RESOLUTION OF THE COUNTY COUNCIL OF FREDERICK COUNTY, MARYLAND

RESOLUTION NO. 21-22

RE: DEBT POLICY FOR FREDERICK COUNTY, MARYLAND

RECITALS

Pursuant to §17-207 of the Local Government Article of the Annotated Code of Maryland, the governing body of Frederick County is required to adopt a local debt policy that meets the needs of the local government and is consistent with all applicable State and local laws.

A previous Debt Policy was adopted by Board of County Commissioners of Frederick County on September 11th, 2009. The revised Debt Policy will align the policy with Charter language related to debt limit calculations and will reflect current bond market practice and related compliance regulations.

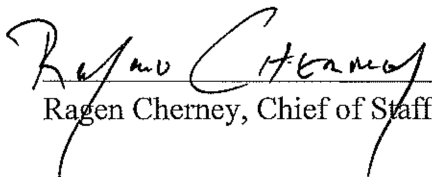
RESOLUTION

NOW, THEREFORE, BE IT RESOLVED by the County Council of Frederick County, Maryland hereby certifies that the Debt Policy that governs the form, structure and use of long-term debt that can be issued to fund the construction and purchase of capital assets for the benefit of the citizens of Frederick County, as set forth in the attached Exhibit A, and incorporated herein by reference, is hereby adopted.

The undersigned hereby certifies that this Resolution was approved and adopted on the 17th day of August, 2021.

ATTEST:

COUNTY COUNCIL OF
FREDERICK COUNTY, MARYLAND

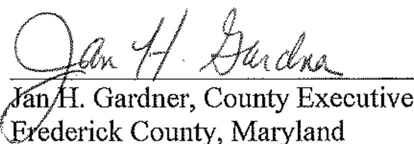


Ragen Cherney, Chief of Staff

M.C. Keegan-Ayer, President

Received by the County Executive on August 19, 2021

COUNTY EXECUTIVE ACTION: ✓ Approved ________ Vetoed



Jan H. Gardner, County Executive
Frederick County, Maryland

8/23/2021
Date

Jan H. Gardner
County Executive

FREDERICK COUNTY GOVERNMENT

DIVISION OF FINANCE

Erin White, CPA, Division Director

DEBT POLICY FOR FREDERICK COUNTY, MARYLAND
Effective July 1, 2021

I. Introduction

A. Debt policy is the combined practices of Frederick County (also referred to as the "County") with respect to long-term debt management. Debt policies are written guidelines and restrictions that affect the amount and type of debt issued by Frederick County.

B. This debt policy is to be used in conjunction with the operating and capital budgets, the Capital Improvement Program (CIP) and other fiscal policies.

C. Adherence to debt policies signals to the rating agencies and the capital markets that Frederick County is well managed and will meet its obligations in a timely manner. Following this debt policy will enhance the quality of debt related decisions by imposing order and discipline and by promoting consistency and continuity in decision making. Adherence to this debt policy will help to ensure that Frederick County maintains a sound financial position and credit quality is protected. This debt policy demonstrates the County's commitment to long-term financial planning and will be positively regarded by the municipal market when reviewing Frederick County's credit quality.

D. Frederick County's debt policy is intended to apply to most forms of long-term obligations including General Obligation Debt, capital leases, State revolving loan funds, conduit debt, and interfund borrowings. Vested leave, pension and health care benefits, while they fit the definition of long term debt, they are not intended to be covered by this policy.

II. Qualifying Uses of Debt/Prohibitions on the Use of Debt

Much of the CIP is expected to be funded with debt. Capital assets usually have a long useful life and will serve future, as well as current, taxpayers. It would be inequitable and an unreasonable fiscal burden to make current taxpayers and ratepayers pay for many projects out of current tax and user charge revenues. Accordingly, debt issues are advisable, necessary and equitable.

A. Debt issued for projects should have a term equal to or less than the useful life of the asset financed.

B. Prior to considering debt as a source of funding capital projects, the County shall determine if other potential revenue sources, such as pay-as-you-go (Paygo), intergovernmental aid or private contributions are available.

