Guilford County Debt Policy

I. Introduction

The purpose of the Guilford County Debt Policy is to provide guidelines and procedures for the issuance and management of debt. Many of the processes for approval, sale and repayment of debt are controlled by North Carolina statutes and regulations. These laws and regulations, which provide debt policy for most North Carolina local governments are not repeated here, but this policy must be considered in conjunction with those laws and regulations.

II. Use of Debt Financing

Debt is only to be incurred for financing capital assets that, because of their long-term nature or because of budgetary restraints, cannot be acquired from current or budgeted resources. Debt is not to be used for operational needs. Debt financing can include general obligation bonds, revenue bonds, installment financing, certificates of participation, lease/purchase agreements, special obligation bonds, or any other financing instrument allowed under North Carolina statutes. Guilford County will seek to utilize the least costly/most appropriate form of financing for its project needs. When possible, the County will utilize the non-voted (two-thirds) authorization for general obligation bonds that are allowed under North Carolina law.

Authorization for general obligation bond financing generally shall not be considered for capital improvement projects or groups of projects which have a total cost of less than $5 million dollars or which have a useful life less than ten years.

The use of installment financing or lease-purchase financing can result in unnecessary cost when used inappropriately. Such financing should be used only for purchases over $500,000 and at interest rates that are reasonable in comparison to general obligation rates.

The term of any type of debt financing will not exceed the useful life of the assets being financed.

III. Debt Affordability

The County will use an objective, analytical approach to determine the amount of debt to be considered for authorization and issuance. This process involves the comparison of generally accepted standards of affordability to the current County values.

These standards and guidelines shall include the following:

<u>Net Debt Per Capita</u>
This ratio measures the burden of debt placed on the size of the population supporting the debt and is widely used by analysts as a measure of an issuer's ability to repay debt. The County's general obligation debt per capita will be in line with other North Carolina counties that maintain a AAA bond rating. The County will strive to maintain per capita debt that does not exceed $3,000.

<u>Debt as Percentage of Assessed Valuation</u>
This ratio measures debt levels against the property tax base that generates the tax revenues, which are the main source of debt repayment. Guilford County shall strive to maintain its debt at no more than 3.0% of the countywide assessed value.

<u>Debt Service as Percentage of Operational Budget</u>
This ratio reflects the County's budgetary flexibility to change spending and respond to economic downturns. The County's benchmark goal is to have a debt service of no more than 15% of the annual operational budget.

IV. Debt Structure

The actual structure and sale of most bond issues is conducted in conjunction with the Local Government Commission (LGC), a division of the Office of the State Treasurer. Structuring must take into consideration current conditions and practices in the municipal finance market.

Debt will be paid off in a timeframe that is less than the useful life of the asset, or project, acquired through the financing. General obligation bonds will generally be competitively bid with no more than a 20-year life. Negotiated sales or private placements, however, may be used where allowed when complex financing or sales structure is a concern with regard to marketability. Debt service for each issue will be structured in an attempt to minimize the County's interest payments over the life of the issue while taking into account the existing debt service obligations of the County. The County will strive to maintain a debt payment structure whereby 50% of principal is paid within ten years.

The County will consider utilization of variable rate debt in order to lessen the potential interest costs over the life of the issue and managing its asset/liability structure in a manner to partially match investment earnings with debt expense. Variable rate debt should not exceed 25% of outstanding debt. Variable rate debt that has been capped or swapped to a fixed rate will not be included as variable rate debt in computing this percentage.

V. Interest Rate Exchange Agreements

The County will consider the use of interest rate exchange agreements ("Swaps") and related derivative products as part of managing its overall debt structure when appropriate to:

A. Achieve interest rate savings
B. Manage variable rate interest exposure
C. Diversify its debt structure
D. As an alternative to refinancing in debt restructuring

Interest rate exchange agreements and other derivative products may not be used for speculative purposes. Risks associated with the use of such derivatives will be appropriate and prudent and shall not risk the County's overall financial rating. The County shall evaluate all of the inherent risks associated with the proposed agreement and consider all of the costs associated with the transaction in determining whether to proceed with the transaction. Particular consideration should be given to the cost of terminating the agreements when evaluating the total cost/ benefit of potential agreements.

<u>Structure and Terms of Interest Rate Exchange Agreements</u>

The County must receive an opinion from its bond counselor or other counsel that the agreement is a legal, valid and binding obligation of the County and complies with applicable law. Such agreements shall contain the terms and conditions set forth in the International Swaps and Derivatives Association, Inc. ("ISDA") Master Agreement to the extent possible. The County shall consider including provisions that permit the County to assign its rights and obligations under the agreement and optionally terminate the agreement at its market value at any time. In general, the counterparty shall not have the right to assign or optionally terminate the agreement. The County shall have the right to terminate the agreement upon default by the counterparty.

Swaps and other derivative products may be procured through either competitive or negotiated means as the County deems in its best interest.

The County shall monitor its existing interest rate exchange agreements to insure compliance with terms.

VI. Credit rating

The County will seek to obtain the highest bond ratings on its general obligation debt. The County will seek to maintain its current triple “A” ratings from the major rating agencies. Credit enhancements will only be used when necessary for cost-effectiveness and/or marketability. The County will maintain good communications with bond rating agencies about its financial conditions and operations with information being sent to the rating agencies on a regular basis. Credit ratings will be sought from at least two of the major, national rating agencies.

VII. Refunding of Outstanding Debt

The County will monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debt or by using advanced refunding when permitted. The estimation of net present savings should be, at a minimum, in the range of 2.5 - 3% of the refunded maturities before a refunding process begins.

VIII. Arbitrage Rebate Reporting and Covenant Compliance

The County will maintain a system of record keeping and reporting to meet the arbitrage and rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting calculated excess earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues. Additionally, general financial reporting and certification requirements included in debt issue documents are monitored to ensure compliance with all covenants.

IX. Continuing Disclosure

The County will provide on-going and timely disclosure of all required information to established national information repositories and maintain compliance with all disclosure standards promulgated by state and national regulatory agencies on a timely basis. This includes but is not limited to: Municipal Securities Rulemaking Board (MSRB), Electronic Municipal Market Access (EMMA) system, Local Government Commission reporting.

X. Selection of Financial Consultants and Service Providers

The County will provide for a solicitation and selection process for securing all professional services required in connection with any debt issues. This selection will consider both qualifications and qualitative factors along with securing such services at competitive prices to the County.

XI. Administration and Implementation

The County Manager and the Director of Finance are responsible for the administration and issuance of debt including the completion of specific tasks and responsibilities included in this policy.