Section Name: Financial Management Effective Date: October 19, 2021
Section Number: 300
Policy Number: 312

Subject: Debt Management Policy

Overview

The County of Monroe ("County") has adopted the guidelines and policies set forth in this document titled "Debt Management Policy" (the "Policy"). The purpose of creating the Policy is to establish and codify the objectives and practices for debt management for the County. The guidelines contained in the Policy may require updating in order to maintain relevance and to respond to the changes inherent in the capital markets to best serve the interests of the County. The County will revisit and revise this policy as needed.

Purpose:

In managing its debt, County's goals are to:

A. Achieve the lowest cost of capital within acceptable financing terms
B. Obtain high credit quality
C. Maintain access to the capital credit markets
D. Preserve financial flexibility

Statement of Policy:

A. Bond Structure: The County will establish terms and conditions relating to the issuance of bonds. Unless otherwise authorized by the County, the following will serve as bond requirements:

    1. Term: All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event will the term exceed forty (40) years. Special consideration shall be given when the County is involved in Rural Development financings and certain State Revolving Fund issues that allow up to 40 years financing.

    2. Capitalized Interest: From time-to-time certain financings may require the use of capitalized interest from the issuance date until the County and/or the utility system being financed has beneficial use and/or occupancy of the financed project. Interest may not be funded (capitalized) beyond three years or a shorter period if further restricted by law.

    3. Debt Service Structure: Debt issuance will be planned to achieve relatively level debt service on a debt issuance basis, or in conjunction with other outstanding debt issuances, or in matching available revenue projections while still matching debt service to the useful life of facilities.

    4. Call Provisions: In general, the County's debt issuance should include a call feature, which is not later than ten (10) years from the date of delivery of the bonds.

5. Derivative Structures: The County will not utilize derivative structures.

B. Types of Debt: When the County determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued in consultation with its financial advisor on the debt issuance.

1. Long-Term Debt: The County may issue long-term bonds where it is deemed that capital improvements will not be financed from current revenues. Long-term borrowing will not be used to finance current operations.

2. Short-Term Debt: Short-term borrowing may be utilized subject to the following policies:

- Bond Anticipation Notes: (BANs) may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs may not mature more than 5 years from the date of issuance. BANs will mature within 6 months after substantial completion of the financed facility.

- Revenue Anticipation Notes: (RANs) may be issued only to meet cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to Federal IRS requirements and limitations.

- Other Short-Term Debt may be used, as allowed by law, when it provides an interest rate advantage or as interim financing until market conditions are more favorable.

3. Variable Rate Debt: To maintain a predictable debt service burden, the County has preference to debt that carries a fixed interest rate. The County, however, may consider variable rate debt. The percentage of variable rate debt outstanding may not exceed 10% of the County's total outstanding debt. The following circumstances may result in the consideration of issuing variable rate debt:

- High Interest Rates: Interest rates are above historic averages.

- Variable Revenue Stream: The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows the County for variability.

- Financial Advisor Analysis: An analysis from the County's financial advisor evaluating and quantifying the risks and returns involved in the variable rate financing.

C. Debt Limits: The net indebtedness of the County shall not be in excess of 10% of the State Equalized Valuation ("SEV") of all real and personal property within the County. Obligations which are not included in the computation of legal debt margin include bonds issued without the County's full faith and credit pledge.

Debt issued by the County will comply with all applicable State and federal laws.

D. Refinancing Outstanding Debt: The County, with assistance from its financial advisor will have the responsibility to analyze outstanding bond issues for refunding opportunities. The County will consider the following issues when analyzing possible refunding opportunities:

1. Debt Service Savings. Refinancing issued for the main benefit of reducing the cost to the County shall produce net present value savings of at least 3% of the refunded bond principal amount.

2. Restructuring. The County may refund debt to restructure its payments to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.

3. Term of Refunding Issues. The County will refund bonds within the term of the originally issued debt. However, the County may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible.

E. Methods of Issuance: The County will determine, with assistance of its financial advisor, the method of issuance on a case-by-case basis with each method selected to be in the best interest of the County.

1. Competitive Sale. In a competitive sale, the County's bonds will be awarded to the bidder providing the lowest true interest cost of bid which conforms to the requirements set forth in the official notice of sale.