C. The County may share funding with municipalities in their projects if it is clear that the County will receive the benefit of these projects.

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D. The County will consider issuing debt to improve leased property only if the County has a non-cancellable lease on the property that exceeds the economic life of the asset.

E. The County will only issue debt to construct or acquire public facilities for which it expects to sustain future annual operational and maintenance costs.

F. The County has no intent to issue long-term debt to reduce the unfunded liability of the Pension Trust.

G. The County has no intent to issue long-term debt to reduce the unfunded liability of the Other Post-Employment Benefits Trust.

H. Long-term debt may not be used to finance ongoing and recurring operational expenditures and expenses.

III. Types of Debt Instruments

A. General Obligation Debt

1. General Obligation Bonds – General Obligation ("GO") Bonds are the most common form of debt instrument for Frederick County. These are generally tax-exempt and are backed by the full faith and credit of Frederick County. GO Bonds are issued to finance the purchase and construction of infrastructure and facilities for a wide variety of functions such as transportation, public schools, community college, public safety, roads and highways, bridges and other programs. Frederick County issues GO Bonds pursuant to Bond bills enacted from time to time by the Frederick County Council pursuant to relevant provisions of the Annotated Code of Maryland and the County Charter ("GO Bond Bills"). Pursuant to Chapter 2-13-13 et seq. of the Frederick County Code of Ordinances (the "Code"), the County is authorized to issue GO Bonds for the purpose of providing funds for the design, construction, establishment, purchase or condemnation of water, sewage, drainage and solid waste systems in Frederick County ("Water and Sewer Act"). Pursuant to Sections 5-601 through 5-604 of the Education Volume of the Annotated Code of Maryland, as amended (the "Education Act"), the County is authorized to issue GO Bonds to finance public school construction projects. The GO Bond Bills, the Water and Sewer Act and the Education Act are sometimes referred to collectively herein as the "GO Bond Authorization."

2. Bond Anticipation Notes (BANs) - These are generally short term in nature and are issued as interim financing for a variety of financial reasons. On occasion BANs may be issued in one or more smaller amounts before a single larger size GO Bond issue is executed. Proceeds of future GO Bond issues would be used to pay off the BANs. State law permits the issuance of BANs by Frederick County.

3. Agricultural Land Preservation Installment Purchase Agreements (IPAs) – These are general obligation debt instruments to fund purchases of property development rights and are backed by the full faith and credit of Frederick County. The IPAs are entered into under the authority of the GO Bond Bills.

4. State of Maryland Revolving Loan Programs – The loan programs the County regularly participates in are those offered by the Maryland Department of the Environment. Interest rates are generally lower than those for which the County qualifies on its own merit in the open market. On occasion, loans may be for no interest. On some loans, the State assesses fees to supplement the low interest rates.

B. Special Obligation Debt / Conduit Bonds

1. The County may issue Tax Increment Financing (TIF) Bonds to fund public infrastructure located in certain development districts established in connection with the TIF. The taxes levied on the increase in the assessable base of the properties affected are pledged to finance the debt issued to complete the capital assets. The County is not responsible for the debt service in the event that TIF revenues are not sufficient to pay debt service. TIF debt does not count against the legal debt limits and Debt Affordability guidelines. The County has a TIF policy to govern the establishment of the development districts, the application for the TIF debt proceeds and the issuance of the TIF debt.

2. The County may authorize Community Development Authorities (CDA) to fund public infrastructure in specified geographical areas. Special taxes levied on the benefitted properties fund this special obligation debt. Beyond the levy and collection of specific taxes, the County is not responsible for the debt service in the event of default. This debt does not count against the legal debt limits and Debt Affordability guidelines.

3. The County may issue economic development Revenue Bonds in its name for the benefit of certain private organizations that qualify for such participation. The conduit organizations assume all responsibility for repayment of the debt, for monitoring the use of the debt in accordance with Internal Revenue Service guidelines and for all post-issuance disclosures. This debt does not count against the legal debt limits and Debt Affordability guidelines and the County is not responsible for the debt service in the event of default.

