Agenda

FINANCE COMMITTEE

Tuesday – June 19, 2018
Council Chambers A
6:00 – 8:00 P.M.

Item 1. Call to Order.

Item 2. Those Present.

Item 3. Approval of Minutes – May 10th, 2018

Item 4. Discussion Items:

- (a) Financial Statements Period End – March 31, 2018
- (b) Review of the Proposed Financial and Fiscal Policy
- (c) Financial Model

Item 5. Future Meeting Dates and Times & Items:

- Tuesday, July 17, 2018 @ 6:00 to 8:00 p.m.
  (Town Finance Committee Mtg.)

Item 6. Public Comment

Item 7. Adjourn.

TOWN OF SCARBOROUGH
Executive Summary for the period ending March 31, 2018

Well, we made it through some tough January through March winter storms! Spring is in the air and the flowers are in bloom as we complete another financial quarter. Scarborough has completed nine months (or 75%) of our FY18 budget. Interestingly, as we compare our town general fund expenditures for the periods ending March 2018 and March 2017, we are 79% spent for both years after nine months of activity. Total expenditures for FY18 are at 76.3% spent and revenues are at 91.2% collected for the General Fund, which includes the town, school and adult education. Total expenditures reflect the full payment of the County Tax of $2.7m and all of the principal debt payment of $7.170m. Tax collections continue to come in favorably at 96.6% collected compared to the prior two years of 96.3% through March 2017 and 95.8% through March 2016.

Annually total fund balance is updated. Unassigned Fund Balance increased slightly from FY16 of $6,107,559 to FY17 of $6,893,626. Per our fund balance policy, the Town's goal is 10% of the prior year operating budget. As of the end of FY17, the 2016 Operating Budget was $77,616,047. Thus, the unassigned fund balance goal is $7,761,605. Per the June 30, 2017 financial statements, unassigned fund balance is $6,893,626. This puts the Town's Unassigned Fund balance at 8.88% of the 2016 operating budget.

The assets and liabilities are mostly determined by the timing of the expenditures and revenues and as such, I will focus on the expenditures and revenues. As a general indicator of fund balance, actual revenues and expenditures can measure the anticipated changes that could affect total fund balance.

With three quarters (3/4) of the fiscal year under our belt, Scarborough Administrators continue to be mindful of spending as is demonstrated in these reports.

Positive indicators include the community services department staff preparing fields and grounds in-house compared to outsourcing this work. This has resulted in significant savings to the Town. Due to the timing of the quarterly payment to the Library in 2018, only three quarters of payments show compared to four quarters in 2017. This is true of the Legislative line as well with 50% and 75% spent respectively. Departments continue to play catch up with their capital expenditures since the delay of an approved school budget earlier this year or are working to utilize savings through bulk purchases.

On the revenue side, the municipal/county property taxes committed are lower in FY18 than in FY17 by approximately $268,000 although as noted above, we are better collected in FY18. The Senior Property Tax Relief payments increased from $138,308 in FY17 to $184,171 in FY18 as more citizens took advantage of this wonderful program. Actual excise revenues increased slightly over these past nine months from $4.28m in FY17 to $4.34m in FY18. Building Permit collections are 101% of estimates. As of this writing, both Plumbing and Electrical Permit revenues have exceeded their estimated revenues as well. These three revenues are a strong indicator of the increased development occurring in Scarborough. Intergovernmental revenues show higher than last year due to the increased reimbursement from the State for both the BETE and Homestead programs. Some of the programs affecting the increase in revenues in FY18 for the Charge for Services Revenues include, Fire Inspection Fees, Child Care and Summer Programs. Total Fines and Forfeiture revenues are currently 106% of FY18 estimates or about $15,000 higher than FY17, although I am uncertain if collecting more in fines should be considered a positive?! Investment interest is higher than this time last year as a result of the early bond sale and the receipt of bond premium. $89,500 of the bond premium will offset the cost of issuing this bond. $514,450 of the premium will close to fund balance to be used toward the November 2018 debt interest payment. The final portion of $735,000 of the bond premium is reflected in the Capital Projects (Fund 1310) to be used for the construction of the Public Safety facility. Instead of borrowing $15m for the project, we only needed to borrow $14.265m.

Negative indicators: The legal budget is presently overspent by $12,394 and this deficit will most likely increase. With the tough spring weather and the changing weather pattern, the Public Works salt account is $105,000 overspent.

In summary, through the third quarter of this fiscal year, actual revenues are 91% collected compared to 76% spent. Revenues are coming in strong and all of our department administrators are closely monitoring their expenditures.

TOWN OF SCARBOROUGH
TOWN GENERAL FUND BALANCE SHEET

		March 31, 2018	March 31, 2017	Variance
ASSETS				
	Cash	30,038,357	26,591,318	3,447,040
	Taxes Receivable	2,546,375	2,657,330	(110,955)
	Accts Receivable	536,199	686,030	(149,830)
	Due From Other Funds	2,283,149	2,573,608	(290,459)
	Inventories	12,598	31,301	(18,703)
	Total Assets and Outflows	**35,416,679**	**32,539,586**	**2,877,093**
LIABILITIES				
	Accounts Payables	1,929,867	1,621,963	307,904
	Accrued Payroll	4,520,705	4,345,036	175,670
	Prepaid Items	-	-	-
	Deferred Tax Revenues	786,089	863,100	(77,011)
	Taxes Collected In Advance	320,297	35,890	284,407
	Total Liabilitites and Inflows	**7,556,958**	**6,865,988**	**690,970**
FUND BALANCE				
	Fund Balance Unrestricted	9,407,401	9,327,005	80,396
	Fund Balance Reserved	4,478,814	4,375,231	103,583
	Fuel Inventory Reserve	12,598	31,301	(18,703)
	Actual Revenues	77,234,045	74,109,660	3,124,385
	Actual Expenditures	63,273,138	62,169,600	1,103,538
	Fund Balance	**27,859,720**	**25,673,598**	**2,186,123**
	Total Liabilitites and Fund Balance	**35,416,679**	**32,539,586**	**2,877,093**

Town of Scarborough
Comparative Year To Date Expenditures

1100 General Fund	**3/31/2018** Revised Appropriation	YTD Expended	Percent Used	**3/31/2017** Revised Appropriation	YTD Expended	Percent Used
55 Legislative	11,573	5,786	50.0%	11,573	8,679	75.0%
56 Executive	2,226,711	1,865,253	84.0%	2,012,424	1,870,883	93.1%
57 Finance	1,030,572	715,661	69.9%	958,869	670,263	70.3%
58 Management Information Systems	1,207,438	902,059	78.5%	1,195,024	874,449	76.1%
59 Planning	976,741	692,831	71.1%	953,915	663,678	69.6%
62 Community Services	2,729,722	1,934,118	71.8%	2,761,072	2,064,841	75.3%
63 Library	1,130,246	847,685	75.0%	1,099,898	1,099,898	100.0%
66 Public Health & Welfare	30,211	23,975	79.4%	29,656	21,489	72.5%
68 SEDCo	234,773	164,444	70.0%	224,694	154,208	68.6%
71 Fire Services	5,043,056	3,512,194	69.8%	4,908,197	3,398,954	69.6%
72 Police Services	6,415,138	4,659,491	72.7%	6,274,840	4,429,759	71.0%
81 Public Works	6,762,140	5,134,074	87.7%	6,774,857	4,554,142	81.2%
85 Debt	4,817,198	4,395,592	91.2%	4,840,496	4,280,734	88.4%
91 County Tax	2,709,666	2,709,666	100.0%	2,568,852	2,568,852	100.0%
94 Capital Equipment	1,040,617	484,775	60.2%	1,214,582	1,047,448	91.3%
97 Other	987,053	431,629	43.7%	1,081,403	366,425	33.9%
Total General Fund Expenditures	**37,352,855**	**28,479,232**	**79.0%**	**36,910,352**	**28,074,703**	**79.0%**
Fund 7150 Adult Education	182,701	128,586	70.4%	182,805	133,264	73.0%
Fund 7100 Total School General Fund	47,125,168	34,665,319	74.1%	45,856,180	33,961,633	74.4%
Total School General Fund Expenditures	**47,307,869**	**34,793,905**	**74.1%**	**46,038,985**	**34,094,897**	**74.4%**
Grand Total	**84,660,724**	**63,273,138**	**76.3%**	**82,949,336**	**62,169,600**	**76.5%**

9 Months = 75.00%

NOTES:

56: Legal expenditures are $112,394 in FY18 compared to $101,140 in FY17 mostly due to litigation. The Ass't Town Manager & Sustainability Coordinator positions were funded in Fy17 starting in October. In FY18, these positions are funded for twelve months. The Human Resource budget shows less spent due to the hiring of a new director in Sept. 2017.

57: Reflects change of two part time staff to one full time staff.

58: MIS Software Maintenance added: Google, SEECLICKFIX and timing of payments

59: Engineering subdivision review expenditures are up this quarter. The related revenues were reflected, for the most part in FY17, or have not yet been billed to the subdivision.

62: Grounds maintenance realignments resulting in less spent on grounds maintenance contractual work from prior year. Municipal building heating costs are lower this year than last year.

63: Timing of Library quarterly payment.

71: Fire Dept staffing costs & electricity costs.

72: Police Staffing costs.

81: PW Paving expenditures are $329,204 between July and December 2017 but only $28,533 in the prior year. Additionally, spent $56,000 more on salt this year compared to last year.

94: Timing of capital equipment purchases for prior year and current year.

Town of Scarborough
Comparative Year To Date Revenues

1100 General Fund	3/31/2018 Revised Estimated Revenue	3/31/2018 Actual YTD Revenue	3/31/2018 % Collected	3/31/2017 Revised Estimated Revenue	3/31/2017 Actual YTD Revenue	3/31/2017 % Collected
90 Taxes	25,508,095	23,925,392	93.8%	25,408,946	24,315,243	95.7%
91 Interest On Delinquent Taxes	89,000	51,649	58.0%	88,000	45,285	51.5%
92 Licenses And Permits	645,680	577,800	89.5%	596,480	392,215	65.8%
93 Intergovernmental Revenues	2,923,418	2,312,765	79.1%	2,833,502	1,993,725	70.4%
94 Charge For Services	5,760,260	3,914,448	68.0%	5,555,292	3,635,466	65.4%
95 Fines Forfeits And Assessments	71,500	76,052	106.4%	65,550	61,174	93.3%
96 Miscellaneous Revenues	619,197	903,883	146.0%	566,556	358,674	63.3%
99 Other Financing Sources	1,735,705	1,065,840	61.4%	1,619,958	450,713	27.8%
Total General Fund Revenues	**37,352,855**	**32,827,829**	**87.9%**	**36,734,284**	**31,252,494**	**85.1%**
Fund 7150 Adult Education	182,701	158,465	86.7%	182,805	166,374	91.0%
Fund 7100 Total School General Fund	47,125,168	44,247,751	93.9%	45,855,067	42,690,791	93.1%
Total School General Fund Revenues	**47,307,869**	**44,406,216**	**93.9%**	**46,037,872**	**42,857,166**	**93.1%**
Grand Total	**84,660,724**	**77,234,045**	**91.2%**	**82,772,156**	**74,109,660**	**89.5%**

Property Taxes Collected: 96.55%
Collections as of 05-01-18: 97.54%
9 Months = 75.00%

2017 Property Taxes Collected Mar 2017: **96.34%**
2016 Property Taxes Collected Mar 2016: **95.97%**

NOTES:

90: Taxes include property and excise taxes. Property taxes are recorded as revenue when the bills are issued.
91: Interest rate remains at 7% for unpaid property taxes - this is set by the State.
92: Licenses & Permits Building, Electrical and Plumbing Permits are the main reasons for this increase over last year.
93: Intergovernmental Revenues: Increased BETE and Homestead revenues received over prior year.
94: Charge for Services: Vehicle maintenance reimbursements, Child Care and Summer Program Revenues.
99: School Impact Fee Transfer - normally processed at year end and bond premium received.

