DEBT POLICY FOR THE TOWN OF SYKESVILLE

The use of municipal debt can be a valuable financing tool for use by the Town Council to fund necessary capital infrastructure projects and to finance temporary cash shortfalls. The Mayor and Town Council of Sykesville have established continued fiscal responsibility as a key objective in its budget process. The cornerstone to continued fiscal responsibility is to establish what types of debt financing are appropriate to fund and to establish a maximum amount of allowable debt based on a percentage of the Town's assessable base and also based on the Town's ability to maintain the annual debt service.

Short Term Debt Policy:

The expenses associated with day-to-day operations of the Town will be covered by current revenues. However, because the Town receives large portions of its tax revenues at various times of the year, from sources beyond its control, the Town may experience temporary cash shortfalls. In order to finance these temporary cash shortfalls, the Town may incur short-term operating debt. The amount of the short-term operating debt will be based on cash flow projections. Operating revenues will be pledged to repay the debt, which will generally be repaid in five years or less.

Long Term Debt Policy:

The long-term capital debt policy sets the parameters for issuing debt and provides guidance in the timing and structuring of long-term debt commitments.

The Town will use debt financing only for real property purchases, capital improvement projects, or equipment purchases, and only under the following circumstances:

1. When the project is included in the Town's five-year capital improvement program
2. When the project is not included in the Town's five-year capital improvement program, but it is an emerging critical need whose timing was not anticipated, or it is a project mandated immediately by state or federal requirements.
3. When the project's useful life, or the projected service life of the equipment will be equal to or exceed the term of the financing, except when consolidating to achieve a more favorable interest rate.
4. When there are designated revenues sufficient to service the debt, whether from project revenues or other specified and/or reserved resources.

Debt financing is not considered appropriate for any recurring purpose such as current operating and maintenance expenditures (except as noted in the Short Term Debt Policy)

The Town will strive to thoroughly research the availability of federal, state, and/or county grants for purchases outlined above prior to seeking debt financing.

The Town will strive to maintain and/or improve its bond and/or credit rating in order to minimize borrowing costs and preserve access to credit.

Bond issue proposals are to be accompanied by an analysis defining how the new issue, combined with current debt, impacts the Town's debt capacity and conformance with Town debt policies. Such analysis shall include identification of the funding source; an assessment of the ability to repay the obligation; the impact on the current budget, commitments to future budgets, maintenance and operational impact of the facility or asset; and the impact on the Town's credit rating, if any.

The Mayor and Town Council must review such analysis, including existing debt level, ability to pay debt service, impact on Town services, and make a finding that use of debt is appropriate.

Annual Debt service costs are not to exceed 8 % of the Town's Operating expenditures at the time the obligation is incurred.

Total remaining balances of Long Term Debt obligations are not to exceed 1.5% of the Town's net assessable base at the time the obligation is incurred.

The Town shall continually review outstanding obligations for opportunities to achieve debt service savings through refunding and shall pursue refinancing when economically feasible and advantageous.

Special Assessment Bonds:

Assessment district bonds and special assessment bonds may be issued through an ad valorem property tax, at a rate to repay the debt issued to finance capital improvements. The Town may issue special assessment bonds such as Infrastructure Financing District Bonds as appropriate in support of its development and capital improvement programs.