C. Revenue Bonds

1. Revenue Bonds are secured by the pledge of particular revenues to their repayment. The revenues pledged may be those of a Special Revenue or Enterprise fund, or they may be derived from revenues received from or in connection with a particular project, all or part of which is financed from the proceeds of revenue bonds.

2. Revenue Bonds are generally tax-exempt and structured to be self-supporting. Because they are self-supporting they are excluded from Debt Affordability calculations.

3. Revenue-based debt generally carries a higher interest rate but allows a direct relationship between the cost of a project and the users who benefit from it.

4. Under the Water and Sewer Act, the County may issue Revenue Bonds. The County needs County Council approval to issue other Revenue Bonds.

D. Interfund Loans – Loans may be extended between funds of the County. In such an event, interest will accrue to the borrowing fund at least equal to the short-term interest rate the County receives on its idle proceeds. This rate shall be calculated monthly for any funds outstanding during that month. No interfund loans will be executed without a plan of repayment to the affected fund.

E. Lease Financings – This form of financing is used regularly for the purchase of substantial equipment that may not qualify to be financed with GO Bonds. The term of this form of financing is typically five to ten years. The equipment being purchased is sometimes the collateral for the leases. Lease agreements are subject to annual appropriation.

IV. Debt Limits

A. In accordance with Maryland Annotated Code Section 10-203, subject to any limit imposed by a county charter, a county may provide for the borrowing of money on the faith and credit of the county and for the issuance of bonds or other evidences of indebtedness in accordance with local law. Debt issued pursuant to Frederick County Charter, Section 508, the aggregate amount of bonds and other evidences of indebtedness outstanding at any one time that pledge the full faith and credit of the County may not exceed a total of three percent of the assessable basis of real property of the County and nine percent of the County's assessable basis of personal property and operating real property described in Section 8-109(c) of the Tax – Property Article. Exceptions to this debt limit calculation include (1) tax anticipation notes or other evidences of indebtedness having a maturity not in excess of 12 months; (2) bonds or other evidences of indebtedness issued or guaranteed by the County payable primarily or exclusively from taxes levied in or on, or other revenues of, special taxing areas or community development authorities: and (3) bonds or other evidences of indebtedness issued for self-liquidating and other projects payable primarily or exclusively from the proceeds of assessments or charges for special benefits or services.

B. The County has a Debt Affordability model that it uses to determine the amount of new debt the County can afford to support. The model is driven by revenue and growth assumptions with established standards controlling the amount of new debt to be issued over the life of the CIP. The County uses the following guidelines in deciding how much additional General

Obligation Debt may be issued in the six-year CIP period. There are limiting standards relative to:

1. The ratio of General Fund GO Debt Service to General Fund Revenues
2. The ratio of General Fund Debt to Assessed Value of Taxable Real Property.
3. The ratio of General Fund Debt to General Fund Revenue;
4. Total GO Debt Service to General Fund Revenue;
5. Other standards as may be appropriate.

V. Debt Structure: Term

A. Bonds are typically issued for 20-30 years. The IPA program typically limits terms to between ten (10) and twenty (20) years. When bond market conditions warrant, or when a specific project would have a shorter useful life, then different repayment terms may be used.

B. Capital Leases generally have a term of five to ten years.

C. County debt issues may be structured for repayment with near level debt service payments or level principal payments. Current County practice has been to utilize the near-level debt service payment method to facilitate the budget process.

D. The size of the debt issue should be such that economies of scale are reached with regard to issuance costs, including but not limited to Bond Counsel, Financial Advisor, Underwriter and rating fees.

VI. Method of Sale

A. Competitive sales should generally be used for General Obligation Debt issues. Negotiated sales may be used if the County Executive, in conjunction with the Director of Finance and the County's Financial Advisor, determines that such a sale method is in the best interests of the County.