Town of Scarborough

Year To Date Expenditures Through March 31, 2018

Other Town Fund Expenditures	Original Appropriation	Revised Budget	YTD Expended	Encumb	Available Budget	Percent Used
Fund 1200 Total Special Revenue Fund	-	-	1,977,891	-	(1,977,891)	100.0%
Fund 1300 Total Capital Projects Fund	275,900	255,900	297,642	28,161	(69,903)	127.3%
Fund 1310 Total Capital Projects Fund	3,582,850	3,582,850	1,162,643	849,049	1,571,158	56.1%
Fund 1310 Public Safety Building	21,548,095	21,548,095	148,250	-	21,399,845	0.7%
Fund 1500 Total Cemetery Permanent Fund	-	-	-	-	-	0.0%
Total Town Other Fund Exp	**25,406,845**	**25,386,845**	**3,586,426**	**877,210**	**20,923,209**	**17.6%**

Other School Fund Expenditures						
Fund 72xx Total School Special Revenue Fund	1,123,902	1,123,902	717,510	1,823	404,570	64.0%
Fund 7300 Total School Capital Projects Fund	110,000	110,000	3,123	-	106,877	2.8%
Fund 7400 Total School Capital Projects Fund	1,286,200	1,286,200	785,211	78,941	422,048	67.2%
Fund 7600 Total School Nutrition Program	1,521,802	1,521,802	1,084,421	143,784	293,597	80.7%
Fund 7800 Total School Scholarship Funds	-	-	1,400	-	(1,400)	100.0%
Total School Other Fund Exp	**4,041,904**	**4,041,904**	**2,591,665**	**224,548**	**1,225,692**	**69.7%**

Year To Date Revenues Through March 31, 2018

Other Town Fund Revenues	Original Estimated Revenue	Revised Estimated Revenue	Actual YTD Revenue	Remaining Revenue	% Collected
Fund 1200 Total Special Revenue Fund	-	-	2,626,791	(2,626,791)	100.0%
Fund 1300 Total Capital Projects Fund	275,900	255,900	366,355	(110,455)	143.2%
Fund 1310 Total Capital Projects Fund	3,582,850	3,582,850	1,821,949	1,760,901	50.9%
Fund 1310 Public Safety Building	21,548,095	21,548,095	15,000,000	6,548,095	69.6%
Fund 1500 Total Cemetery Permanent Fund	-	-	1,751	(1,751)	100.0%
Total Town Other Fund Rev	**25,406,845**	**25,386,845**	**19,816,847**	**5,569,998**	**78.1%**

Other School Fund Revenues					
Fund 72xx Total School Special Revenue Fund	1,123,902.37	1,123,902	537,349	586,553	47.8%
Fund 7300 Total School Capital Projects Fund	110,000	110,000	58,300	51,700	53.0%
Fund 7400 Total School Capital Projects Fund	1,286,200	1,286,200	1,155,565	130,635	89.8%
Fund 7600 Total School Nutrition Program	1,521,802	1,521,802	1,057,443	464,359	69.5%
Fund 7800 Total School Scholarship Funds	-	-	1,756	(1,756)	100.0%
Total School Other Fund Rev	**4,041,904**	**4,041,904**	**2,810,413**	**1,231,492**	**69.5%**

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	Original Budget	Revised Budget	YTD Activity	Remaining Bal	Percentage
Grand Totals Expenditures	**114,440,474**	**114,089,474**	**69,451,229**	**42,254,586**	**63.0%**
Grand Totals Revenues	**114,440,474**	**114,089,474**	**99,861,304**	**14,228,170**	**87.5%**

Town of Scarborough
Year To Date Education Expenditures
Through March 31, 2018

Education:	Original Appropriation	Revised Budget	YTD Expended	Encumb	Available Budget	Percent Used
Regular instruction	28,068,091	27,892,549	20,651,776	27,552	7,213,221	74.1%
Improvement of instruction	943,675	913,675	617,735	23,017	272,923	70.1%
Special services	4,162,949	4,141,207	2,770,183	102,405	1,268,619	69.4%
General & special administration	246,043	246,043	178,258	-	67,785	72.4%
Board of education	32,723	32,723	26,961	-	5,762	82.4%
Office of the superintendent	705,950	710,550	508,665	-	201,885	71.6%
Business administration	2,225,025	2,161,709	1,582,948	374	578,387	73.2%
Transportation	1,615,051	1,615,051	1,032,741	121	582,189	64.0%
Operation and maintenance of plant	3,808,090	3,808,090	2,766,217	91,595	950,279	75.0%
Adult Education	182,701	182,701	128,586	-	54,115	70.4%
Food Service Allocation	-	-	-	-	-	0.0%
Debt service	5,603,571	5,603,571	4,529,836	-	1,073,735	80.8%
Total Education	47,593,869	47,307,869	34,793,905	245,064	12,268,900	74.1%

Selected Revenues	Estimated Revenue	Actual YTD Revenue	% Collected
Excise Tax Collections	5,600,000	4,335,848	77.4%
State Revenue Sharing	837,993	617,656	73.7%
Rescue Revenues	900,000	675,000	75.0%
LRAP-Local Road Assist.	354,978	324,412	91.4%
Building Permits	425,000	429,292	101.0%
Investment Interest	41,500	664,114	1600.3%
Plumbing Permits	41,000	37,023	90.3%
Electrical Permits	57,000	52,441	92.0%
Education Subsidy	2,150,151	1,581,010	73.5%

Town General Fund Revenues by Department

Executive (TM, HR, TC)	544,936	176,603	32.4%
Fund Balance	-	-	0.0%
Finance	5,716,900	4,867,764	85.1%
Property Taxes	19,797,611	19,797,611	100.0%
MIS	505,425	264,770	52.4%
Planning	624,250	608,725	97.5%
Senior Programs	33,000	28,361	85.9%
Community Serv	2,149,836	1,368,695	63.7%
SEDCO	-	-	100.0%
Fire Dept	989,400	814,814	82.4%
Police Dept	797,981	593,074	74.3%
Public Works	1,553,568	917,410	59.1%
Debt	728,735	672,585	92.3%
Intergovernmental	2,914,243	2,302,817	79.0%
TIFs and Interfund Transfers	996,970	414,600	41.6%
	37,352,855	**32,827,829**	87.9%

PROPOSED

Town of Scarborough

Financial and Fiscal Policy

TABLE OF CONTENTS

SECTION I. DEBT MANAGEMENT POLICY

Town of Scarborough

Introduction

The Town of Scarborough is committed to supporting, and being a significant stakeholder in, a vibrant, engaged, dynamic~~,~~ and successful community. Central to this commitment is the consistent ability to fund programs and provide services our residents rely on. Debt management, prudent investment, regulation of fund balances, and capital planning all help determine the Town's success in meeting this commitment to the community. ~~The~~ This policy ~~below~~ describes procedures that will be followed in ~~bonding~~ borrowing money, making investments, maintaining fund balance, and planning for capital investments. The policy also establishes fiscal and financial health indicators that will guide budgeting and planning decisions ~~by~~ for both staff and elected officials. By adopting these indicators and committing to use them to guide decision making the Town of Scarborough furthers its promise to our residents to use their tax monies in an efficient, prudent, and thoughtful manner that ensures high quality services and predictable tax rates.

Staff will conduct an annual measurement of the established indicators and will report the findings to the Finance Committee within the first quarter of each calendar year. This assessment will take place within one month of the publication of the Comprehensive Annual Financial Report. None of the indicators found in this policy, alone or in combination, should be used as the sole basis for making decisions on fiscal policy. Rather, they are intended to be early warnings of areas that need further discussion. The policy statements included in this policy have been developed to guide these discussions.

SECTION I. DEBT MANAGEMENT ~~POLICY~~

~~INTRODUCTION~~

~~The Town of Scarborough recognizes that one of the keys to sound financial management is a comprehensive Debt Management Policy. These benefits are recognized by bond rating agencies and the development of a Debt Policy is a recommended practice by the Government Finance Officers Association (GFOA). A Debt Policy establishes the parameters for issuing and managing debt. It provides guidelines regarding the timing and purpose for which debt may be issued, presents the types of permissible debt, and the methods of sale that may be used. The Debt Policy should recognize an obligation to fully and timely repay all debt as an essential requirement for entry into the capital markets. Adherence to a Debt Policy helps to ensure that a government maintains a sound financial position and that credit quality is protected.~~

~~The Debt Policy is to be used in conjunction with the operating and capital budgets, the Capital Improvement Program (CIP), and other financial policies. The advantages of a Debt Policy are:~~

- ~~Enhancing the quality of decisions;~~
- ~~Documenting the decision-making process;~~
- ~~Identifying objectives for staff to implement;~~
- ~~Demonstrating a commitment to long-term financial planning objectives; and~~
- ~~Being viewed positively by the bond rating agencies, investment community and taxpayers.~~

PURPOSE

The ~~Debt~~ Policy Statement sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of this policy that (1) the Town obtains financing only when desirable, (2) the process for identifying the timing and amount of debt financing be as efficient as possible (3) obtain and then retain the highest possible credit rating without drastically impacting town operations, (4) obtain the most favorable interest rate and other related costs and (5) comply with full and complete financial disclosure and reporting, as required.

Debt financing~~, to~~ includes general obligation bonds, special assessment bonds, temporary notes, lease/purchase agreements, debt guaranteed by the Town, and other Town obligations permitted to be issued or incurred under Maine statute~~,~~ and should only be used to purchase capital assets that will not be acquired from current resources. The useful life of the asset or project needs to ~~equal~~ be no greater than 120%, or exceed the payout schedule~~,~~ of any debt the Town assumes for that project. This allows for a closer match between those who benefit from the asset or project and those that pay for it.

To enhance creditworthiness and prudent financial management, the Town is committed to systematic capital planning, intergovernmental cooperation and coordination~~,~~ and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through adoption and periodic adjustment of the Town's Capital Improvement Plan (the "CIP") and the annual adoption of a multi-year Capital Improvement Budget.

DEFINITIONS

***Arbitrage*.** Arbitrage refers to the rebate amount due the Internal Revenue Service (IRS) where funds received from the issuance of tax-exempt debt have been invested and ~~excess~~ greater interest earnings have occurred unless complying with certain exceptions.

***EMMA*.** Electronic Municipal Market Access System of the Municipal Securities Rulemaking Board ("MSRB").

***General Obligation Bonds*.** Bonds backed by the full faith and credit of the Town and unless paid from other sources, are payable as to both principal and interest from ad valorem taxes that are subject to limitation unless certain procedural requirements ner Title 30-A, Section 5721-A of the Maine Revised Statutes, as amended, are met, in which case such ad valorem taxes may then be levied, without limit as to rate or amount upon all the property within the territorial limits of the Town and taxable by it~~. The taxing power may be an unlimited ad valorem tax, usually on real estate and personal property~~. A special tax rate levied for the Bond & Interest Fund may be used annually to pay for General Obligation debt service. Because it is secured by tax levies, this structure has strong marketability and lower interest costs.

