03. FINANCE

3.7. Debt Management

BOS Adopted – October 3, 2007

3.7.1 <u>Purpose</u>. To establish parameters and provide guidance governing the issuance, management, continuing evaluation of, and reporting on all debt obligations issued by the County of Fluvanna, and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy.

3.7.2. <u>Objectives</u>. 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 operations of the County and to address capital infrastructure requirements to meet the increasing needs of its citizens. The costs of these requirements will be met through the issuance of various types of debt instruments.

3.7.3. <u>Delegation of Duties</u>. The County Administrator or designee will be responsible for policy implementation and oversight. This individual will monitor and enforce Fluvanna County's compliance with this policy.

3.7.4. <u>Purposes and Uses of Debt</u>. Bond proceeds should be limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs as permitted by law.

3.7.5. <u>Types of Debt</u>. The laws of the Commonwealth of Virginia authorize the issuance of debt by the County. Identified below are various types of debt instruments the County may issue.

A. <u>Bond Anticipation Notes</u>

1. 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 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.

2. The County will issue BANs for a period not to exceed three years.

3. BANs should not be rolled over more than 1 additional two-year period.

B. <u>Revenue Anticipation Notes</u>

1. The County's Fund Balance 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.

2. 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.

3. 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.

C. General Obligation Bonds

1. 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.

2. The County may issue GO Debt for capital projects or other properly approved projects.

3. 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.

D. VPSA Bonds and State Literary Fund Loans

1. 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.

2. Approval of the School Board is required prior to approval by the Board of Supervisors.

E. Revenue Bonds

1. The County may issue Revenue Bonds to fund enterprise activities, such as water and sewer utilities, or for general government including capital projects and school projects which will generate a revenue stream.

2. The bonds will include written covenants which will require that the revenue sources are sufficient to fund the debt service requirements.

3. 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.

F. Capital Acquisition Notes and Leases

1. The County may issue short-term notes or capital leases to purchase buildings, machinery, equipment, furniture and fixtures.

2. For school related capital acquisition notes and leases, approval of the School Board is required prior to approval by the Board of Supervisors.

3. 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.

4. For purposes of establishing a threshold for Board of Supervisors approval, the final maturity of the capital lease should not exceed the estimated useful life for capital assets in the Capital Improvements Program.

G. <u>Moral Obligation Debt</u>

1. 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 agencies may prove insufficient to cover debt service.

2. Payment of moral obligation debt service will be done when the best interest of the County is clearly demonstrated.

3. 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.

4. 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.

3.7.6. <u>Project Life</u>. Debt financing will be used for major, non-recurring items with an economic value lasting at a minimum of five years.

3.7.7. <u>Refunding and Refinancing Bonds</u>

A. Refunding is a procedure whereby an issuer refinances an outstanding bond issue by issuing new bonds. The advantages to refunding are 1) to reduce the issuer's interest costs, or 2) to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced.

B. 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.

C. As a general guideline, the issuance of refunding bonds shall occur if the present value of debt service savings (net of all issuance costs and any cash contribution to the refunding) exceeds three (3) percent of the debt service amount of the refunded bonds and/or the net present value of future savings warrants such refunding.

D. If there is not a net present value savings, bonds can be refunded to remove burdensome bond covenants or restructure the stream of debt service payments.

3.7.8. Restrictions on Debt Issuance

A. Prohibited Uses. The County will not fund current operations from proceeds of borrowed funds. The County will confine long-term borrowing and capital leases to capital improvements, projects, or equipment that cannot be financed from current financial resources.

B. Limitations on Maturity. The maximum maturity of any debt will not exceed the expected useful life of the project for which the debt is issued.

C. Statutory Limitations. All debt/obligations require approval and appropriation of the proceeds by the Board of Supervisors.

3.7.9. Debt Service Limitations - General Fund Revenue

A. The ratio of governmental fund debt service expenditures as a percent of total governmental fund operating revenues should not exceed 12%.

B. This ratio shall include debt and capital lease obligations of the general government, schools, and other debt for which the primary source of payment is revenue of the general fund.

C. This ratio will be measured annually.

3.7.10. Outstanding Debt Limitations - Assessed Value

A. Debt as a percentage of assessed value will not exceed 3.5 percentage.

B. This ratio measures the relationship between County’s tax supported debts to the taxable value of property in the County.

C. It is an important indicator of the County’s ability to repay debt, because property taxes are the source of the County’s revenue used to repay debt.

D. The smaller the ratio indicates that the County is better able to withstand possible future economic downturns and continue to meet its debt obligations.

3.7.11. Characteristics of Debt Structure

A. Repayment Provisions. To the extent possible, the County will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use. The County will strive to structure a financing schedule and repayment of debt on a level payment plan after initial wrap up and/or construction period.

B. Maturity Guidelines. Bond maturities shall not exceed the useful life of assets purchased with the proceeds.

C. Debt Service Fund. Debt service reserves 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.

D. Investment of Bond Proceeds. 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. All issuances subject to arbitrage constraints shall be monitored by the Director of Finance and have arbitrage liability calculations performed in a timely manner.

3.7.12. Debt Issuance Process

A. Sale Process. The County will generally conduct financings on a competitive basis. However, negotiated financings may be used due to market volatility or the use of an unusual or complex financing or security structure.

B. Professional Services. The County employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents, and marketing bonds to investors. The key players in the County's financing transactions include its financial advisor and bond counsel, the underwriter (on a negotiated sale), and County representatives (the Director of Finance and the County Administrator, among others). Other outside firms, such as those providing paying agent/registrar, trustee, auditing, or printing services, are retained as required. The financing team meets at least annually to review the overall financing strategy of the County and make recommendations to the Board of Supervisors.

1. Financial Advisors. The County shall procure the services of a financial advisor through a request for proposal (RFP) every five years. These services shall be 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.

2. Underwriting Services. 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.

3. Bond Counsel. The County shall procure bond counsel either through a competitive or negotiated sales method, based upon the nature of the bond sale and input of the financial advisor.

C. Bond Rating Goals. The County will strive to obtain a bond rating in the future in order to minimize borrowing costs and preserve access to credit. A bond rating will influence the cost of debt issuance and reduce interest costs to the County's taxpayers.

D. Disclosure. The County shall adhere to a policy of full disclosure in every annual financial report and financing official statement/offering document.

1. The County will maintain good communications with agencies to inform them about the County's financial position by providing them the County's Comprehensive Annual Financial Report (CAFR) and Adopted Budget.

2. The County will follow the National Federation of Municipal Analysts and Government Finance Officers Association policy of full continuing disclosure.

3. The County will disclose the preceding ten fiscal year's debt ratios in the CAFR.

4. 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.

5. The County will annually prepare and adopt a multiyear Capital Improvements Program to identify and establish an orderly plan to meet the County's infrastructure needs with all debt-related projects and the corresponding debt service impact upon the General Funds of the County identified.

3.7.13. Debt Service Payment Settlement Procedures

A. Principal and interest for the fiscal year according to the financing schedule will be budgeted separately in debt services fund. The general fund will transfer revenue to cover the debt service expenditures. Principal and interest will be paid in a timely manner in accordance to due date and posted to the general ledger.

B. Whenever possible, the trustees/fiscal agents/paying agents invoice the County for debt service payments a minimum of 30 days prior to the due date.

C. Electronic fund transfers (EFT) will be the preferred method of payment to ensure timely payment on payment due dates in order for the County to retain use of their funds until that date. The use of electronic fund transfers standardizes payment streams, reduces credit and liquidity risk, provides a complete audit trail, improves efficiency, and reduces loss of the use of funds.