

Debt Policy

1. Background

- a) A debt policy addresses the level of indebtedness the County can reasonably expect to incur without jeopardizing its existing financial position and to ensure the efficient and effective operation of the County.
- b) A debt policy also addresses the purposes for the types of debt that will be issued.

2. Issuance Guidelines

- a) The County will not use short-term borrowing to finance operating needs.
- b) The maturity of any debt will not exceed the expected useful life of the project for which the debt is issued.
- c) Debt shall not constitute an unreasonable burden to residents and taxpayers.
- d) Debt ratios for general governmental debt:
 - i) Debt as a percentage of Assessed Value will not exceed 2.5%.
 - ii) The Debt per Capita will not exceed a ratio of \$1,500.
 - iii) Debt Service as a percentage of General Governmental Expenditures will not exceed 10%.
 - iv) Debt per Per Capita Income will not exceed a ratio of \$5,000.
- e) Paydown of principal ratios shall be >25% of total debt within 5 years and >50% of total debt within 10 years.
- f) Debt coverage ratios for public utility debt will be in compliance with all debt covenants and all debt coverage ratios will meet or exceed minimal legal thresholds.
- g) At a minimum, all of the following issuances of debt require approval and appropriation of the proceeds by the Board of Supervisors.
 - i) Bond and revenue anticipation notes
 - ii) General obligation bonds
 - iii) VPSA Bonds and State Literary Fund loans
 - iv) Revenue bonds
 - v) Capital acquisition leases and notes
 - vi) Refundings and refinancings
 - vii) Moral obligation debt

Debt Regulations

1. Planning and Performance

- a) The planning, issuance and review of outstanding and proposed debt issuances will ensure that compliance with the debt policy is maintained.
- b) The County may issue debt for the purpose of acquiring or constructing capital projects including buildings, machinery, equipment, furniture and fixtures.
- c) Debt issuances will be pooled together when feasible to minimize issuance costs.
- d) The County will prepare and adopt annually a Five Year Capital Improvements Program and Five Year Financial Plan to identify and establish an orderly plan to meet the County's infrastructure needs with all debt-related projects and the debt service impact upon operations identified; appropriately adjusted by inflation to properly reflect costs incurred in the applicable future fiscal year.
- e) All issuances subject to arbitrage constraints shall be monitored by the applicable School or County personnel and have arbitrage liability calculations performed in a timely manner.
- f) Investment of bond proceeds shall at all times be in compliance with County's Deposits and Investment Policy and meet all requirements of bond proceed covenants.

2. Issuance Guidelines

- a) Long-term debt will be used in compliance with all aspects of the debt policy.
- b) Each project proposed for financing through debt issuance will have an analysis performed for review of tax impact and future operating costs associated with the project and debt issuance.
- c) In conjunction with the budget process or prior to the incurring of any expenditure for which a subsequent debt issuance is anticipated, the Board will be requested to adopt a debt reimbursement resolution which enables the County to incur expenditures prior to the debt issuance and then to get properly reimbursed subsequent to the debt issuance.
- d) Debt ratios will be calculated each fiscal year in conjunction with the budget process and audit.
- e) Debt service reserve funds and other funds as required by bond covenants shall be established and monitored annually to ensure continued compliance with bond covenants, County policies and Federal and State regulations.

3. Professional Debt Services

- a) The County shall procure through a request for proposal every five years financial advisors services with these services utilized throughout the year to monitor existing debt for refunding opportunities, assist in selection of underwriting services, monitoring compliance with debt policy, providing oversight during a debt issuance process and providing other financial advisory services, as needed.
- b) The County shall procure underwriting services either through a competitive or negotiated sales method, based upon the nature of the bond sale and input of the financial advisor.
- c) Bond counsel shall be selected by the County Attorney's office.

4. Bond Anticipation Notes

- a) The County may issue Bond Anticipation Notes (BANs) in expectation of General Obligation Bonds or Revenue Bonds when cash is required in order for the financed capital

Debt Regulations

project to be initiated or continue or when long-term markets do not appear appropriate on a given date, but have a clear potential for improvement within 12 months.