Moral Obligation Bonds - A bond that, in addition to its primary source of security, is also secured by a non-binding covenant that any amount necessary to make up any deficiency in debt service will be included in the budget recommendation made to the governing body, which may appropriate funds to make up the shortfall. The governing body, however, is not legally obligated to make such an appropriation.

Revenue Bonds. Bonds secured by specific revenues to be collected for the project and not by the full faith and credit of the Town. Also known as Non-recourse loans whereby the revenues pledged to pay for debt service are the only revenues available to pay the bonds.

Lease/Purchase Agreements. A ~~legal document~~ financial arrangement under which tangible property, such as equipment, property or vehicles, is leased in exchange for a periodic payment, with the option to purchase the property at the end of the leasing period. Many times, these obligations are subject to annual appropriations and are therefore, not statutory debt.

Special Assessment Bonds. ~~Bonds~~ Debt issued to develop capital facilities ~~and~~ or basic infrastructure for the benefit of properties within an assessment district. Assessments are levied on properties benefited by the project. The Town's recourse for non-payment is typically foreclosure on the property and the remaining long-term obligation becomes the Town's direct obligation.

Capital Appreciation Bonds (CABs) - A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity. At maturity the investor receives a single payment (the "maturity value") representing both the initial principal amount and the total investment return. CABs typically are sold at a deeply discounted price with maturity values in multiples of $5,000. CABs are distinct from traditional zero coupon bonds because the investment return is considered to be in the form of compounded interest rather than accreted original issue discount. For this reason only the initial principal amount of a CAB would be counted against a municipal issuer's statutory debt limit, rather than the total par value, as in the case of a traditional zero coupon bond, similar to US Savings Bonds.

~~Temporary~~ Bond Anticipation Notes (BANs)~~.~~ Notes ~~are~~ issued to provide temporary financing, to be repaid by long-term financing. This type of ~~bridge~~ interim financing has a maximum maturity of three years under Maine statute.

ENFORCEMENT

This policy will be enforced by the Town's Finance Director. This Debt Management Policy shall be reviewed by the Finance Director, Town Manager and the Finance Committee at least annually.

IMPLEMENTATION

The Town's Debt Policy shall be implemented by the Finance Director when developing comprehensive debt management guidelines that provides for the following:

- Full and timely payment of principal and interest on all outstanding debt;
- That debt be incurred only for those purposes as provided by State statute;
- Capital improvements should be developed, approved and financed in accordance with the Town Charter and Ordinances and the capital improvement budgeting process;
- The payment of debt shall be secured by the faith~~,~~ and credit ~~and taxing power~~ of the Town, in the case of General Obligation~~,~~; and ~~the~~[1] by the pledge of ~~specified, limited~~ only specific revenues in the case of Revenue Bonds. The Town shall not pledge any Town revenues to ~~its~~ a non-recourse conduit bond financing~~s~~. Furthermore, the Town has no moral obligation to repay bondholders of conduit financings issued under its authority.
- Principal and interest retirement schedules shall be structured to: (1) achieve a low borrowing cost for the Town, (2) accommodate the debt service payments of existing debt and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate ~~that debt is being retired~~ the taxpayer' willingness to repay its obligations at an aggressive pace.

- Debt incurred shall generally be limited to obligations with serial and term maturities (pursuant to State statute) but may be sold in the form of ~~capital appreciation bonds~~CABs or other structures, if circumstances warrant;
- The ~~average~~ life of the debt incurred should be no greater than ~~the~~ 120% of the projected ~~average~~ useful life of the project or assets being financed;
- The Town shall select a method of sale that will maximize the financial benefit to the Town. Such sales can be competitive or negotiated, depending upon the project(s) and market conditions. All methods of sale shall first be subject to Town Council approval.
- Underwriters for negotiated sales should be selected in accordance with the Town's Purchasing Ordinance and the Debt Management Policies and Guidelines developed by the Town. The selection should maximize the quality of services received while minimizing the cost to the Town. Any additions to the underwriting teams shall be subject to Town Council approval. Selected underwriters shall adhere to the ~~Municipal Securities Rule-making Board (~~MSRB~~)~~ and the Securities and Exchange Commission ("SEC") rules and regulations;
- The Town shall maintain good communications with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the Town; and
- Every financial report, bond offering document (the "Official Statement") and the Annual Information and Operating Statement ("AIOS") shall follow a policy of full, complete and accurate disclosure of financial conditions and operating results. All reports shall conform to guidelines issued by the Government Finance Officers Association ("GFOA"), ~~Securities and Exchange Commission (~~SEC~~)~~, and the Internal Revenue Service Code (~~IRS~~the "Code") to meet the disclosure needs of rating agencies, the MSRB, investors and taxpayers.

Primary responsibility for making debt-financing recommendations rests with the Finance Director with assistance from finance staff. The responsibilities of Town staff shall be to:

- Consider the need for debt financing and assess progress on the current Capital Improvement Budget and any other program/improvement deemed necessary by the Town Manager;
- To review applicable debt ratios as listed in Appendix 1, to ensure that the Town is staying within ~~the~~ guidelines set forth by this policy;
- Review changes in federal and State legislation, and tax or securities law that affect the Town's ability to issue debt and report such findings to the Town Manager as appropriate;
- Review the provisions of ordinances authorizing issuance of General Obligation bonds of the Town, annually;
- Review the opportunities for refinancing existing debt; and,
- Recommend services by a ~~financial~~ municipal advisor, bond counsel, paying agents and other debt financing service providers, when appropriate.

In developing financing recommendations, the Town staff should consider:

- Options for interim financing including short-term and inter-fund borrowing, taking into consideration federal and State reimbursements;
- Effects of proposed actions on the tax rate changes and/or user charges;
- Trends in bond market structures;
- Trends in interest rates; and,
- Other factors as deemed appropriate.

Debt is intended to be structured to match projected cash flows, moderate the impact on future property tax levies, and maintain a relatively rapid repayment of principal. The Town will endeavor to repay as much of the initial principal amount within ten years as practicable.

The Town shall use an objective analytical approach to determine whether it desires to issue new General Obligation bonds. Generally, this process will compare ratios of key financial and economic data. The goal will be for the Town to maintain or improve its existing credit rating.

These ratios should include, at a minimum:

- Debt per capita,
- Debt as a percent of Statutory debt limit,
- Debt as a percent of State equalized valuation,
- Annual tax-supported debt service payments as a percent of annual budgeted governmental expenditures, and;
- Debt service payments as a percentage of the level of overlapping net debt of all local taxing jurisdictions. A set of ratios to be adopted are listed in Appendix 1, attached.

The decision on whether or not to issue new General Obligation bonds should be based, in part, on (a) costs versus benefits, (b) the current conditions of the bond market~~,~~ and (c) the Town's ability to issue new General Obligation bonds as determined by the aforementioned benchmarks.

USE OF DEBT FINANCING

The Town shall assess all financial alternatives for funding capital improvements prior to issuing debt. "Pay-as-you-go" financing should be considered before issuing any debt. Pay-as-you-go financing may include: ~~-~~intergovernmental grants from federal, State, and other sources~~,~~; current revenues and fund balances~~;~~; private sector contributions; public/private partnership or leases. Debt financing is generally not considered appropriate for any recurring purpose such as current operating and maintenance expenditures. Once the Town determines that pay-as-you-go is not a feasible financing option, the Town may use short-term or long-term debt to finance capital projects or acquire assets.

A. Short-Term Debt and Interim Financing

Short-term obligations may be issued to finance projects or portions of projects for which the Town may issue long-term debt (i.e., it could be used to provide interim financing that eventually would be refunded with the proceeds of long-term obligations). Short-term obligations may be backed with a tax or revenue pledge~~,~~; or a pledge of other available resources. *Lines of and Letters of Credit* should not exceed one (1) year and, pursuant to the SEC, *Commercial Paper* maturities ~~should~~ may not exceed two hundred and seventy days (270 days).

Line and Letter of Credit - Where their use is judged to be prudent and advantageous to the Town, the Finance Director and Town Manager have the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring Lines of or Letters of Credit that shall provide the Town with access to credit under terms and conditions as specified in such agreements. Any agreements with financial institutions for the acquisition of Lines of or Letters of Credit shall be approved by the Town Council. Lines of and Letters of Credit entered into by the Town shall be in support of projects contained in the approved (CIP) budget.

Commercial Paper

The Town may choose to issue Commercial Paper as a source of interim financing for projects contained in the Town's approved CIP plan only after the Finance Director determines that such a financing represents the ~~least~~ least-cost interim financing option for the Town. Furthermore, Commercial Paper shall not be issued for Town capital programs unless it is of sufficient economic size as determined by the Town Manager and approved the Town Council.

Lease/Purchase Arrangement
The Town may choose to enter into a capital lease-purchase arrangement as a source of financing for projects contained in the Town's approved CIP plan after the Finance Director determines that such a financing represents the least cost financing option for the Town. All lease/purchase arrangements shall be obtained through a request for proposal process in accordance with the Town's Purchasing Ordinance, with the bid going to the vendor whose proposal is most advantageous to the Town. Lease/purchase arrangements should not exceed five (5) years unless approved, in advance, by the Town Manager but shall never exceed ten (10) years or the life of the asset, whichever is less.

B. Long-Term Debt (Bonds) – Maturity over one (1) year

General Obligation Bonds
Long-term General Obligation or Revenue Bonds shall be issued to finance significant capital improvements or assets for purposes set forth by voters in bond elections and the ~~(~~CIP~~)~~. Additionally, Revenue Bonds may be issued in response to public need without voter authorization. ~~Long-term debt may be incurred for only those purposes provided by State statute.~~ Long-term debt will be incurred in keeping with MRSA Title 30-A, Section 5772 - *A municipality may issue general obligation securities for funding or refunding all or part of its debt and for any purpose for which it may raise money.*

The Town will use debt financing only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users~~,~~; in the case of a capital need emergency~~,~~; for one-time capital improvement projects; and for equipment purchases~~,~~ under the following circumstances:

- The project is included in the Town's capital improvement budget and is in conformance with the Town's CIP;
- Disasters requiring emergency funding;
- The project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the Town;
- The project's useful life or the projected service life of the equipment will be ~~greater~~ at least 120% of the useful life ~~than~~ or equal to the term of the financing;
- There are revenues sufficient to service the debt, whether from future property taxes, user fees, or other specified and reserved resources, debt supported by user fees, special assessments or special charges are preferred and for the term thereon,
- The debt should be used primarily to finance only capital projects that have a relatively long life (i.e., typically ten (10) years or longer).
- For long-term borrowing, the equipment or project is an item that is purchased and/or constructed infrequently, has an expected useful life of at least five (5) years, and costs in excess of $100,000; and
- For short-term borrowing or lease/purchases, the equipment is an item that is purchased infrequently, has an expected useful life of at least five (5) years, and costs less than $100,000.

