
Debt Obligation Policy

County of Bedford, Virginia

I. Background and Purpose

This debt policy is designed to provide guidance to the County of Bedford and its operating units in the issuance of debt and similar obligations. For the purposes of this Policy, any Capital Lease obligation whereas not legally considered debt of the County, shall be treated as such. This Policy shall apply to all operating units of the County receiving General Fund support for their operations or debt financed Capital Projects. This Policy is designed to be used with other Financial Policies of the County as they exist from time to time.

This Policy will address various types of debt which may be issued by or on behalf of the County, the level of these obligations, the corresponding annual debt service costs of these obligations and the approval requirements for the issuance of such obligations.

The purpose of this Policy is to ensure the issuance and repayment of all debt obligations are properly planned, approved, and executed to ensure the efficient and effective financial operations of the County.

II. Planning, Performance, and Monitoring

- A. The planning, issuance, and review of outstanding and proposed debt obligations will ensure that compliance with this Policy is maintained.
- B. The County may issue debt obligations for the purpose of acquiring, improving, renovating, or constructing Capital Projects including buildings, machinery, equipment, furniture, and fixtures or other similar longer life assets (i.e., water or sewer capacity, etc.).
- C. Whenever feasible, similar debt obligations will be issued at one time to minimize issuance costs.
- D. The County will annually prepare and adopt a multi-year 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.

- E. As a part of the annual budgeting process, the County shall prepare a report summarizing compliance with this policy and present this report to the Board of Supervisors for approval.

III. Issuance Guidelines

- A. The County will not use short-term borrowing to finance operating needs, except in instances as described under Revenue Anticipation Notes.
- B. The County shall prepare an analysis of anticipated revenues, the potential tax impact and future operating costs associated with any project proposal for external financing.
- C. The final maturity of any obligation will not exceed the expected useful life of the assets or project for which the obligation is issued.
- D. Prior to the issuance of any form of debt, the County will ensure that the issuance of such debt will not result in the non-compliance with this Policy.
- E. At a minimum, all such obligations require approval by the Board of Supervisors of the County. This approval shall indicate the Board of Supervisors approval of the identified funding for this Project and compliance with this Debt Policy.
- F. Unless approved by the Board of Supervisors, no obligations shall be issued for an amount less than \$500,000 or for Capital Projects with a useful life of less than three (3) years.
- G. Based on the recommendations of its Financial Advisor and approval by the Board of Supervisors, all debt obligations shall include funds sufficient to provide, if needed, capitalized interest, a Debt Service Reserve Fund, Rate Stabilization or other similar Funds as well as funds necessary to cover the cost of issuance of the Obligations.

IV. Debt Parameters

The County shall maintain compliance with the following Debt parameters on a historical basis, as well as on a Pro Forma basis after giving accounting for any

potential future Permitted Obligations.

- A. Net Debt as a percentage of Assessed Value will not exceed 3.5%. (Net Debt is General Obligation debt and Capital Lease Obligations exclusive of debt or leases payable from the Enterprise Fund. Assessed Value includes values of Real Property, Personal Property, Machinery & Tools, and Mobile Homes.)

- B. General Obligation Debt Service and Capital Lease payments as a percentage of General Governmental Expenditures will not exceed 10%. For purposes of this requirement, General Governmental Expenditures shall be that amount reported in the most recent Annual Comprehensive Financial Report. The amount shall be calculated as follows: General Fund Expenditure less General Fund transfer to School Operating Expenditures less Capital Projects paid out of the General Fund, plus School Operating Expenditures.

V. Permitted Obligations

Based on the implementation of this Policy, the County shall consider the following Obligation as Permitted Obligations for the purposes as stated. Unless stated otherwise in the section below, all such obligations shall be considered Debt for purposes of the Policy.

A. Revenue Anticipation Notes

1. The County's Fund Balance Policy is designed to provide adequate cash flow to avoid the need for Revenue Anticipation Notes (RANs). As such, the use of RANs is discouraged.

