Mayor and Council
PRINCETON

RESOLUTION

Whereas, the Mayor and Council of Princeton wish to establish policies with respect to acceptable Debt levels and borrowing, Capital Spending and Planning, and the amount of surplus to maintain in the Current Fund, and

Whereas the policies will serve as guidance for staff, committees and the governing body for budgeting, capital planning and other purposes, and

Whereas it is the belief of Mayor and Council that the policies will demonstrate Princeton's intent to maintain strong long-term financial health, and

Whereas, the policies established hereby will be periodically reviewed and updated to ensure that they are in consonance with the needs and desires of the Municipality,

Now, therefore, be it resolved by the Mayor and Council of Princeton that the Capital and Debt Policy (attached as Exhibit A) and the Surplus Policy (Attached as Exhibit B) be approved.

I, **Linda S. McDermott**, Municipal Clerk of Princeton, County of Mercer, State of New Jersey, do hereby certify that the foregoing is a true copy of a resolution adopted by the Mayor and Council of Princeton at its meeting held March 10, 2014.

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Linda S. McDermott, Clerk

Capital & Debt Policy

Combined Capital & Debt Policy Elements
Debt is driven by capital; capital spending needs to be managed for the long term; therefore:

1. Capital appropriations and spending is to be planned and executed after taking into account the impact that the aggregate capital spending plan will have on Princeton's long-term debt service and that the plan is consistent with the Princeton's debt policy.
2. The town will review and approve the capital plan and it's implications on future debt service and debt policy annually in conjunction with the budget introduction and adoption.
3. The Administration is responsible for annually developing a 6-year capital plan for review and approval by Council at the time that the Budget is introduced and approved.
4. Capital Improvement Authorizations and spending is to be consistent with the capital plan. Any exceptions will be noted during the introduction of the Improvement Authorization.

Capital Policy Elements:
Process Elements:

1. **Capital planning, budgeting and analysis**
   - a Princeton will annually adopt a 6-year capital plan to ensure that it is planning for its long term needs and that it allocates capital spending across all of its functional (departmental) needs and to ensure that it is generating adequate capacity within its capital budget to accommodate the large non-recurring projects that are certain to arise on a periodic basis.
   - b All functional areas will collaborate for capital through an organized planning process (it is understood that some areas such as sewers, Open Space, etc. have their own separate sources of capital funds and repayment sources that cannot be allocated to other area). The planning process will occur annually coincident with the budget and will result in a rolling 6-year capital plan that is adopted by Council and revised and updated a re-adopted annually.
   - c Each department should maintain a schedule of assets that will require renewal/replacement. The schedule should sufficiently itemize the assets, their estimated useful life, and their current life and estimated replacement cost for use in long-term capital planning.
   - d The Administration should maintain a schedule of large non-recurring capital projects for discussion, use and evaluation by Council when the 6-year capital plan is discussed.
   - e The Administration shall be responsible for developing and maintaining the capital plan.

f The most-current year of the capital plan shall anticipate funding sources that are consistent with Princeton's debt policy and the Current Fund (Operating) Budget.

g The CFAC shall establish a capital planning subcommittee to work with the Administration over the course of the year on analyzing the long-term potential financial impact of the capital plan.

h The capital plan is a planning tool only; nothing in this policy shall prevent the Council from spending on capital items or adopting Improvement Authorizations that are not in the capital plan. Nothing in this policy shall obviate the requirement that an Improvement Authorization be adopted.

i Improvement Authorization requests shall include a full financial analysis, to the extent possible, for the project, including:

- i Estimated total capital costs,
- ii Annual savings to be realized as a result of the investment,
- iii Any additional operating expenses that will arise as a result of the investment,
- iv A calculation of 20-year unlevered Internal Rate of Return and Payback
- v Any additional non-financial costs or benefits arising from the project

(It is expected that many projects will not have easily quantified financial returns; however, sound financial management practices call for this type of analysis to ensure that funds are being wisely spent).

2. Management and monitoring of Capital Authorizations

a Improvement Authorizations shall be monitored and managed to avoid unintended consequences on debt and debt service (to avoid over-spending relative to the capital plan and debt policy by spending on old Capital Authorizations). The monitoring needs to take into account all Improvement Authorizations that have been approved and not cancelled, regardless of year of approval.

b To keep good control over Improvement Authorizations, any project that has not commenced within 3 years of approval of the Improvement Authorization will be cancelled and, if appropriate, re-submitted for approval.

c Once a capital project has commenced, any remaining balance of the Improvement Authorization will be promptly cancelled at project completion, and in the case of multi-year projects, reviewed annually after project commencement.

d The Improvement Authorization clean-up process shall occur at the end of each year.