Special Assessment Bonds - Tax Increment Financing Districts
The Town shall maintain a watchful attitude over the issuance of special assessment bonds for the benefit of district improvements. The Town's share of any benefit district project may not exceed more than 95% of any proposed costs related to a benefit district. To the extent possible, the developer shall be required to deposit 25% of the costs allocated to the benefit district prior to authorization. In most cases, the debt will have a maximum term of ten (10) years, however, a longer term may be allowed provided it does not exceed the life of the improvements included in the benefit district or State statute

(i.e., currently twenty (20) years). The benefit district will be assigned costs such as administration, engineering, financing and legal associated with the formation of the district and issuance of any debt.

Overlapping Debt with Intergovernmental Agencies
The Town will typically not use its debt capacity for projects by entities or other special purpose units of government that have the ability to issue tax-exempt debt. The Town will, annually, determine its proportional share of its portion of outstanding debt of the following agencies: ~~–~~Portland Water District, ecomaine, ~~Portland Water District,~~ Saco-Biddeford Water District, Scarborough Sanitary District, Scarborough Public Library and Cumberland County.

The Town may also enter into arrangements with other governmental entities where a portion of the project costs will be reimbursed by the other government. An agreement as to how the project costs will be allocated and reimbursements made must be approved by the governing bodies.

STRUCTURE AND TERM OF DEBT FINANCING

Structure of Debt Obligations - The Town normally issues bonds pursuant to State statute with a final maturity of no greater than thirty (30) years ~~or less~~ for General Obligation and special assessment bonds. Lease/purchase arrangements should typically be for a period of not more than five (5) years~~, typically~~. The ~~normal~~ typical structure of General Obligation bonds will result in even principal payments or even principal payments and interest payments, per project, over the term of the debt. ~~There shall be no "balloon" bond repayment schedules which consist of low annual payments and one large payment of the balance due at the end of the term.~~ [too restrictive; Bath, Westbrook and Yarmouth are examples where this was a prudent structure] There shall always be at least interest paid in the first fiscal year after a bond ~~sale~~closing. In cases where related revenues may not occur for several years, it may be desirable to capitalize the interest by increasing the size of the issue and deferring the principal payments so that only interest is paid on the debt for the first few years until the project is "placed in service" but, pursuant to State statute, for a period of not greater than five (5) years from the date of issue.

Call Provisions - Call provisions terms, and penalties for bond issues if any, will be evaluated based upon then current market conditions.

Competitive Sale - Town debt will typically be issued ~~typically~~ through a competitive bidding process. All ~~bond prices~~ rates shall be computed based on True Interest Cost ("TIC") providing other bidding requirements are satisfied. TIC is defined as the rate at which, as of the date of the bonds, discounts semi-annually, all future payments on account of principal and interest on the bonds to the price bid, not including interest accrued to the date of delivery of the bonds (see appendix 2). Exceptions to this would be bonds issued in part through a grant that ties the remaining monies to a loan (~~i.e.,~~e.g., USDA Rural Development) due to the small size of the loan making a competitive bid process less than cost effective or other special circumstance~~ such as Advance Refundings~~.

Negotiated Sale - When certain conditions favorable for a competitive sale do not exist ~~and~~ or when a negotiated sale will provide significant benefits to the Town that would not be achieved through a competitive sale, the Town may elect to sell its debt obligations through a private or negotiated sale, upon approval by the Town Council. Such determination may be made on an issue-by-issue basis~~,~~; for a series of issues~~,~~; or for part or all of a specific financing program. The Town Council may provide for the sale of Town debt by negotiating the terms and conditions of the sale, including prices, interest rates, credit facilities, underwriter, underwriting or remarketing fee~~,~~ and commissions. Examples of such sales include, but are not limited to the following:

- Variable rate long-term obligations that the Town may choose to issue that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities consistent with securities and tax law, State law and covenants of pre-existing bonds, ~~and~~ each depending on market conditions;
- A debt issue so small or large that the number of potential bidders would be too limited to provide the Town with truly competitive bids~~; and~~.
- ~~A debt issue requiring the ability to react quickly to sudden changes in interest rates (ex., Advance Refunding bonds in a volatile or favorable market).~~

Voter Approved Bonds - Per section 907 of the Town Charter: "The Town Council shall submit orders or resolves authorizing the issuance of General Obligation securities of the Town, or the appropriation and expenditure of funds derived solely from municipal revenue sources, or a combination of both, in a principal amount greater than $400,000 for a single capital improvement or item of capital equipment to voter referendum subject to the section 907.1.1 of the Charter as follows: The provisions of this section shall not be applicable to any order or resolve authorizing (i) the refunding of any securities or other obligation of the Town; (ii) the issuance of General Obligation securities, or other direct or indirect obligations, of the Town for streets, sidewalks, or storm or sanitary sewers or other public utilities; or (iii) any construction or financing of improvements or equipment needed as a result of fire, flood, disaster, or other declared emergency. For purposes of this section, the Town Council may by vote of five (5) of its members adopt emergency orders or resolves authorizing construction or financing of improvements or equipment needed as a result of fire, flood, disaster or other emergency and such orders or resolves shall contain a section in which the emergency is set forth and defined; provided, however, that the declaration of such emergency by the Town Council shall be conclusive." (Amended November 5, 2002; effective November 20, 2002).

DEBT ADMINISTRATION AND FINANCING

State Statutory Debt Limits and Exclusions - In accordance with Title 30-A, Section 5702 of the Maine Revised Statutes, as amended, "No municipality shall incur debt which would cause its total debt outstanding at any time, exclusive of debt incurred for school purposes, for storm or sanitary sewer purposes, for energy facility purposes or for municipal airport purposes to exceed 7½% of its last full state valuation, or any lower percentage or amount that a municipality may set. A municipality may incur debt for school purposes to an amount outstanding at any time not exceeding 10% of its last full state valuation, or any lower percentage or amount that a municipality may set, for storm and sewer purposes to an amount outstanding at any time not exceeding 7½% of its last full state valuation, or any lower percentage or amount that a municipality may set, and for municipal airport and special district purposes to an amount outstanding at any time not exceeding 3% of its last full state valuation, or any lower percentage or amount that a municipality may set; provided, however, that in no event shall any municipality incur debt which would cause its total debt outstanding at any time to exceed 15% of its last full state valuation, or any lower percentage or amount that a municipality may set."

Title 30-A, Section 5703 of the Maine Revised Statutes, as amended, provides that the limitations on municipal debt contained in Section 5702 do not apply "…to any funds received in trust by any municipality, any loan which has been funded or refunded, notes issued in anticipation of federal or state aid or revenue sharing money, tax anticipation loans, notes maturing in the current municipal year, indebtedness of entities other than municipalities, indebtedness of any municipality to the Maine School Building Authority, debt issued under Chapter 235 and Title 10, ~~chapter~~ Chapter 110, ~~subchapter~~ Subchapter IV, [my bad] obligations payable from revenues of the current municipal year or from other revenues previously appropriated by or committed to the municipality, and the state reimbursable portion of school debt." Please see the Bibliography for the State Statute relating to Municipal Borrowings (Title 30-A, Chapter 223, Maine Revised Statutes, as amended, Municipal Finances, Subchapter 3, Municipal Debt).

Town of Scarborough Local Debt Limits - In accordance with Town Council Order No. 12-37, dated March 21, 2012, the Town of Scarborough shall not incur debt, which would cause its total debt outstanding at any time, for the following to be exceeded for

- School purposes: 5%
- Storm or Sanitary: 4%
- Airport, water & special districts: 1.50%
- Other purposes: 4%, of
- ~~Scarborough's last full State valuation.~~ In no event shall Scarborough incur debt which would cause its total debt outstanding at any time to exceed 8.50% of its last ~~full~~ equalized State valuation.

Capital Improvement Budget

A Multi-Year Capital Improvement Budget shall be prepared and submitted to the Town Council annually. The budget shall provide a list of projects and the means of financing. The budget should cover a five-year period of time. The projects included in the budget should be part of the Town's CIP. Projects must be in either the Capital Improvement Budget or CIP to be authorized for bonding. Major construction projects, which are required to go to voter referendum, shall also be included in the multi-year Capital Improvement Budget.

Bond Fund

Generally, payment of General Obligation bonds and special assessment bonds shall be from the Town's general operating budget. However, in situations where General Obligation bonds are to be paid from user fees, then bond payments should be made from the fund that receives the revenue and be deemed "self- supporting" debt.

Reserve Funds

Adequate operating reserves are important to insure the functions of the Town especially during economic downturns. The Town desires to build a contingency reserve in the General Fund of no less than $1,000,000. Over the next ten (10) years of the date of this policy adoption, the Town will initiate a Committed Fund Balance for working capital sufficient to finance 90 days of operations (3 months) but not to exceed four (4) months of operations. These funds will help to pay for capital and operating costs during revenue-~~short~~ deficient months.

Equipment Reserve Fund

An Equipment Reserve Fund to be set up to fund future capital equipment and will be financed sufficiently to ensure that adequate funds are available to purchase replacement equipment on a timely basis without debt financing. Determination of the amount needed to adequately fund this equipment reserve fund will prepared by the Finance Director and the Town Manager and approved by the Finance Committee. Complete financing of the Capital Equipment Reserve Fund will be by accomplished within six (6) years of the date of adoption of this policy.

Finance Department

The Finance Department is responsible for the Preliminary and final Official Statements. The Town Clerk is responsible for collecting and maintaining all supporting documentation such as minutes of the Town Council meetings and relevant resolutions and ordinances. The Finance Department ~~department~~ will also be responsible for following applicable secondary-market disclosure requirements.

Investments
~~The bond~~Bond proceeds will be invested in accordance with the Town's ~~investment~~ Investment ~~policy~~ Policy and applicable federal and State laws. Adherence to the guidelines on arbitrage, if any, shall be followed~~,~~ which, at times, may require that the investment yield be restricted or monitored to adhere with ~~compliance issues of rebate exceptions~~the Code. In most cases, the investment will be selected to maximize interest with the assumption that the Town will meet the ~~IRS~~ Code's spend-down requirements that allows for ~~an~~ various exemptions from arbitrage calculations.

Bond Counsel
The Town will utilize ~~external~~ nationally recognized Bond Counsel for all debt issues. All debt issued by the Town will include a written opinion by Bond Counsel affirming that the Town is authorized to issue the debt, stating that the Town has met all federal and State constitutional and statutory requirements necessary for issuance, and determining the debt's federal and state income tax status. ~~The Town's~~ Bond Counsel will be selected on a competitive basis.

Underwriter's Counsel
Town payments for Underwriters Counsel will be authorized for negotiated sales by the Finance Director on a case-by-case basis depending on the nature and complexity of the transaction and the needs expressed by the Underwriters. Underwriter Counsel will be selected through a process consistent with such undertaking.

~~Financial~~ Municipal Advisor
The Town may utilize an external ~~Financial~~ Municipal Advisor. The utilization of the ~~Financial~~ Municipal Advisor for debt issuance will be at the discretion of the Finance Director on a case-by-case basis. For each Town bond sale, the ~~Financial~~ Municipal Advisor will provide the Town with information on structure, credit analysis, pricing and ~~underwriting~~ fees for comparable sales by other issuers. The ~~Financial~~ Municipal will be selected on a competitive basis for a period not to exceed five (5) years, renewable following the competitive basis if selected.

~~Temporary~~ Bond Anticipation or Revenue Anticipation Notes
Use of short-term borrowing, such as Bond Anticipation or Revenue Anticipation ("Temporary Notes") ~~temporary notes, will~~ may be undertaken until the final cost of the project is known or can be accurately projected. In some cases, projects ~~might~~ may be funded with internal funds that will be reimbursed with bond proceeds at a future date should appropriate Declaration(s) of Official Intent be enacted no longer than 60 days after the first disbursement of the temporary funds.

