substantially offset the debt service payments or substantially offset operating costs that would substantially pay for the debt service payments are not included in the debt ceiling calculation.

4.1.3 Solid Waste Fund Debt Limits

This policy sets debt limits for the City's Solid Waste Fund that are in compliance with present statutes and meets the goals of the City. There are several factors that comprise this policy.

1. Debt limits are based upon the present and future capacity of the Solid Waste Facility to accept waste and generate the revenue from that waste to pay for operating expenses and debt service payments for the ensuing year and beyond.
2. The period by which indebtedness may occur for any given project is limited to the useful life of the infrastructure asset.
3. Situations where the state or federal government mandate by administrative or court order that action must be taken by the City that requires long term debt may require borrowing funds for periods beyond the useful life of the asset.

4.1.4 Other Debt and Revenue Bonding

Revenue bonds authorized under the provisions of RSA 33-B shall not be included in the debt ceilings established in the various funds. Projects funded under the following statutory provisions shall not be included under the debt ceiling of any of the various funds.

1. The purchase and installation of parking meters and construction of parking facilities relative to RSA 33:6-a and RSA Chapter 249.
2. The construction, reconstruction and enlargement of energy projects related to light, heat, power or water for the public as defined in RSA 33:6-b and RSA 373-D:1
3. The cost of waste site cleanup projects as defined in RSA 147-B and for the closing of landfills and other solid waste facilities as defined by RSA 149-M, RSA 33:6-d.
4. The cost of Broadband Infrastructure as defined in RSA 33:6-f and RSA 38:38,I(e).



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5. Equipment and vehicles that are leased in accordance with RSA 33:7-e.

4.2 Debt Structuring Practices

Specific guidelines regarding the debt structuring practices for each type of bond, include:

Maturity of Bonds. 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 City will attempt to keep the average maturity of general obligation bonds at or below 20 years. The limit of the City's and School's general obligation debt is subject to parameters set by Charter §C419:49 and New Hampshire RSA 33:4-a.

Enterprise Fund Debt Coverage. It is City policy that each utility or enterprise fund should provide adequate debt coverage in its rate structure to ensure that sufficient revenues are generated to pay for the financing of capital projects crucial to the operation of the Enterprise Fund. Rates may be increased in phases to meet this standard, provided such increases are identified in rate studies and/or the capital improvement plan and clearly shown as part of an overall long-term strategy for the utility or enterprise.

Short Term Financing/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. The term of short-term financing will be limited to the usual life period of the vehicle or equipment, but in no case will exceed ten years.

Financial Restrictions or Planning Considerations:

- The City will maintain at any one time its Net Overall Bonded Indebtedness at a level not to exceed 3 percent of the assessed valuation of taxable property within the City as determined for debt limitation purposes by the New Hampshire Department of Revenue Administration.
- The City will strive to maintain its annual Direct Bonded Debt Service costs at a level not to exceed 15 percent of the General Fund Operating Budget.

Prior to the issuance of debt, the City will prepare revenue projections (financial forecast) to ensure that there is adequate revenue to make principal and interest payments.



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The City will utilize long-term borrowing only for capital improvement projects or for projects that cannot be financed from current revenue sources.

4.3 Debt Issuance Practices

Debt may be issued through one or more of the following means depending upon what is in the best interest of the City.

1. NH Municipal Bond Bank
2. State revolving loan funds or other state loan programs
3. Federal revolving loan funds or other federal loan programs
4. Bonds, leases, or other types of short and long-term debt issued to the City by financial institutions
5. Partnerships with not for profit, for profit entities and other governmental entities involving structural arrangements that are not repugnant to federal or state law.

4.4 Debt Management Practices

Debt Issuance and Management. The primary tool used to plan for debt is the Capital Improvement Plan (CIP). The focus of the CIP process is planning for the City's future; the guiding principle of this planning effort is to advance the vision of the Master Plan (MP). The CIP is developed and updated annually for use by the City Council to review proposed budget expenditures relative to the capital needs of the community. The CIP is an essential component of the City's financial planning effort and provides the long-range perspective and framework for addressing its capital improvement needs. As a companion to the annual budget, the CIP provides the mechanism for anticipating future facility and infrastructure requirements and ensuring they are funded in a responsible and systematic fashion.

Acceptable Use of Bond Proceeds. Include any items that may be capitalized and are considered an acceptable use under New Hampshire State law. Refunding bond issues designed to restructure currently outstanding debt are also an acceptable use of bond proceeds.

Unacceptable Uses. The City 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 for projects under \$100,000 unless the aggregate cost of multiple projects from different bond



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amortizations will exceed that amount at the time of a bond sale. In the event that there are no other projects to be financed by bonds, bond issuance will be considered only if the total interest and issuance costs will be less than the cost of any other available financing.

Section 5.0: Procedures

Section 6.0: References (Charter/Code/State Statues)

1. Government Finance Officers Association (GFOA) model policy guidance
2. NH RSA Chapter 33 Municipal Finance Act
3. NH RSA Chapter 33-B Municipal Revenue Bonds
4. City Charter provision C419:49 Borrowing Procedure
5. U.S. Dept. of Labor, Bureau of Labor Statistics annual CPI Report

Section 7.0: Policy & Procedure Revision History

	Section	Revisions	Date
Original Adoption	99-02-C	Original Policy Adopted	1/6/1999
Amendment	CC-107	Complete re-write and re-formatted	9/15/2021
Amendment			
Amendment			