2. Negotiated Sale. The County recognizes that it may be more beneficial to sell some debt issuances through a negotiated sale process. For example, the County may choose to use a negotiated sale method on financings which require a strong pre-marketing effort such as a complex transaction or a "story" bond or during time period of unstable markets or for refinancing debt.

3. Private Placement. From time to time the County may elect to privately place debt. Such placement may be considered if this method will result in an overall cost savings to the County relative to other methods of debt issuance.

   Bonds will be sold on a competitive basis unless it is in the best interest of the County to conduct a negotiated sale or private placement. Competitive sales will be the preferred method.

F. Consultants:

1. Municipal Advisor. The County will use a financial advisor registered with the Municipal Securities Rulemaking Board (MSRB) to assist in its debt issuance and debt administration processes. The Municipal Advisor will provide the County with objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring market opportunities, structuring debt, assisting in preparing and reviewing the official statements, assisting with obtaining credit ratings, advising the County on the bond sale or pricing, and assisting with the closing.

2. Bond Counsel. The County's debt will include a written opinion by legal counsel experienced in municipal financings, affirming that the County is authorized to issue the proposed debt, that the County has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with experience in public finance and tax issues.

G. <u>Credit Quality and Credit Enhancement</u>: The County's debt management activities will be conducted with a goal of obtaining and maintaining the strongest credit ratings possible consistent with the County's financial objectives. The County will maintain good communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on the County's general financial condition, coordinating meetings or calls, and presentations in conjunction with a new debt issuance. The County will continually strive to maintain its bond rating by improving financial policies, budgets, forecasts and the financial health of the County. The County will consider the use of credit enhancements on a case-by-case basis and will have a financial analysis of the economic benefit versus cost prepared before purchasing any credit enhancement. Only when clearly demonstrable savings or other benefits can be shown may an enhancement be considered.

H. <u>Ethics and Conflict of Interest</u>: Officers and employees involved in the debt issuance process shall refrain from personal business activity that could conflict with proper execution of the debt program, or which could impair their ability to make impartial debt issuance decisions.

I. <u>Continuing Disclosure Obligations</u>: Effective July 3, 1995, the Securities and Exchange Commission ("SEC") enacted amendments to Rule 15c2-12 requiring underwriters of municipal bonds to obtain certain representations from municipal bond issuers, such as the County, regarding ongoing disclosure of information after the issuance of bonds. The Rule also contains requirements for immediate disclosure of certain events by borrowers.

The continuing disclosure requirements are of both a financial and operational nature and are provided to the Municipal Securities Rulemaking Board (MSRB) through the Electronic Municipal Market Access District (EMMA). The deadline for filing the annual continuing disclosure documents are as provided in the individual continuing disclosure agreements entered into with the purchasers of the debt obligations. However, certain material events, as listed in the agreements, are required to be provided within 10 business days of the event.

All continuing disclosure agreements shall be reviewed and signed by the County Administrator/Chief Financial Officer, and copies provided to the Director of Fiscal Services. The County may contract with a third party to assist it with the compliance of ongoing continuing disclosure obligation. The Director of Fiscal Services shall prepare or be responsible for coordinating the required information to complete the annual filings, event notices, when required under the general direction of the Administrator/Chief Financial Officer.

J. <u>Investment of Bond and Note Proceeds</u>: Investment of bond proceeds shall be limited as outlined in the County's Investment Policy and as may be further limited or restricted in the respective bond documents.

K. Arbitrage Rebate: Arbitrage is the interest earned on the investment of the bond proceeds above the arbitrage rate on the debt. If arbitrage occurs, the County will be required to rebate or pay the amount of the arbitrage to the Federal Government unless it qualifies for an exemption from such rebate. The County will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulations. The recordkeeping shall include tracking investment earnings on bond proceeds in order to allow for the calculation of rebate liability, if any.

   If not exempt from rebate, the County shall have prepared an estimated of the potential arbitrage liability. The County shall have prepared and filed on the fifth anniversary of the bond issuance, the final arbitrage rebate calculation and submit to the federal government any rebate owed.

Administrative Procedures: None

Legislative History of Authority for Creation or Revision:

Adopted pursuant to action of the Monroe County Board of Commissioners, dated October 19, 2021.