Credit Enhancements – Bond Insurance
Credit enhancement (letters of credit, bond insurance, etc.) may be used if the costs of such enhancements will reduce the debt service payments on, or marketability of, the bonds. ~~or if such an enhancement is necessary to market the bonds.~~

Competitive Sale of Debt
The Town, as a matter of policy, should seek to issue its ~~temporary~~ Temporary ~~notes~~ Notes and General Obligation bonds through ~~a~~ competitive bid sales. In such instances where the Town, through a competitive bidding for its bonds, deems the bids received as unsatisfactory or does not receive bids, it may, at the election of the Town Manager, enter into negotiation for sale of the bonds. In cases where the circumstances of the bond issuance are complex or out of the ordinary, a negotiated sale may be recommended if allowed by State statute.

REFUNDING OF DEBT

Refunding involves the issuance of new debt whose proceeds are used to repay previously issued (prior but still outstanding) debt. The new debt proceeds ~~may be~~ must be used to repay such debt within ninety (90) days (a "Current Refunding")~~; or the new debt proceeds may be placed with an escrow agent and invested until they are used to pay principal and interest on the prior debt at a future time (an Advanced Refunding)~~.

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit from the refunding; the refunding is needed in order to modernize covenants essential to operations and management; to restructure the payment of existing debt. Town staff and the ~~Financial~~ Municipal Advisor shall monitor the ~~bond~~ markets for opportunities to obtain interest savings by refunding outstanding debt. As a general rule, the Town will look for a present value (PV) savings of a refunding, to provide, ~~in excess of~~ at least five percent (5%).

Refunding issues that produce a net PV savings of less than three percent (3%) percent will be considered on a case-by-case basis~~. Refunding issues~~; and with negative savings ~~will only~~ may be considered if there is a compelling public policy objective.

Current Refundings:

1. Requires that the refunding escrow may not exceed 90 days;
2. Unless otherwise justified, an current refunding transaction shall require a PV savings of at least three percent (3%) of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses;
3. Refunded maturities shall not extend beyond the final refunded maturity; and,
4. Surplus monies in debt service funds or debt service reserve funds associated with the refunded bond issue may be used as a source of funds for the refunding issue.

~~*Advanced Refundings:*~~

~~Advance refundings result in defeasance of prior debt. Defeasance of debt can be either legal or in-substance. A legal defeasance occurs when debt is legally satisfied based on certain provisions in the debt instrument even though the debt is not actually paid. An in-substance defeasance occurs when debt is considered defeased for accounting and financial reporting purposes, as discussed below, even though a legal defeasance has not occurred. When debt is defeased, it is no longer reported as a liability on the balance sheet; only the new debt, if any, is reported as a liability.~~

~~Debt is considered defeased in substance for accounting and financial reporting purposes if the debtor irrevocably places cash or other assets with an escrow agent in a trust to be used solely for satisfying scheduled payments of interest, principal and call premium, if any, of the defeased debt, and the possibility that the debtor will be required to make future payments on that debt is remote. The trust is restricted to owning only monetary assets that are essentially risk-free as to the amount, timing and collection of interest and principal.~~

~~Advance Refundings:~~

1. ~~Requires the refunding escrow duration to exceed 90 days;~~
2. ~~IRS guidelines require that governmental bonds may not be Advance Refunded with tax-exempt bonds more than once. Consequently, the Town Manager and Finance Director will carefully weigh the benefits and opportunity costs of such an action;~~
3. ~~Unless otherwise justified, an advance refunding transaction shall require a PV savings of at least three percent (3%) of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses;~~

4. ~~Refunded maturities shall not extend beyond the final refunded maturity; and~~
5. ~~Surplus monies in debt service funds or debt service reserve funds association with the refunded bond issue may be used as a source of funds for the refunding issue.~~

CONDUIT FINANCINGS

A Conduit Financing is ~~a financing~~ an arrangement involving a governmental or other qualified agency using its name in an issuance of fixed-income securities for a non-profit organization's ~~large~~ capital project(s). The Town may sponsor conduit financings or qualified Industrial Revenue Bonds for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the Town's overall service and policy objectives as determined by the Town Council.

All conduit financings must be non-recourse and insulate the Town completely from any credit risk or exposure. They must first be approved by the Town Manager before being submitted to the Town Council for consideration and an TEFRA Hearing is held. The Town Manager should review the selection of the underwriter, bond counsel and underwriter, require compliance with disclosure and arbitrage requirements, and establish minimum credit ratings acceptable for the conduit debt. Credit enhancement, such as Bond ~~insurance~~ or Direct-Pay Letters of Credit may be required for certain issues.

ARBITRAGE LIABILITY MANAGEMENT

Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the Town will not issue obligations except for identifiable projects with good prospects of timely initiation. Temporary ~~notes~~ Notes and subsequent General Obligation bonds will be issued timely so that debt proceeds will be spent quickly.

It is the Town's policy to minimize the cost of arbitrage rebate and yield restrictions while strictly complying with the law. To further this goal:

- The Town shall maintain investment allocations by source of funds and record pro-rata interest income of any commingled bond funds monthly;
- Project cash flows shall be carefully planned to insure the applicability of rebate exceptions, if feasible;
- Rebate computations, if applicable, ~~should~~ must be performed every five (5) years;
- It is the Town's policy to segregate current arbitrage earnings for future payment or credit, and to enter the amount as a liability on ~~the~~ its books;
- The Town shall report to the IRS, as required by the code, and ~~shall~~ make rebate payments, if any, as required by federal law; and
- The Town shall structure its financings in such a way as to reduce or eliminate arbitrage rebate liability, wherever feasible.

Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the Town will engage qualified outside consultants to calculate potential arbitrage liability.

LEGAL AND REGULATORY REQUIREMENTS

The Town Manager and Finance Director shall consult and jointly recommend appointment of the Town's ~~bond~~ Bond ~~counsel~~ Council to the Town Council.

The Town's Bond Counsel shall:

- Coordinate activities with the Finance Director to ensure that all securities are issued in the most efficient and cost-effective manner possible;
- Coordinate activities with the Finance Director to ensure that in the opinion of the Town's Bond Counsel, all securities are issued in compliance with the applicable Town, State and federal statutes, regulations, charter and ordinances; and,
- Prepare documents and opinions relating to the issuance of debt and have extensive experience in public finance, securities regulation and tax issues.

CREDIT RATINGS

Rating Agency Relationships

It is the responsibility of the Finance Director to maintain relationships with the rating agencies that assign ratings to the Town's debt. This effort includes providing periodic updates on the Town's financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

Use of Rating Agencies

The Town will typically obtain ~~a~~ rating(s) from Moody's Investors Service and Standard & Poor's Global~~Rating Agency~~. The Finance Director will recommend whether or not ~~any~~ additional ratings should be requested on a particular financing and which, if any, ~~of the~~ major rating agencies should be asked to provide such a rating.

Rating Agency Presentations

Full disclosure of operations and open lines of communication shall be made to rating agencies used by the Town. The Town Manager, together with the Finance Director and ~~Financial~~ Municipal Advisor, shall prepare the necessary materials for presentation to the rating agencies.

Financial Disclosure

The Town is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, Town departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information and operating data. The Town is committed to meeting the SEC's Rule 15c2-12, secondary disclosure requirements, on a timely and comprehensive basis.

Official Statements accompanying debt issues, Comprehensive Annual Financial Reports, (CAFR) and continuous disclosure statements will meet (at a minimum), the standards articulated by the Government Accounting Standards Board (GASB), Government Finance Officers Association (GFOA) and Generally Accepted Accounting Principles (GAAP). The Finance Director shall be responsible for continuing disclosure to EMMA, MSRB ~~and~~ or the SEC and for maintaining compliance with disclosure standards promulgated by State and national regulatory bodies.

What is Continuing Disclosure?

Per the MSRB, "*Continuing Disclosure consists of important information about a municipal bond that arises after the initial issuance of the bond. This information generally would reflect the financial or operating condition of the issuer as it changes over time, as well as specific events occurring after issuance that can have an impact on the ability of issuer to pay amounts owing on the bond, the value of the bond if it is bought or sold prior to its maturity, the timing of repayment of principal, and other key features of the bond. Each bond will have its own unique set of continuing disclosures, and not all types of continuing disclosures will apply to every bond.*

~~The MSRB's Electronic Municipal Market Access (~~EMMA~~)~~ website publicly displays continuing disclosures that are provided either as required disclosures by municipal issuers and other parties known as "obligated persons" or "obligors" under contractual agreements entered into under Rule 15c2-12 of the ~~Securities Exchange Act of 1934 (Exchange Act~~SEC~~)~~ ~~-~~or as voluntary disclosures by issuers and obligated persons without a contractual obligation to do so. As noted above, these disclosures generally are divided between submissions made to update financial or operating information about the issuer and notices that disclose the occurrence of specific events that may have an impact on the bonds. These disclosures are described below." For more information, please refer to the following website:

http://www.emma.msrb.org/EducationCenter/UnderstandingContinuingDisclosure.aspx.

POST ISSUANCE REPORTING AND COMPLIANCE

The Town ~~of Scarborough~~ issues tax-exempt obligations from time to time to finance acquisition of capital assets or various capital improvements. As an issuer of tax-exempt bonds or capital leases, the Town is required, by ~~the Internal Revenue Code of 1986, as amended (~~the Code~~)~~, and various regulations promulgated under the Treasury Regulations to take certain actions subsequent to the issuance of such bonds to ensure the continuing tax-exempt status of ~~the~~ bonds. The Town recognizes that compliance with applicable provisions of the Code and Treasury Regulations is an on-going process, necessary during the entire term of the obligation(s), and is an integral component of the Town's overall debt management. Accordingly, the analysis of those facts and implementation will require on-going monitoring and consultation with Bond Counsel.

Components.
The Finance Director and Town Manager approve the terms and structure of "Obligations" executed by the Town. ~~-~~Such Obligations are issued in accordance with State Statutes,~~-~~the Town Charter and Ordinances. Specific post-issuance compliance procedures address the relevant areas described below.

General [2]*Procedures.*
The following guidelines will be used to monitor post-issuance compliance requirements:

1. The Finance Director, will be the person primarily responsible for ensuring that the Town successfully carries out its post-issuance compliance requirements, as required. The Finance Director shall also be assisted by the following entities:

   a. Bond Counsel
   b. ~~Financial~~ Municipal Advisor
   c. Paying Agent
   d. Rebate Specialist

   The Finance Director shall be responsible for assigning post-issuance compliance responsibilities to other staff, Bond Counsel, ~~Financial~~ Municipal Advisor, Paying Agent and Rebate Specialist, if any, and utilize such other professional service organizations as are necessary to ensure compliance with post-issuance compliance requirements.