- b) The County will issue BANs for a period not to exceed two years.
- c) No BANs will be rolled over more than 1 additional two year period.

5. Revenue Anticipation Notes

- a) The County's Fund Balance Policy is designed to provide adequate cash flow to avoid the need for Revenue Anticipation Notes (RANs) through the establishment of designated and undesignated fund balances sufficient to maintain required cash flows and provide reserves for unanticipated expenditures, revenue shortfalls and other specific uses.
- b) The County may issue RANs in an extreme emergency beyond the County's control or ability to forecast when the revenue source will be received subsequent to the timing of funds needed.
- c) The County will issue RANs for a period not to exceed the one year period permitted under the Constitution of Virginia, Article VII Section 10.

6. General Obligation Bonds

- a) The Constitution of Virginia, Article VII Section 10, and the Public Finance Act provide the authority for a County to issue General Obligation (GO) Debt with no limit on the amount of GO Debt that a County may issue.
- b) The County may issue GO Debt for capital projects or other properly approved projects.
- c) All debt secured by the general obligation of the County must be approved by the Board of Supervisors and a public referendum, with the exception of Virginia Public School Authority (VPSA) Bonds and State Literary Fund Loans which do not need approval by referendum.

7. VPSA Bonds and State Literary Fund Loans

- a) School capital projects may be constructed with debt, either through VPSA Bonds or State Literary Fund Loans, with preference given to accessibility and interest rates.
- b) Approval of the School Board is required prior to approval by the Board of Supervisors.

8. Revenue Bonds

- a) The County may issue Revenue Bonds to fund enterprise activities, such as water and sewer utilities, or for capital projects which will generate a revenue stream.
- b) The bonds will include written covenants which will require that the revenue sources are sufficient to fund the debt service requirements.
- c) Costs of issuance, debt service reserve funds and capitalized interest may be included in the capital project costs and thus are fully eligible for reimbursement from bond proceeds.

9. Capital Acquisition Notes and Leases

- a) The County may issue short-term notes or capital leases to purchase buildings, machinery, equipment, furniture and fixtures.
- b) For school related capital acquisition notes and leases, approval of the School Board is required prior to approval by the Board of Supervisors.

Debt Regulations

- c) The applicability of capital leases, as opposed to operating leases, for assets planned to be acquired will initially be determined during the budget process with further reviews performed during the bid process and awarding of contract for the capital asset.
- d) For purposes of establishing a threshold for Board of Supervisors approval, the capital lease must exceed the threshold used for capital assets in the Capital Improvements Program (see Budget Policy).

10. Refunding and Refinancing

- a) Annually, and more frequent, if market conditions dictate, a review of all outstanding debt issuances will be performed by the County and financial advisor to determine possible refunding opportunities available.
- b) As a general guideline, the issuance of refunding bonds shall occur if the present value of debt service savings exceeds two percent of the debt service amount of the refunded bonds and/or the net present value of future savings warrants such refunding.

11. Moral Obligation Debt

- a) The County may accept a moral obligation for the payment of debt incurred by other agencies and agree to pay debt service when revenues of such agencies may prove insufficient to cover debt service.
- b) Payment of moral obligation debt service will be done when the best interest of the County is clearly demonstrated.
- c) While such moral obligation support does not affect the debt limit of the County, the amount of bonds issued with the County's moral obligation should be controlled in order to limit potential demands on the County.
- d) There is no legal obligation, but the County is placing its good name and reputation on the line and there is every expectation that the County would make good any deficiencies when a default exists.

12. Disclosure and Communications

- a) The County will maintain good communications with bond rating agencies to inform them about the County's financial position by providing them the County's Comprehensive Annual Financial Report (CAFR) and Adopted Budget.
- b) The County will follow the National Federation of Municipal Analysts and Government Finance Officers Association policy of full continuing disclosure.
- c) The County will disclose the preceding ten fiscal year's debt ratios in the Comprehensive Annual Financial Report.
- d) The County will disclose an estimate of the subsequent five fiscal year's debt ratios in the Adopted Budget with an analysis of the impact, if any, moral obligation debt would have on the debt ratios.