Debt Policy Elements

1. The **purpose** of the debt policy is to establish:

a. Sustainability: Ensure that we are considering our future budgets and taxpayers by monitoring and managing our debt and debt service costs at a sustainable level.

b. Method:

i. A principal element of this policy is that capital spending is planned and funded in such a way consistent with the debt policy metrics contained in Section 3 of this policy

ii. Ensure that we are borrowing only for long-term capital improvements that have been executed (funds spent) and that will benefit future stakeholders

c. Monitoring: Establish the guidelines to monitor and protect the good credit standing of Princeton.

2. Debt monitoring & management

a Debt definitions. There are several different definitions of "debt" as used in this policy.

i The State's Annual Debt Statement, which limits debt as a % of assessed values, focuses on Authorized Debt excluding debt of Utility Funds and certain reserve funds. This definition includes all authorized debt, regardless of whether it is issued or not and vastly overstates Princeton's debt obligations ***(State-defined Debt)***

ii Standard & Poor's states that it focuses on enterprise-wide issued debt, which would include debt of the Utility Funds (Parking and Affordable Housing) ***(Enterprise-wide Debt)***

iii Within the Current Fund (which is the principal focus of the Budget), principal and interest appropriation is for Issued Debt, excluding principal and interest charged to Utilities and other funds such as the Open Space Fund ***(Current Fund Debt)***

iv Within the Current Fund, a portion of the principal and interest relates to sewers and is funded by sewer revenues and a portion is funded by General Revenues (mainly Property Taxes). The primary focus of the debt policy, as it relates to the property taxpayer, is the debt service exclusive of sewer-related debt that is going to be funded by general revenues ***(General Debt)***

b **Debt Monitoring**. As important as a numeric Policy limitation on debt is the practice of monitoring debt levels and anticipated borrowings and projected debt service as part of the budgeting process. This will ensure that the long-term fiscal health of the town is maintained. Princeton will monitor actual, budgeted and projected long-term:

i. State-defined debt
   1. Total
   2. Issued
   3. Authorized but not issued

ii. Enterprise-wide debt and enterprise wide debt service

iii. Current Fund debt and debt service

iv. General debt and debt service

v. Monitoring Process: Metrics will be calculated and published in conjunction with the Budget introduction and adoption. If there is a significant change to the capital plan during the year that will have a material impact on the projected metrics, the metrics will be recalculated and republished.
vi. Staff is responsible for monitoring Debt and reporting on its status to CFAC and Council in conjunction with the budget process. CFAC will create a template for monitoring.

3. **Debt Policy metrics** The following metrics shall be used to govern debt issuance until changed or waived by a resolution of the Mayor and Council:
   a. **General Debt**: The Capital Spending Plan will be managed so that projected debt service on General Debt remains within a growth rate of not more than 1.5% per annum, provided, however that debt service shall be calculated net of any planned use of Capital Surplus to offset debt service
   a. **Current Fund Debt**: The Capital Spending Plan will be managed so that Current Fund Debt as a % of Budgeted Current Fund Revenues is < 180%
   b. **Enterprise-wide Debt**: The Enterprise-wide capital spending plan will be managed so that enterprise wide debt as a % of budgeted enterprise-wide revenues is <200%
   c. The **State-defined Debt** will be maintained at < 2.5% of 3-year average assessed value.
4. **Permitted Borrowing** Princeton will observe the following guidelines in its borrowing:
   a. Improvement Authorizations that are to be funded with borrowing should not be bonded until the funds have been 'committed'. The process will be:
      i. Capital Authorization Approved
      ii. Funds spent (funded using cash, accounts payable or bond anticipation notes)
      iii. Long–term funding as part of debt management plan, funding should be net of anticipated reimbursements.
   b. Capitalizing of Salaries & Wages. It is Princeton's objective that Municipal salaries and benefits should not be capitalized; Administration will work with Council to achieve this as part of the Budget process. When analyzing a project's costs, any incremental salary and benefit costs that will be incurred as a result of the project should be noted in the analysis. This policy should not cause an impetus to outsourcing (any analysis will adjust to take this no-capitalization policy into account)
   c. Capital Assets with a life of less than 5 years should not be bonded

Exhibit B

Surplus Policy

Purpose
The purpose of this Surplus Policy is to, (1) establish a target range that Princeton desires to maintain its Current Fund Balance (surplus) within, and (2) establish procedures for managing and monitoring Princeton's surplus to ensure that the surplus remains within the targeted range.

1. **Target Range**
   Princeton shall endeavor to maintain its Current Fund Balance (surplus) within a range such that Available Surplus is 15% - 20% of Budgeted Appropriations
2. **Procedures for managing the surplus within the targeted range**

a. Princeton will establish its annual budget so that projected Available Surplus at the end of the fiscal year is within the Target Range.
b. Princeton will utilize its best estimate of actual Surplus at the beginning of the fiscal year and its best estimates of all revenues and expenses for the budget year to project ending Surplus.
c. The Surplus projection will be presented to Council for review as part of the Budget.
d. The Administration shall be responsible for preparing the Surplus projection, and will review the projection with the CFAC as part of the Budget process.