2. The following responsibilities by the Finance Director shall verify that the following post-issuance compliance actions have been taken on behalf of the Town with respect to each issue of tax-exempt obligations:

   a. Ensure that a full and complete record for the principal documents of each the issue has been completed by the Bond Counsel and ~~Financial~~ Municipal Advisor;

b. Ensure that the Internal Revenue Service (IRS), that all IRS forms 8038 are created, properly and promptly filed with the IRS within the time limits imposed by Section 149(e) of the Code by Bond Counsel;
c. Account for the allocation of the proceeds of the tax-exempt bonds to expenditures as required by the Code;
d. Coordinate receipt and retention of relevant books and records with respect to the investment and expenditures of the issue proceeds from Town and ~~school~~ School Department staff;
e. Identify proceeds of tax-exempt obligations, in consultation with Bond Counsel and ~~Financial~~ Municipal Advisor, that are yield-restricted and monitor the investments of any yield-restricted funds to ensure that the yield on such investments does not exceed the bond yield to which such investments are restricted;
f. Determine, in consultation with Bond Counsel and ~~Financial~~ Municipal Advisor, whether the Town is subject to the rebate requirements of Section 148(f) of the Code and related Treasury Regulations with respect to each issue of the Town. The Finance Director shall contact a Rebate Specialist, ~~as~~ if required, prior to the fifth anniversary of the date of issuance of each issue and each fifth anniversary thereafter until the obligation has matured to arrange for calculation of the rebate requirements, as needed, to be paid by the Town. If any rebate is required to be paid to the IRS, the Finance Director will file Form 8038-T, along with the required payment.
g. Shall monitor the use of all financed facilities in order to determine whether private business uses of financed facilities have exceeded the *de minimis* limits set forth in Section 141(b) of the Code (generally no greater than 10% of issue proceeds) that provide special legal entitlements to non-governmental persons.

3. The Finance Director shall collect and retain the following records with respect to each issue of tax-exempt obligations and with respect to the facilities of such obligations:

   a. Audited financial statements of the Town;
   b. Appraisals, surveys, feasibility studies, if any, with respect to the facilities to be financed with issue proceeds;
   c. Trustee and/or Paying Agent statements;
   d. Records of all investments and the gains (or losses) from such investments;
   e. Expenditures reimbursed with the issue proceeds;
   f. Allocation of issue proceeds to expenditures (including cost of issuance) and the dates and amounts of each expenditure (including requisitions, draw down schedules, invoices, bills and cancelled checks as related to each expenditure);
   g. Construction or renovation contracts for financed facilities or projects;
   h. Maintain an asset list of all tax-exempt financed depreciable property and sales of tax-exempt financed assets;
   i. Arbitrage rebate reports and records of rebate and yield reduction payments, if any;
   j. Resolutions or other actions, if any, taken by the Town Council subsequent to the date of issue of the obligations;
   k. Formal elections taken with respect to the bonds; and
   l. Relevant correspondence relating to such bonds.

   The records collected by the Town shall be stored in any format deemed appropriate by the Town and shall be retained for a period equal to the life of the tax-exempt obligations, including the life of any obligations issued to refund obligations, plus three (3) years.

4 In addition to its post-issuance compliance requirements under the Code and Treasury Regulations, the Town has agreed to provide Continuing Disclosure, such as annual financial information and material event notices. The continuing disclosure obligations are governed by the Continuing Disclosure Documents and by the terms of the SEC's Rule 15c2-12 ~~under the Securities and Exchange Act of 1934~~, as amended, and officially interpreted from time-to-time and incorporated as reference herein.

BIBLIOGRAPHY

Maine Revised Statutes Title 30-A Chapter 223, Subchapter 3 Municipal Debt

C:\My Documents\OneTouch Docs\State requirements on Municipal Debt.pdf

Maine Revised Statutes Title 30-A Chapter 223, Subchapter 6 Municipal Borrowings

C:\My Documents\OneTouch Docs\State Municipal Borrowing.pdf

APPENDIX 1. RATIOS

Ratios will be calculated and reported to the Finance Committee within the first quarter of each calendar year.

~~*Debt Per Capita*~~
~~Total bonded debt of a municipality, divided by its most recent U.S. Census Bureau population data. A more refined version, called *net per capita debt*, divides the total bonded debt less applicable sinking funds by the total population.~~

Annual Debt Service as a Percentage of Government Budgeted Operating ~~Expenditures~~ Revenues
Debt service includes principal and interest payments on tax-backed general municipal debt obligations borrowed for capital project expenditures. Debt service payments are examined relative to general operating ~~expenditures~~ revenues including special revenue funds and excluding truly "self-supporting" debt or State Educational Subsidy.

As a fixed cost, debt service can reduce expenditure flexibility. As a fixed cost, debt service can reduce expenditure flexibility and can be a major part of a government's fixed costs. ~~If debt service, as a percent of operating expenditure, is below 10-12 percent, the credit industry views this situation favorably. If it is below 8 percent or exceeds 15 percent, potential risk exists.~~

Policy statement: Debt Service as a Percentage of Annual Revenues: Debt service will be managed with an intent to not exceed 15% of annual revenues and with a goal of keeping this percentage below 12%.

~~*Debt as a Percentage of Statutory Debt Limit*~~
~~This is the maximum amount that a government can borrow. The term especially applies to municipalities; rising above the statutory debt limit may trigger a reduction in a municipality's credit rating.~~

Debt as a Percentage of State Equalized Value - This ratio is calculated by dividing the amount of ~~outstanding debt (either~~ direct net debt ~~or overall net debt)~~ by the total equalized State ~~Equalized~~ Valuation of the municipality.

Comparing debt to the appraised value provides an indication of the burden that debt places on all property tax owners with our jurisdiction.

Policy statement: Total Debt as a Percentage of equalized State ~~Equalized~~ Valuation: Total debt will be managed to prevent the total debt from exceeding 8.5% of the most recent calculation of state equalized valuation with a commitment to keep total debt below 3% of the most recently calculated full state valuation.

Debt Per Capita
Total bonded debt of a municipality, divided by its most recent U.S. Census Bureau population data. A more refined version, called net per capita debt, divides the total bonded debt less applicable sinking funds by the total population.[No longer part of the matrix. See Portland memo]

Policy statement: Debt per capita will be assessed every 5 years, changing to every 3 years after 2020, using per capita debt as a percentage of per capita income with a goal of not having this ratio exceed 15%. On an annual basis, debt per capita will be reported as part of the annual review of fiscal health indicators. New debt issuance may be discouraged if the new debt will result in debt per capita exceeding 115%, adjusted for inflation, of base year FY18.

Per Capita Debt as a Percentage of Per Capita Income

Policy statement: Per Capita Debt as a Percentage of per Capita Income: Per capita General Obligation debt may be managed with the intent to not exceed 15% of the most recent computation by the US Census Bureau or the American Community Survey of Scarborough's per capita annual personal income. In 2015 this value was $40,139 which would limit debt per capita to $6,021.

APPENDIX 2. INDUSTRY STANDARD DEFINITIONS OF NIC AND TIC

NET INTEREST COST (or NIC) is a common method of computing the interest expense to the issuer of bonds, which usually serves as the basis of award in a competitive sale. NIC takes into account any premium and discount paid on the issue. NIC represents the dollar amount of coupon interest payable over the life of a serial issue, without taking into account the time value of money (as would be done in other calculation methods, such as the "true interest cost" method). While the term "net interest cost" actually refers to the dollar amount of the issuer's interest cost, it is also used to refer to the overall rate of interest to be paid by the issuer over the life of the bonds. The formula for calculating the NIC rate is:
Total Coupon Interest Payments + Discount (or – Premium)
Bond Years (1)

TRUE INTEREST COST (or TIC) is also known as "Canadian Interest Cost". Under this method of computing the borrowing issuer's cost, interest cost is defined as the rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue securities. TIC computations produce a figure slightly different from the net interest cost (NIC) method since TIC considers the time value of money while NIC does not."

Source: *Glossary of Municipal Securities Terms*, Municipal Securities Rulemaking Board, 1985.
The TIC bid discourages early year's high coupon or later year's deep discount bidding, and is most compatible with compliance with the issuer's concern with present value. Furthermore, this is

currently the most commonly used method for bidding on bond issues.

The time value of money or "Present Value" undertakes computations that are used to determine whether or not a particular investment with a specified future cash flow is a good investment. This is based upon the premise that one dollar paid today is worth more than a dollar paid in future years. Present Value includes evaluating any borrowing where money is paid today over the future stream of such borrowing, to demonstrate the projected future expense. As such, an analysis assigns an implicit time value on money by measuring the effect of foregoing the return from potential future investment of money. In summary, the Absolute Savings are the actual numbers of dollars paid over the life of the issue. Present Value is the actual value today of amounts paid over the life of the issue.

NOTE: (1) A Bond Year is $1,000 of debt outstanding for one (1) year. The number of "bond years" in an issue is equal to the product of the number of bonds (One bond equals $1,000 regardless of actual certificate denomination) and the number of years from the dated date (or other stated date) to the stated maturity. The total number of bond years is used in calculating the average life of an issue and its net interest cost. Computations are often made of bond years for each maturity or for each coupon rate, as well as total bond years for an entire issue. Source: *Glossary of Municipal Securities Terms*, Municipal Securities Rulemaking Board, 1985.

SECTION II. INVESTMENT ~~POLICY~~

~~The following Investment Policy is hereby enacted by the Town Council to standardize the investment procedures of the Town of Scarborough's (the Town) available funds.~~

~~INTRODUCTION~~

~~It is the policy of the Town to invest funds in a manner which will provide safety of principal with a market rate of return while meeting the daily cash flow demands of the Town and conforming to all State and local statutes governing the investment of public funds.~~

PURPOSE

The purpose of ~~this~~ the Investment section of the Financial and Fiscal Policy is to establish the investment scope, objectives, delegation of authority, internal controls, standards of prudence, authorized investments and transactions, diversification requirements risk tolerance, safekeeping and custodial procedures, and reporting requirements for the invested funds. The Finance Director shall maintain administrative procedures and internal controls, consistent with this Investment Policy, for the operation of the Town's investment program. Such procedures shall be designed to prevent losses of public funds arising from fraud, employee error and misrepresentation by third parties, or unauthorized actions by employees of the Town.

DEFINITIONS

Collateral
Securities or property pledged by a borrower to secure payment.

Delivery versus Payment
There are two methods of delivery of securities: Delivery vs. Payment ("DVP") and Delivery vs. Receipt (or "Free Delivery"). ~~Delivery vs. payment~~DVP is delivery of securities with an exchange of money for securities. Free Delivery ~~vs. receipt~~ is delivery of securities with an exchange of a signed receipt for the securities.

Diversification
Investment funds divided among a variety of securities offering independent returns.

Federal Deposit Insurance Corporation (FDIC)
An independent agency created by the Congress to maintain stability and public confidence in the nation's financial system by insuring deposits, examining and supervising financial institutions for safety and soundness and consumer protections, and managing receiverships.

Liquidity
Assets converted easily and rapidly into cash without a substantial loss of value.

Pooled Investments
Assets from different funds that are invested together.

Portfolio
A Portfolio is a collection of securities and investments held by investors.

~~*Prudent (Prudence)*~~
~~Investments made with the care, good judgment, skill, careful management and diligence that a prudent person, acting in a similar capacity, and familiar with such matters, would use in the conduct of an enterprise of a comparable nature and with similar aims.~~ [defined below]

Securities
Securities are financial contracts that grant the owner a stake in the asset. Such securities account for most of what is traded in financial markets.

ENFORCEMENT

This policy will be enforced by the Finance Director. This Investment Policy shall be reviewed by the Finance Director, the Town Manager and the Finance Committee at least every three years.

