Randolph County, North Carolina

Debt Policy

I. Introduction
The Randolph County Debt Policy is intended to provide practical guidelines, parameters and procedural requirements for the issuance and management of debt. Randolph County desires to establish debt management criteria that:

- Provides financing for essential capital needs in a timely manner
- Manages its debt obligations to meet demands for capital facilities
- Preserves the County's strong fiscal position
- Ensures sufficient flexibility to meet future obligations or opportunities

Many of the processes for approval, sale and repayment of debt are controlled by various North Carolina statutes. The laws and regulations pertaining to debt issuance for most of North Carolina local governments include:

CHAPTER 159	**LOCAL GOVERNMENT FINANCE**
Subchapter IV	**Long-Term Financing**
Article 4	**Local Government Bond Act**
Article 5	**Revenue Bonds**
Article 5A	**Capital Appreciation Bonds**
Article 6	**Project Development Financing Act**
Article 7	**Issuance and Sale of Bonds**
Article 8	**Financing Agreements and Other Financing Arrangements**
Article 9	**Bond Anticipation, Tax, Revenue and Grant Anticipation Notes**

CHAPTER 160A	**CITIES AND TOWNS**
§ 160A-20	**Security interests**

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, certificates of participation, lease/purchase agreements, special obligation bonds, or any other financing instrument allowed under North Carolina statutes. Randolph County will seek to utilize the least costly/most appropriate form of financing for its project needs.

III. Capital Planning and Debt Determination
The County Manager and Finance Officer review capital requests from departments, public schools and other agencies and evaluate feasibility of the projects, priority in relation to other needs, optimal timing, possible funding options, and future budgetary effects. If the project moves forward as a recommendation, the Board of Commissioners then consider the proposal,

including any debt to be issued. Debt financing will be considered in conjunction with the approval by the Board of the County's Capital Improvement Program (CIP).

Debt financing may also be considered for items that normally do not go through the CIP. Occasionally, certain expensive items are included in departmental requests, and are not funded as current year operating expenditures. These critical items may be financed through installment purchase debt, with Board approval. Finally, any capital item, because of its critical or emergency need where timing was not anticipated in the CIP or budgetary process, or is mandated immediately by either State or Federal requirements, may be considered for debt financing.

IV. 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 measures shall also be judged against the necessity of and the benefits derived from the proposed projects. These standards and guidelines shall include the following:

Debt Per Capita

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 issuers' ability to repay debt. This measure will be maintained with a target below $1,000 and a ceiling of $1,200.

Debt as Percentage of Assessed Valuation

This ratio measures debt levels against the property tax base which generates the tax revenues that are the main source of debt repayment. This ratio is to be targeted at 1.3% with a ceiling of 1.5%. North Carolina state law permits local governments to issue debt up to 8% of the total assessed valuation.

Debt Service as Percentage of Operational Budget

Debt Service payments are the legal obligation of the county, principal and interest paid to retire our obligations. The County must be able to support those payments yet continue to be able to respond to any changing priorities. This ratio reflects the County's budgetary flexibility to change spending and respond to economic downturns. This ratio is targeted at a level of 13% with a ceiling of 15%.

By establishing maximum debt ratios (ceilings or floors) and target debt ratios over a period of time the County is demonstrating that there is a limit above which the County will not issue additional debt in order to control its debt service burden. The County is committing to either decrease capital spending or to find other funding sources rather than create an excessive debt burden on future budgets. The County will update its analysis of debt affordability annually along with a review of comparable AA rated counties in order to monitor and control its debt effectively.

V. Debt Structure

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 be generally competitively bid with no more than a 20-year life. Negotiated or private placements, however, may be used where allowed when complex financing or structure is a concern with regard to marketability. The County will primarily issue fixed rate debt in order to lessen interest rate risk over the life of the issue. Variable rate debt may be considered under certain limited circumstances, with analysis of the cost savings weighed against interest rate risk.

Debt service for each issue will be structured in an attempt to level out the County's total debt service payments. Randolph County will seek to structure the debt repayment using equal principal payments. This method results in declining debt service costs over the term as annual interest expense is reduced. This provides additional borrowing capacity sooner than with a fixed payment schedule. This structuring assists in minimizing the interest payments over the life of the issue. Structuring must take into consideration current conditions and practices in the municipal finance market.

Debt sales will be scheduled based on expected cash needs for construction or acquisition of projects. The size of financings will be determined by the cost of the assets being acquired, including all issuance costs. The time of the sale will be determined based on existing cash resources and construction cash draw down requirements. Projects should be expected to be completed within two years after the sale of debt, in a manner to satisfy the two year exception under IRS arbitrage rules.

For most debt issuances, the actual structure and sale is conducted by the underwriter in conjunction with the Local Government Commission (LGC), a division of the Office of the State Treasurer. The LGC provides financial guidance to local governments considering a debt issuance, and must approve all provisions including terms, structure, collateral, and repayment.

VI. Credit
The County will seek to maintain its current Aa3 bond rating from Moody’s Investor Service and AA- bond rating from Standard and Poor’s on its general obligation debt and maintain the highest possible ratings on other financing instruments, if rated. 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 as requested.

VII. Interest Rate Savings - Refunding of Outstanding Debt
The County will monitor the municipal bond market for opportunities to obtain interest savings by refunding or advance refunding outstanding debt. 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 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 rebatable 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 disclosure information to established national information repositories and maintain compliance with disclosure standards promulgated by state and national regulatory agencies.

X. Selection of Financial Consultants and Service Providers
The County will provide for solicitation and selection for securing all professional services required in connection with any debt issues, including bond counsel and underwriting. This selection will focus on the particular experience and expertise necessary, will be made in order to secure such services at competitive prices to the County, and will continue on an on-going basis as long as quality of service is maintained.

XI. Legality
The County must receive an opinion acceptable to the market from a nationally recognized law firm that any financing transaction complies with applicable law and all agreements in connection with any financing are legal, valid and binding obligations of the County.

XII. Public authorities
Certain public authorities can be created by Randolph County but are considered separate and autonomous from the County. Due to the autonomy of such authorities, any debt issued by the authorities is not considered debt of the County. An authority so created by Randolph County is the Industrial Facility and Pollution Control Financing Authority. The Authority has issued a wide variety and substantial number of bonds and notes for the purpose of economic development. The debt issued by the Authority is considered no commitment debt by the County.

XIII. Administration and Implementation
The County Manager and the Finance Officer are responsible for the administration and issuance of debt, including the completion of specific tasks and responsibilities included in this policy.

Adopted October 4, 2010