

Internal Controls Debt Management

Purpose: The Internal Controls set forth are guidelines for debt management in the Town of Camden (Town) for the purpose of guiding the town officials as they consider the proper use of debt to fund capital assets.

Authority: Indiana Code 5-11-1-27 requires each political subdivision to maintain a system of internal controls to promote government accountability and transparency. Office of Management and Budget (OMB) Circular No. A-123, dated October 28, 1981, prescribes policies and standards to be followed by Agencies in establishing and maintaining internal controls for program and administrative activities.

Objectives of Debt Management through Internal Controls: These Internal controls consist of the plan of organization and the methods and measures adopted within the Town to safeguard its resources, assure accuracy and reliability of information, assure adherence to applicable laws, regulations, and policies, and promote operational economy and efficiency. This Policy is to establish conditions for the use of debt that minimizes the town's debt service and issuance costs, retain the highest debt rating and maintain full and complete financial disclosure and reporting. The Debt Policy is intended to guide the prudent use of resources to provide the needed services to the citizens of Camden and to maintain sound financial management practices. These policies, therefore, are flexible in design to allow for exceptions under changing and extraordinary circumstances.

Debt Policy: The Debt Policy for the Town of Camden (Town) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth guidelines for the issuance and management of all financings of the Town. Adherence to the policy is essential to ensure that the Town maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability. Any substantive modifications made to the policy must be approved by the Town Council.

Scope: This Debt Policy applies to debt issued directly by the Town and debt issued on behalf of the Town by its agencies. The Policy includes but is not limited to general obligation debt, government purpose revenue debt, economic development related debt, lease obligations, certificates of participation, debt derivatives and all forms of debt having an annual appropriation of the Town revenues. Additionally, this Policy governs the use of any swap transactions used in conjunction with the Town's debt program.

Cash Funding: The Town policy encourages funding of capital projects with cash to the extent possible and practical. As part of the cash strategy, the Town will first look for grant funding for capital projects. The Town will strive to set back 10% of each year's budget, if funding is available, into the Rainy Day Fund. Following the allocation of the Rainy Day Fund in the yearly budget, this cash can be used as local match for grants or to fund a capital improvement project entirely. Cash funding is recommended under the following circumstances:

- * To finance purchases of assets whose lives are less than five (5) years.
- * To finance recurring maintenance (i.e. street paving or repairs to buildings)
- * When acceptable interest rates are not achievable.

Uses of Debt: Long term debt is to be used to finance capital improvements and it will never be used to fund current operating expenses. Before any debt agreement is entered into, the Town Council is to have adopted a long-term capital plan. Whenever possible, Town resources (pay-as-you-go policy) are to be used to finance capital projects without entering into debt. Cash reserves or borrowing between funds, where allowed by statute, should cover any cash flow problems but if not, short term borrowing or lines of credit may be used to cover any short term cash shortage. The issuance of debt increases the overall cost of a project through interest payments, the cost of bond council and accounting services costs. However, if the town borrows to fund a major project, time will be saved in completing the project and build capital projects can be achieved sooner. Borrowing allows for payments to be spread out over a time period smoothing out expenses and create a more predictable cash flow. If debt is used, the term of indebtedness should not exceed the life expectancy of the facility or infrastructure. Consideration should be given to long-term maintenance cost over the project's anticipated life and the impact it will have on the Town's budget. All debt proposals should identify the future operating and maintenance costs and how they will be paid.

Debt financing will be considered when some or all of the following conditions exist:

1. Estimated future revenue is sufficient to ensure the repayment of the debt obligation;
2. Other financing obligations have been explored and are not viable for the timely or economic acquisition or completion of a capital project;
3. A capital project is mandated by federal or state authorities with no other viable funding option available; and
4. The capital project or asset lends itself to debt financing rather than pay-as-you-go funding based on the expected useful life of the project based on the Town's ability to pay debt service.
5. Debt will not be used to fund ongoing operating expenses of the Town.
6. Any Town debt issues in support of a development project will first be reviewed and approved under the auspices of the Town's economic Capital Improvement Plan.