SCOPE

This investment policy applies to all financial assets of the Town accounted for within the Town's Comprehensive Annual Financial Report. These funds include but are not limited to:

- General Fund Operating Funds
- Capital Project Funds
- Special Revenue Funds
- Proprietary Funds
- Permanent Funds (i.e., Cemetery Funds)
- Bond Proceeds
- Enterprise Funds including Tax Increment Financing (TIF) Accounts
- Trust and Agency Funds
- Endowments and Trust Funds
- CDBG Funds
- Escrow or Custodial Accounts

Since many of these funds are pooled for investment purposes, the investment income derived from the pooled investment account will be allocated to the various funds based on their applicable balance.

PRUDENCE

The standard of prudence to be used, for managing the Town's assets, shall be Title 30-A, Section 5718 of the Maine Revised Statutes, as amended, which states:

"All investments made under this subchapter must be made with the judgment and care that persons of prudence, discretion and intelligence, under circumstances then prevailing, exercise in the management of their own affairs, not for speculation but for investment, considering:

- **Safety**: The safety of principal and preservation of capital in the overall portfolio;
- **Maintenance of liquidity**: Maintenance of sufficient liquidity to meet all operating and other cash requirements with which a fund is charged that are reasonably anticipated; and
- **Income**: The income to be derived throughout budgetary and economic cycles, taking into account prudent investment risk constraints and the cash-flow characteristics of the portfolio.

This standard must be applied to the overall investment portfolio of the municipality and not to individual items within a diversified portfolio."

These State standards shall be applied to the Town's overall investment portfolio. Investment Officials acting in accordance with written procedures and this Investment Policy and exercising due diligence, shall be relieved of personal liability for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely manner to the Town Manager.

INVESTMENT OBJECTIVES

The primary objectives, in ~~priority~~ order of priority, of the Town's investment activities shall be:

1. **Prudence:** All participants in the investment process shall seek to act responsibly as custodians of the public trust. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.

2. **Safety**: ~~Safety of principal is the foremost objective of the investment program.~~ Investments shall be made by the Finance Director or designee in a manner that seeks to ensure preservation of capital and investment principal in the overall portfolio. The idea of safety is to mitigate credit risk and interest rate risk. To obtain this objective, the Finance Director shall use basic techniques to diversify the investment portfolio. The Finance Director shall utilize the Federal Deposit Insurance Corporation (FDIC) insured bank deposits and/or obtain collateralized investments that guarantee the Town a perfected security interest in the underlying security. Further, the Finance Director shall invest funds only in highly capitalized and highly rated financial institutions.

3. **Liquidity**: The Town's investment portfolio will remain sufficiently liquid to enable the Town to meet all operating requirements that might be reasonably anticipated through cash flow analysis. The Finance Director will structure the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Since all possible cash demands cannot be anticipated, the portfolio shall maintain assets that can be liquidated without penalty prior to their maturity.

4. **Return on Investment**: The Town's investment portfolio shall be designed with the objective of attaining a market rate of return throughout any budgetary and economic cycles and fluctuations, taking into account prudent investment risk constraints and the cash flow characteristics of the Town's portfolio. This objective shall take into account the constraints of the aforementioned safety and liquidity objectives.

DELEGATION OF AUTHORITY

Authority to manage the Town's investment program is derived from Maine Revised Statutes, as amended, Title 30-A, Sections 5706 through 5719, and the Town's Charter. The Town Council delegates the investment of Town funds to the Finance Director. Upon approval of this document, the Finance Director shall prepare written procedures for the operation of the investment program consistent with this investment policy. Such internal procedures shall include delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director. The Finance Director will manage all investment or cash management transactions undertaken.

From time to time, investments will be managed through external programs, facilities and professionals. To constitute compliance, these must be managed in a manner consistent with this policy.

ETHICS AND CONFLICTS OF INTEREST

The Finance Director and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or could impair their ability to make impartial investment decisions. Elected Officials, Department Administrators, town and school employees and other municipal officials shall disclose to the Finance Director any material financial interest in financial institutions that conduct business with the Town. Further, they shall disclose any personal financial/investment position that could be related to the performance of the Town's investment portfolio.

PROHIBITED INTEREST

No Town employee shall invest Town funds in any instrument or institution in which he/she has a direct or indirect financial interest, neither shall he/she accept any gift, free services or payment of any kind for performing their duties under this policy.

AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS

The Finance Director shall maintain a list of financial institutions authorized to provide investment services. No Public ~~deposit~~ Deposit shall be made except in a qualified public depository as established by State law. An annual review of the financial condition and registrations of qualified bidders will be conducted by the Finance Director.

SAFEKEEPING AND CUSTODY

All security transactions, including collateral for repurchase agreements, entered into by the Town shall be conducted on a ~~"delivery versus payment"~~DVP basis. Securities will be held by a third party custodian or Trust Department designated by the Finance Director and evidenced by safekeeping receipts and meets or exceeds the minimum risk category classification ~~of the Government Accounting Standards Board (~~GASB~~)~~ standards.

MAXIMUM MATURITIES

To the extent possible, the Town will endeavor to match investments with anticipated cash requirements. Unless matched to a specific process/procedure, the Town will not directly invest in securities maturing more than one year from date of purchase. The Town may, however, collateralize its repurchase agreements using longer investments not to exceed five (5) years.

Special Revenue, Trust, Permanent and Endowments funds may be invested in securities exceeding one year if the maturity of such investments are made to coincide as nearly as practicable with the expected use of the funds.

AUTHORIZED INVESTMENTS

The Town of Scarborough is authorized to invest only in the following types of securities:

- Obligations of the United States (U.S.) Government, its agencies and instrumentalities
- Certificates of Deposits and other evidences of deposits at banks
- Prime Commercial Paper
- Repurchase Agreements whose underlying collateral by obligations of the Federal government in amounts equal to the Town's investment.
- Money Market Mutual Funds whose portfolios are secured by obligations of the Federal Government.

DIVERSIFICATION

The Town will diversify its investments by security type and institution. No more than fifty percent (50%) of the Town's total investment portfolio will be invested in a single security type or with single financial institution.

INTERNAL CONTROLS

The Finance Director shall establish a system of internal controls. The internal controls shall be reviewed periodically and completed within the time frame of the annual audit. This review will be conducted by the external auditor during the annual Town Audit. The external auditing firm will be selected by the Council. To provide reasonable assurance that these objectives are met, this review will enhance internal control by assessing compliance with policies and procedures to ensure that the assets of the Town are protected from loss, theft or misuse.

CHECKS AND BALANCES

These guidelines have been established to enhance the integrity and transparency of the Town's internal procedures for investing the Town's funds and accounting for those investments.

The Finance Director and the Deputy Finance Director will be authorized to transact investment business on behalf of the Town. All trade confirmations will be sent directly to the ~~Bookkeeper~~ Accountant where transaction details will be compared and verified against internal records.

ACCOUNTING METHOD

Investments will be carried on the Town books at cost. Interest on securities will be credited to investment income at the time of sale. The values of investment securities will be accrued as of each fiscal year end.

EXTERNAL MANAGEMENT

The Finance Director may contract with a qualified external money management company in order to benefit from portfolio diversification, credit research, full-time portfolio management and economies of scale that are unavailable from Town staff. Any such contract will define and control the risks of the portfolio and establish performance criteria for monitoring and evaluating results.

STATUTORY COMPLIANCE

Nothing in the Town's investment policy shall be read to contravene with State law, Title 30-A, ~~M.R.S.A.~~ Sections 5706 through 5719 of the Maine Revised Statutes, as amended.

BIBLIOGRAPHY

Maine Revised Statutes Title 30-A Chapter 223, Subchapter 3-A Municipal Investments

http://www.mainelegislature.org/legis/statutes/30-A/title30-Ach2

SECTION III. FUND BALANCE ~~POLICY~~

The Fund Balance Policy is intended to provide guidelines during the preparation and execution of the annual budget to ensure that sufficient reserves are maintained for unanticipated expenditures or revenue shortfalls. It also is intended to preserve flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget.

The Fund Balance Policy should be established based upon a long-term perspective recognizing that stated thresholds are considered minimum balances. The main objective of establishing and maintaining a Fund Balance Policy is for the Town ~~of Scarborough~~ to be in a strong fiscal position that will allow for better position to weather negative economic trends.

The Fund Balance consists of five categories: Nonspendable, Restricted, Committed, Assigned, and Unassigned.

• **Non-spendable** Fund Balance consists of funds that cannot be spent due to their form (e.g. inventories and pre-paids) or funds that legally or contractually must be maintained intact.

• **Restricted** Fund Balance consists of funds that are mandated for a specific purpose by external parties, constitutional provisions or enabling legislation.

• **Committed** Fund Balance consists of funds that are set aside for a specific purpose by the Council. Formal action must be taken prior to the end of the fiscal year. The same formal action must be taken to remove or change the limitations placed on the funds.

• **Assigned** Fund Balance consists of funds that are set aside with the intent to be used for a specific purpose by the Council. Assigned funds cannot cause a deficit in unassigned fund balance.

• **Unassigned** Fund Balance consists of excess funds that have not be classified in the previous four categories. All funds in this category are considered spendable resources. This category also provides the resources necessary to meet unexpected expenditures and revenue shortfalls.

• **Unrestricted** Fund Balance is the combination of the Committed, Assigned and Unassigned fund balance.

OPERATING BUDGET

The total General Fund Budget, are all budgets, including amendments, as adopted by the Town council. The General Fund Budget shall include all budgets included in funds 1100 and 7100:

Municipal Gross Budget
Education Gross Budget
Adult Learning
Community Services- All Divisions
Capital Equipment
Debt Service
County Assessment

Non-spendable and Restricted Funds
Non-spendable funds are those funds that cannot be spent because they are either:

1) Not in spendable form (e.g. inventories and prepaids)
2) Legally or contractually required to be maintained intact

It is the responsibility of the Town Manager or their designee, to report all Non-spendable Funds appropriately in the Town's Financial Statements.

Restricted funds are those funds that have constraints placed on their use either:

1) Externally by creditors, grantors, contributors, or laws or regulations or other governments
2) By law through constitutional provisions or enabling legislation.

It is the responsibility of the ~~of the~~ Town Manager, or their designee, to report all Restricted Funds appropriately in the Town's Financial Statements.

CLASSIFYING FUND BALANCE AMOUNTS

When both restricted and unrestricted funds are available for expenditure, restricted funds should be spent first unless legal requirements disallow it. When committed, assigned and unassigned funds are available for expenditure, committed funds should be spent first, assigned funds second, and unassigned funds last; unless the Town Council has provided otherwise in its commitment or assignment actions.

AUTHORITY TO COMMIT FUNDS

The Town Council has the authority to set aside funds for a specific purpose. Any funds set aside as Committed Fund Balance requires the passage of a resolution by a simple majority vote. The passage of such action must take place prior to June 30th of the applicable fiscal year. If the actual amount of the commitment is not available by June 30th, the resolution must state the process or formula necessary to calculate the actual amount as soon as information is available.

AUTHORITY TO ASSIGN FUNDS

Upon passage of the Fund Balance Policy, authority is given to the Town Manager to assign funds for specific purposes. Any funds set aside as Assigned Fund Balance must be reported to the Town Council. The Town Council as the authority to set aside funds for the intended use of a specific purpose. Any funds set aside as Assigned Fund Balance requires a simple majority vote and must be recorded in the minutes. The same action is required to change or remove the assignment.