2. The County may issue RANs in situations beyond the County's control or ability to forecast when the revenues will be received after the related funds are scheduled to be distributed.

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.

4. Prior to the issuance of RANs. The County will advise the Board of

Supervisors of the circumstances creating the need for the RANs and whether this need will continue in the future. In all cases, the County shall attempt to minimize the amount of RANs issued.

5. The issuance of RANs will not be counted as debt for purposes of this Policy.

B. Bond Anticipation Notes

1. The County may issue Bond Anticipation Notes (BANS) in expectation of the issuance of General Obligation Bonds or Revenue Bonds when funds are required for the financed capital project to be initiated or continued but the County does not need to issue all the permanent funding at that time.
2. The County may issue BANs when the long-term financial markets do not appear appropriate on a given date but have a clear potential for improvement within the next twelve months.
3. Prior to issuing BANS, the County will clearly demonstrate its ability to comply with this Debt Policy upon issuance of the permanent financing.

C. General Obligation Bonds

1. The Constitution of Virginia, Article VII Section 10, and the Public Finance Act provides 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 any capital projects or other properly approved projects or programs.
3. All debt secured by the General Obligation of the County must be approved by the Board of Supervisors and a public referendum, except for Virginia Public School Authority (VPSA) Bonds and State Literary Fund loans and refunding bonds which do not otherwise need approval by referendum.

D. VPSA Bonds and State Literary Fund Loans

1. The County may finance its Schools needs with General Obligation debt or lease appropriation debt which may be subject to other provisions of this Policy. Should the County wish to use either the VPSA or Literary Loan to meet these needs, then these additional requirements must be met.
2. The County shall attempt to use Literary Funds when at all possible, however, preference should be given to accessibility and interest rates when determining whether to use the General Obligation, VPSA or the Literary Fund.
3. Approval of the School Board is required prior to approval by the Board of Supervisors for projects funded with VPSA or State Literary Fund Loans.

E. Revenue Bonds

1. The County may issue Revenue Bonds to fund enterprise activities, such as water and sewer utilities, solid waste disposal facilities or for capital projects which will generate a revenue stream sufficient to fund the annual debt service costs of the Revenue Bonds.
2. The Revenue Bonds will include written covenants which will require that the revenue sources are sufficient to fund operating expenses and all debt service requirements.

F. Appropriation Bonds

1. The County may fund projects with Appropriation Bonds or Notes, such as Lease Revenue Bonds, typically issued by its Economic Development Authority. This and any other type of appropriation debt, such as Certificate of Participation, will be counted in the County's debt ratios.

G. Capital Leases

1. The County may execute Capital Leases or Certificates of Participation with independent parties to provide for the use of buildings, machinery,

equipment, furniture, and fixtures as long as the asset is acquired at the end of the lease and the Capital Lease, if treated as Debt, complies with this Debt Policy.

H. Moral Obligation Debt

1. The County may enter into leases, contracts, or other agreements with other public bodies which provide for the payment of debt service when revenues of such public bodies or agencies may prove insufficient to cover debt service.
2. Payment of such 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 to limit potential demands on the County and any expected use of this type of obligation should be clearly within the parameter of this Debt Policy.
4. The County will not count this type of obligation as Debt as long as this Debt remains self-sufficient, Should the County need to fund any of this debt, the County should count its maximum total debt exposure under this agreement as Debt for purposes of this Policy.

VI. 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 with the County's Annual Comprehensive Financial Report (ACFR) and Operating and Capital Improvements Budget.
- B. The County shall comply with all of its undertakings in accordance with Securities and Exchange Commission Rule 15c2-12 and will follow the Government Finance Officers' Association and Securities and Exchange Commission requirements for continuing disclosure.

- C. The County will disclose the preceding ten fiscal years' debt ratios in the Annual Comprehensive Financial Report.

- D. As part of its Operating and Capital Improvement Budget, the County will disclose an estimate of the subsequent five fiscal years' debt ratios with an analysis of the impact, if any, future Permitted Obligations would have on the debt ratios.