Types of Debt Permitted: The Town has choices in regards to the type of debt available to finance capital project. However, before any major, long-term debt is entered into, the Town will seek council and financial advice from experts in this field. With that being said, the following is a list of possible debt options and a general guideline for their use:

General Obligation Bonds (GO) - These bonds provide the investor with the most security because the town pledges the town's property taxes for debt services. The sum of all General Obligation Bonds is governed by the Town's legal debt limit but they must also conform to limitations of the general credit of the town. This bond is voted on by the taxpayer and are payable through the tax levy. GO bonds will be used only for essential projects and will be sought only after the Town Council has determined there are no other funds available to meet the projected costs. GO Bond tax levies do not count against the town's tax levy limit.

Limited Obligation Bonds - These will be used to finance capital improvements in the event the capital project benefits a particular class or group and said class or group will be responsible to pay a fair share of the costs to maintain a Town service.

Short Term Debt Financing - The Town will consider short-term (twelve [12] months or less) bond anticipation notes to finance projects or portions of a project under the following conditions:

- * Use as a source of permanent financing when the project has a useful life of five years or less.
- * Use as a source of temporary financing prior to and in anticipation of the completion of a general obligation bond.

Long Term Debt Financing - Several parameters must be considered when considering long term debt and no one parameter should determine the decision to incur debt financing. Items to consider include but are not limited to:

- * variable interest rates
- * life of project
- * cash on hand
- * income to support the debt
- * bond rating of the town

Revenue Bonded Debt - It is the long term goal that each of Camden's utilities have future capital financing needs met by using a combination of current operating revenues, revenue bond financing and state revolving loans. It is a policy of the Town that each utility will have adequate debt service coverage and customer rates be set in such a manner as to cover the debt.

Other Sources

Capital Lease Debt - Lease debt may be considered to finance capital improvements, including vehicles and equipment with an expected useful life of less than ten (10) years and the costs exceeds \$20,000. Principal and interest may be paid from the operating budget or other dedicated resources.

Low Interest Loan - Low interest loans are a valid financing mechanism and should be considered before consideration of issuing any other forms of debt. This method of financing should be used whenever possible to fund a project. However, the Town is not obligated to use low interest loans and consideration should be given to future cash flows and other capital needs.

Parameters	Funding Sources				
	Cash	Loans	Capital Leases	Short-Term Notes	Long-Term Bonds
=====					
Project is less than 10 years	X	X	X	X	
Project life is 10 years or greater		X	X	X	X
Recommended temporary funding prior to a bond sale				X	
Recommended variable rate funding mechanism			X	X	
Amount borrowed is less than \$200,000		X	X	X	
Amount borrowed is greater than \$200,000		X		X	X

The Town's may hold obligation at any given time which will consist of both fixed and variable rate debt. The Town will always seek professional council before entering into any long-term debt and manage the debt at a level below that allowed by statue. The Town will general seek fixed rate debt wherein at the time of the bond sale all interest rates are known and do not change while those bonds are outstanding. If conditions arise where the Town would consider debt with variable rates, rates that reset on a periodic basis, certain conditions would need to be met:

Debt Limit: Debt limit is governed by state and federal statue. The state statue sets the legal debt limit and the amount of debt that can be used and federal law sets the rules about the tax status of government securities and the process of issuing and disclosing debt obligations. The limit for Camden, per DLGF, is 2% of 1/3 of the most recent net accessed valuation. It is the responsibility of the Town Council to determine the level of debt comfort for Camden which may be lower than allowed but never more. In determining this comfort level, bond council and others experienced in this field will be required. Revenue debt is not subject to statutory limits or voter approval. Before entering into this type of debt, professional financial advise should be sought to determine if any rate adjustments are necessary and to determine the projected utility income is sufficient to cover the debt plus operating expenses. Consideration needs to be given to the current project and any others in the Capital Improvement Plan. The governing question is "How much debt can Camden safely issue?".

Debt Structure & Repayment: Before any long term debt is entered into, the Town Council must consider the debt structure, repayment terms and the use of variable or fixed rate interest. The scope of this work requires professional assistance and it will be the responsibility of the Council to select a competent firm for this process.

The Town Council and Clerk-Treasurer should stay up to date on available grants and subsidies that may be available from the State of Indiana and Federal Programs for various purposes and, where possible, use these funds instead of local cash or debt.