UNASSIGNED FUND BALANCE

Unassigned Fund Balance is the residual amount of Fund Balance in the General Fund. It represents the resources available for future spending. An appropriate level of Unassigned Fund Balance should be maintained in the General Fund in order to cover unexpected expenditures and revenue shortfalls.

In the event of projected revenue shortfalls, it is the responsibility of the Town Manager to report the projections to the Town Council's Finance Committee on a quarterly basis and will include an outline of recommended Management actions to address any shortfall.

The Town has set a goal, through this Fund Balance Policy, to maintain the level of Unassigned Fund Balance equal to 10.0% of ~~Scarborough's~~ the Town's Operating Budget for the prior fiscal year and to not fall below 8.33% (or 1/12) of ~~Scarborough's~~ the Town's Operating Budget.

Once the Town achieves an unassigned fund balance equal to 10.0% of Scarborough's Operating Budget, any excess above 12% must be assigned by any combination to one of the following:

a) Retained in non-spendable and restricted accounts that offset unfunded liabilities, and/or
b) Retained in assigned accounts that may be used in future budget cycles as a property tax rate stabilization; available for use during a catastrophic event, and/or
c) Funding future capital expenditures and/or projects, and/or
d) ~~the~~ Retirement of debt, and/or
e) ~~a t~~Taxpayer refund.

In the event that the balance drops below the established minimum level, the Town Council will develop a plan to replenish the fund balance to the established minimum level within two years.

Policy statement: Unrestricted Fund Balance as a Percentage of Revenues: The level of unrestricted fund balance will not be allowed to drop below 8% of annual revenues with a goal of building unrestricted fund balance to 12% of annual revenues.

REPORTING

Annually the Town Manager shall report to the Town Council's Finance Committee the Statement of Activity of all fund balances that will include the beginning year's balances, gross adjustments in and out of each account during the reporting period and final report period ending balances. Such report shall occur following receipt of the audited financial statements.

REPEAL OF PRIOR TOWN COUNCIL FUND BALANCE POLICY.

This section repeals the Town Council Fund Balance Policy adopted by the Town Council on September 17, 1997, ~~and~~ as amended on January 20, 2010 and replaces it this document adopted by the Town Council on November 2, 2016.

SECTION IV. CAPITAL PLANNING ~~POLICY~~

~~The following policy is hereby enacted to establish the framework for overall capital planning, budgeting and management.~~

~~INTRODUCTION~~

~~The Town of Scarborough recognizes the importance of careful management and planning for the use of its physical assets. The benefit of a capital plan is to provide long term guidelines regarding the location, condition and replacement or improvement of public infrastructure. These guidelines ensure that the capital planning program identify the availability of resources necessary to meet Scarborough's capital needs when they occur. Additionally, this policy will help to ascertain spending~~

~~priorities early to allow for more deliberate planning and funding. As implemented, this capital planning policy will provide the Town of Scarborough the opportunity to anticipate, not react to, trends and developments critical to the well-being of our citizens. By budgeting large or unique purchases in the capital improvement plan, the operating budget will not be susceptible to spikes within department's budgets.~~

~~Financing the capital plan can include leases, grants, appropriations, reserves and debt financing as defined in the *Debt Management and Fiscal Policy*. The useful life of the asset or project needs to equal or exceed the payout schedule of any debt the Town assumes for that project. This allows for a closer match between those who benefit from the asset and those that pay for it.~~

~~To enhance creditworthiness and prudent financial management, the Town is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through adoption and periodic adjustment of the Town's Capital Improvement Plan (CIP) and the annual adoption of a multi-year Capital Improvement Budget.~~

PURPOSE

As a way of structuring the review and funding of capital improvement projects competing for economic resources, the Town of Scarborough looks at long-term capital planning and budgeting. This policy sets forth comprehensive guidelines for the determination and prioritization of capital asset purchases and improvements. It is the objective of this policy to:

(1) Determine the physical assets to be renovated or replaced;
(2) Document the decision-making process;
(3) Demonstrate a commitment to long-term financial planning objectives;
(4) Annually prioritize those physical assets to be included in the Capital Improvement Plan;
(5) Utilize debt financing only when desirable;
(6) Identify capital planning objectives for staff to implement;
(7) Understand how the operating budget will be impacted by the completion of the capital project;
(8) Ensure that the useful life of the asset or project equals or exceeds the payout schedule of any debt the Town assumes for the project. This allows for a closer match between those who benefit from the asset and those who pay for it.

Capital projects may involve the following:

- Purchasing Land
- Constructing new public facilities
- Improving infrastructure (i.e., refurbishing a bridge, resurfacing a street)
- Purchasing major equipment

DEFINITIONS

Public Infrastructure
Infrastructure of the Town of Scarborough to include, land, buildings, parks, streets, bridges, vehicles and equipment, etc.

Capital Budget
The first year of the capital improvement program with a detailed source of financing for each of the capital projects specified for implementation during the upcoming year with a listing and description of the following four (4) years.

Capital Improvement Program
A listing of the planned capital improvement projects (coupled with expected costs and financing plans of each) for the upcoming five (5) year period, and scheduled according to priorities and timing the "CIP"). The CIP should be organized between capital projects and capital equipment. In addition to estimated costs, a narrative description of each capital item should be provided.

Capital Improvement Project
A major, nonrecurring expenditure used to expand or improve a government's physical asset, including facilities and infrastructure, that are not consumed within a year but rather have a multi-year life.

Capital Equipment
A major expenditure used to expand or improve a government's equipment, including vehicles, technology, building equipment.

Multi-Year Capital Budget
A process designed to ensure that the longer range consequences of capital budget decisions are identified and reflected in the budget totals and updated annually.

Equipment Replacement Schedule
A detailed systematic schedule of anticipated replacement of all vehicles and major equipment that is customized to each department and is based on industry standards of predicted life expectancy. The replacement schedule is based on the premise that vehicles and equipment should be replaced before major maintenance expenses are incurred and while residual (trade-in) value can be maximized. These schedules shall serve as the basis for the capital equipment portion of the CIP.

IMPLEMENTATION/POLICY MANAGEMENT

The Town's Capital Planning Policy shall be implemented by the Town Manager/Finance Director when developing comprehensive capital planning management guidelines that provides for the following:

- Departments Administrators to review their physical assets annually;
- Capital improvements should be developed, approved and financed in accordance with the Town Charter and Purchasing Policy and the capital improvement budgeting process;
- Determine which projects need voter authorization;
- Assess financing alternatives for funding capital improvement prior to issuing debt (bonds);
- Determine the funding source for the project being improved (appropriation, bonds, property taxes, grants, etc.).
    - For long-term borrowing, the equipment or project is an item that is purchased and/or constructed infrequently, has an expected useful life of at least five (5) years, and costs in excess of $100,000; and
    - For short-term borrowing or lease/purchases, the equipment is an item that is purchased infrequently, has an expected useful life of at least five (5) years, and costs less than $100,000.
    - Funding by Appropriation: Any capital item can be funded by appropriation, regardless of value.

This policy will be enforced by the Town Manager~~/~~ and the Finance Director. This Capital Planning Debt Management Policy shall be reviewed by the Finance Director~~/~~ and the Town Manager and the Finance Committee at least annually.

CAPITAL IMPROVEMENT BUDGET

A capital budget forces a systematic identification and prioritization of capital projects. This helps to avoid unexpected budget fluctuations and surprises in the operating budget. The goal is to anticipate and plan for most projects involving public facility improvements and major equipment purchases. Thus, a capital budget is the implementation vehicle for adopting a capital improvement project that is part of a long-range capital improvement program.

A multi-year capital improvement budget shall be prepared and submitted to the Finance Committee, separate from the operating budget, annually. The capital budget shall provide a list of projects and the means of financing and cover a five year period of time. The projects included in the capital budget should be part of the Town's capital improvement program. To be considered for bonding, projects must be included in the Capital Improvement Budget as part of the capital improvements or capital equipment. All projects which are required to go to voter referendum, shall also be included in the multi-year Capital Improvement Budget.

PRESERVATION OF EXISTING CAPITAL INFRASTRUCTURE

It shall be the policy of the Town that adequate resources are allocated to preserve existing infrastructure before targeting resources to build new facilities that also have operating and maintenance obligations. Emphasis shall be given to protect historical investments in capital facilities and to avoid embarking on a facility enhancement program, which when couple with the existing facility requirements, the Town cannot afford to maintain.

LONG-RANGE FACILITY PLAN

A long-range facilities plan should be prepared that considers the Town's future needs based on a 20-year outlook. This plan should consider estimated costs and list projects in order of priority. Before new facilities are considered, efforts should be exhausted to modify existing facilities to meet future needs as well exploration of "partnerships" to minimize capital investment required for construction as well as operations and maintenance.

LIFE-CYCLE EXPENSES

New facilities should be of high quality, low maintenance and least cost. The CIP should emphasize and consider life-cycle costs as a consideration in prioritization. Priority should be given to new facilities that have minimal ongoing maintenance costs as to limit the impact upon both the CIP and the operating budget.

FINANCING OPTIONS FOR CAPITAL BUDGETS

Funding for capital items may come from a number of sources, including, but not limited to: long-term debt (general obligation bonds), leases, reserve funds, grants or direct appropriations.

Voter Approved Bonds
[previously stated]~~Per section 907 of the Town Charter:~~

> ~~The Town Council shall submit orders or resolves authorizing the issuance of General Obligation securities of the Town, or the appropriation and expenditure of funds derived solely from municipal revenue sources, or a combination of both, in a principal amount greater than $400,000 for a single capital improvement or item of capital equipment to voter referendum~~

~~subject to the section 907.1.1 of the Charter as follows: The provisions of this section shall not be applicable to any order or resolve authorizing (i) the refunding of any securities or other obligation of the Town; (ii) the issuance of General Obligation securities, or other direct or indirect obligations, of the Town for streets, sidewalks, or storm or sanitary sewers or other public utilities; or (iii) any construction or financing of improvements or equipment needed as a result of fire, flood, disaster, or other declared emergency. For purposes of this section, the Town Council may by vote of five (5) of its members adopt emergency orders or resolves authorizing construction or financing of improvements or equipment needed as a result of fire, flood, disaster or other emergency and such orders or resolves shall contain a section in which the emergency is set forth and defined; provided, however, that the declaration of such emergency by the Town Council shall be conclusive. (Amended November 5, 2002; effective November 20, 2002).~~

Reserve Funds (From the Debt Management Policy)
Adequate operating reserves are important to insure the functions of the Town especially during economic downturns. The Town desires to build a contingency reserve in the General Fund of no less than $1,000,000. Over the next ten (10) years of the date of this policy adoption, the Town will initiate a Committed Fund Balance for working capital sufficient to finance 90 days of operations (3 months) but not to exceed 4 months of operations. These funds will help to pay for capital and operating costs during revenue-short months.

Equipment Reserve Fund (From the Debt Management Policy)
An Equipment Reserve Fund to be set up to fund future capital equipment and will be financed sufficiently to ensure that adequate funds are available to purchase replacement equipment on a timely basis without debt financing. Determination of the amount needed to adequately fund this equipment reserve fund will prepared by the Finance Director and the Town Manager and approved by the Finance Committee. Complete financing of the Capital Equipment Reserve Fund will be by accomplished within six (6) years of the date of adoption of this policy.