FP 10: Debt Policy

The County will adhere to a debt policy that ensures that debt is issued and managed prudently in order to maintain a sound fiscal position and protect credit quality. The County will establish thresholds for the maximum amount of debt and debt service that should be outstanding at any one time.

Issuing debt commits the County's revenues for several years into the future, and may limit the County's flexibility to respond to changing service priorities, revenue inflows, or cost structures. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used, and structural features that may be incorporated.

The County plans long-and short-term debt issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments, and market conditions. The Finance Director oversees and coordinates the timing, issuance process, and marketing of the County's borrowing and capital funding activities required in support of the capital improvement plan.

This debt policy recognizes a blinding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that the County maintains a sound debt position and that credit quality is protected. Components of the debt policy are as follows:

- The County will confine its long-term borrowing to capital improvements and follow a policy of full disclosure on every financial report and bond prospectus. In no case will General obligation debt be used for self-supporting enterprise activity. The County will use voter-approved general obligation debt to fund general-purposed public improvements that cannot be financed from current revenues.
- Debt will only be incurred from financing capital assets that, because of their long-term nature or because of budgetary restraints, cannot be acquired from current or budgeted resources. Debt will not be used for operational needs. Debt financing can include general obligation bonds, revenue bonds, certificates of participation, lease/purchase agreements, special obligation bonds, or any other financing instrument allowed under North Carolina law.
- The County will seek to structure debt and to determine the best type of financing for each financing need based on the flexibility needed to meet project needs, the timing of the project, taxpayer or rate payer equity, and the structure that will provide the lowest interest cost in the circumstances.
- Debt financing will be considered in conjunction with the approval by the Board of the County's CIP.

Capital projects financed through the issuance of bonds, installment financings, or lease financings will be financed for a period not to exceed the expected useful life of the project.

- Non-Utility debt will normally have a term of 20 years or less. In no instance will the term of non-Utility debt exceed 25 years.
- Utility (Water) debt will normally have a term of 20 years or less. In no instance will the term of Utility debt exceed 30 years.

- The County will strive to maintain a high level of pay-as-you-go financing for its capital improvements.

The County shall develop and implement an ongoing fiscal management program to ensure that the County is in a fiscal position that allows the effective repayment of all existing County debt without adversely affecting the County's ability to provide operating services. Furthermore, future County debt shall be obtained at the lowest possible interest rate and shall comply with the requirement set forth based upon the type of debt to be incurred.

The net debt of the County, as defined in G.S. 159-55, is statutorily limited to 8% of the assessed valuation of the taxable property within the County. The County will utilized a self-imposed celling of 4%.

Total General Fund debt service will not exceed any limits imposed by the LGC. As a guide, formulas established by the LGC and rating agencies will be monitored and appropriately applied by the County. Debt service as a percentage of the operating budget will be targeted at 14% to 16%.

The County will strive to achieve amortization of 60% or more of its non-Utility debt principal within ten years.

The County will seek to structure debt in the best and most appropriate manner to be consistent with the Asset- Liability Management section of these financial policies (see FP 16).

Whereas the minimum coverage ratio for the County's outstanding revenue bonds is 1.20 times, upon the calculation of a coverage ratio for any Utilities System Revenue Bonds which is below 1.50 times (Net Revenues as defined by the General Indenture, but excluding cash receipts from special assessments, over Debt Service as defined by the General Indenture), the Finance Director will notify the Board of such. Within three months of such notification, the Finance Director will again report to the Board and will have performed the necessary internal study to advise the Board on the actions necessary to restore the coverage ratio to above 1.50 times. This policy is intended to ensure that all reasonable steps necessary are taken to begin the process of reviewing water revenues and rates well before the coverage ratio for outstanding revenue bonds could reach the minimum level of 1.20 times.

The County will seek to employ the best and most appropriate strategy to respond to a declining interest rate environment. That strategy may include, but does not have to be limited to, delaying the planned issuance of fixed rate debt, examining the potential for refunding of outstanding fixed rated debt, and the issuance of variable rate debt. The County will seek to employ the best and most appropriate strategy to respond to an increasing interest rate environment. That strategy may include, but does not have to be limited to, the issuance of variable rate debt (an historically lower interest cost), the use of a forward starting variable to fixed swap, and the use of forward delivery fixed rate debt.

The County will monitor the municipal bond market for opportunities to obtain interest rate savings by refunding by forward delivery, currently refunding, or advance refunding outstanding debt. The estimation of net present value savings for a traditional fixed rate refunding should be, at a minimum, in the range of 2.5% to 3% of the refunded maturities before a refunding process begins. The estimation of net present value savings for synthetic fixed rate refunding should be, at a minimum, in the range of 5% to 6% of the refunded maturities before a refunding process begins.

The County will strive for the highest possible bond ratings in order to minimize the County's interest costs.

The County will normally obtain at least two debt ratings (among Fitch Ratings, Moody's, Standard & Poor's) for all publicly sold debt issues.

While some form of outstanding debt exists, the County will strive to have a portion of that debt in the form of general obligation debt.

For all years that the County has greater than $5 million of publicly sold debt outstanding, the County will provide annual information updates to each of the debt rating agencies, if desired by those agencies.

The County will use the Comprehensive Annual Financial Report (the "CAFR") as the disclosure document for meeting its obligation under SEC Rule 15c2-12 to provide certain annual financial information to the secondary debt market via various information repositories.

The County shall NOT issue debt to finance operating costs.