DEBT OBLIGATION POLICY

200.1 Background and Purpose

This debt policy is designed to provide guidance to the County of Gloucester and its operating units in the issuance of debt and similar obligations. For the purposes of this Policy, any Capital Lease obligation, while 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 repayment of debt used to finance 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 or other obligations, 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.

200.2 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, which shall include a list of all debt-related projects and the corresponding debt service impact upon the General Fund of the County.

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.

200.3 Issuance Guidelines

A. The County will not use any 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 Capital Project proposed for financing.

C. The final maturity of any debt obligation will not exceed the expected useful life of the assets or project for which the debt obligation is issued.

D. Prior to the issuance of any form of debt obligation, the County will ensure that the issuance of such debt obligation will not result in non-compliance with this Policy.

E. At a minimum, all such debt obligations require approval by the Board of Supervisors. This approval shall indicate the Board of Supervisors approval of the identified funding for the Capital Project and compliance with this Policy.

F. Debt obligations shall only be issued for amounts greater than or equal to $500,000 and for Capital Projects with a useful life of greater than or equal to three (3) years, unless approved by the Board of Supervisors.

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 debt obligation.

200.4 Tax Supported 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 effect to the obligation being issued.

A. Net Debt as a percentage of Assessed Value of real estate will not exceed 3.0%. (Net Debt is defined as General Obligation debt, Capital Lease Obligations and any tax supported debt obligation approved by the County Board of Supervisors exclusive of debt or leases payable from the Enterprise Fund.)

B. General Debt Service and Capital Lease payments as a percentage of General Governmental Expenditures will not exceed 15%. For purposes of this requirement, General Governmental Expenditures shall be that amount reported in the most recent Comprehensive Annual Financial Report.

C. General Obligation Debt Service and Capital Lease payments will be structured in a manner such that not less than 50% of the aggregate outstanding tax-supported debt will be retired within ten years of any date of measurement.

D. If the County anticipates exceeding the Policy requirements set forth in items A, B or C above, County staff may request an exception from the Board of Supervisors indicating the reason for, and scope of, the exception.

200.5 Permitted Obligations

Based on the implementation of this Policy, the County shall consider the following debt obligations as Permitted Obligations for the purposes as stated. Unless indicated otherwise in the section below, all such debt 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 of 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. The County may issue BANs with a maturity of up to five years in length.

4. Prior to issuing BANs, the County will clearly demonstrate its ability to comply with this 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 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 any Capital Projects or other properly approved projects or programs, as permitted by law.

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 and refunding bonds which do not otherwise need approval by referendum.

D. VPSA Bonds and State Literary Fund Loans

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:

1. School Capital Projects or other projects permitted to be financed by the VPSA or State Literary Funds may be funded with GO debt if such debt is issued either through VPSA, State Literary Fund or otherwise. The County shall attempt to use Literary Funds when feasible and advantageous; however, preference should be given to timing, accessibility and interest rates when determining whether to use the VPSA or the Literary Fund.

2. 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

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.

F. Capital Leases

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.

G. 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 in order 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 if 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.

200.6 Disclosure and Communications

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

B. 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, moral obligation debt would have on the debt ratios.

C. The County is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, County departments, and the general public to share clear, comprehensive, and accurate financial information. The County is committed to meeting secondary market disclosure requirements on a timely and comprehensive basis through the Municipal Securities Rulemaking Board's ("MSRB") Electronic Municipal Market Access ("EMMA") system, if applicable.

EMMA Procedures (if applicable): The County will undertake the following procedures to ensure prompt and timely submission of its continuing disclosure information if the County is required to do so in connection with a public offering of debt or obligation requiring disclosure through EMMA.

1) Email reminders are to be established and maintained through the EMMA system to automatically generate 30 days prior to the filing due date each year. These emails are scheduled to be delivered to the Director of Finance ("Primary Contact"), County Administrator ("Secondary Contact"), and Deputy County Administrator ("Secondary Contact").

2) After the email reminders have been received by the individuals listed above, a new continuing disclosure submission is created by the Primary Contact. All information is then reviewed for accuracy by the Secondary Contacts and then submitted to the EMMA system by Primary Contact on or before the required filing due date. If the required continuing disclosure information will not be ready prior to the required filing due date, then a notice of failure to file the continuing disclosure information will be filed that contains an estimated filing date for the required continuing disclosure information.

3) The County shall file any material event notices within 10 days of such event occurring. If the County is unsure of the materiality of an event, it shall be discussed with its Bond Counsel and/or Financial Advisor to confirm if such event should be filed.

The procedures listed above will continue annually; however, the individuals listed in the named positions may change.

200.7 Exceptions to Policy

In situations and under circumstances deemed appropriate by the Board of Supervisors, exceptions to this Policy may be made by the Board, provided such exceptions are lawful.