B. Electronic bidding systems should be encouraged in order to enhance participation.

VII. Debt Management Policies

A. The County will at all times manage its debt and sustain its strong financial position, including healthy reserves, to seek and maintain the highest credit rating possible.

B. Federal income tax law applicable to the issuance of tax-exempt debt generally limits the portion of the proceeds of such debt that may be loaned to or otherwise used by a private trade or business (a "private business use") to 10% of such proceeds (the "bad money allowance"). On occasion the County may have reason and justification to take advantage of

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the bad money allowance and include funding for a private business use within a tax-exempt debt issue. The tax certificate executed by the County in connection with each issuance of tax-exempt debt should discuss any expected uses of proceeds for private business uses.

C. The County may seek credit enhancements such as letters of credit or insurance when necessary for marketing purposes or cost effectiveness.

D. The County will consider utilizing debt service reserve funds for certain debt issuances if advantageous to the County for marketing or cost mitigation purposes.

E. The County will monitor compliance with bond covenants as applicable when the County is the obligor. Bond covenants are generally related to Revenue Bonds or Special Obligation Debt. The County will not assume any obligation to monitor compliance with bond covenants in conduit bond issues.

F. Promptly after the passage of each Capital Budget, the Director of Finance will file a "Declaration of Official Intent to Reimburse." This provides the County with the right to reimburse itself from future General Obligation Debt issues for capital costs advanced prior to the issuance of the debt. These reimbursement rights are subject to rules promulgated by the Internal Revenue Service.

VIII. Financing Mechanisms

A. The County pledges its full faith and credit to repayment of all General Obligation Debt. Accordingly, paying principal and interest on General Obligation Debt is the absolute first claim on County resources.

B. In addition to its general income and property tax resources the County may allocate portions of certain revenue sources to the repayment of its General Obligation Debt, to include, but not limited to:

1. Recordation taxes
2. Impact fees
3. Bond Premium
4. Hotel Rental taxes
5. School Mitigation fees
6. Enterprise Fund fees

C. The County will consider various financing techniques, including fixed or variable interest rate debt, to minimize the interest costs over the life of the issue. These techniques will be evaluated based on market conditions and risk.

D. When appropriate for funding large "mega-projects", the County may apply to the U.S. Department of Transportation or the U.S. Environmental Protection Agency for TIFIA or WIFIA loans, respectively.

E. Use of Derivatives/Swap

1. A derivative is an instrument that receives its value from or gets its value from another instrument, asset, index or event. While not specifically excluded, derivatives must be carefully used because the volatility of interest rates can greatly affect the value of derivatives. County policy is to refrain from using derivatives. Any expanded use of derivatives would require a revision to the County's current policy. This policy is not intended to preclude the investment by the County in U.S. Treasury STRIPS (Separate Trading in Registered Interest and Principal Securities) and, in particular, the County may invest in STRIPS in connection with its agricultural land preservation program.

2. A swap is an interest rate exchange transaction. While not specifically excluded, County policy is to refrain from entering into swap agreements.

IX. Refunding

A. The County, in conjunction with its Financial Advisor, will monitor its outstanding debt in light of current debt market conditions and will refund any qualifying debt when sufficient savings can be realized.

B. Section 1919-207 of the Local Government Article of the Annotated Code of Maryland, as amended (the "Refunding Act"), authorizes the County to issue bonds for the purpose of refunding any of its outstanding bonds. Refunding bonds may be issued for the public purpose of (a) realizing savings to the County in the aggregate cost of debt service on either a direct comparison or present value basis, or (b) a debt restructuring that (i) in the aggregate effects such a reduction in the cost of debt service or (ii) is determined by the County to be in the best interest of the County, to be consistent with the County's long-term financial plan and to realize a financial objective of the County including improving the relationship of debt service to a source of payment such as taxes, assessments or other charges, or (c) preserves the tax status of bonds in accordance with federal income tax laws. At least one of these public purposes shall be realized when a refunding occurs. Advance refundings and current refundings should typically show aggregate net cost savings (measured on a present value basis) of at least three percent of total refunded par, inclusive of all costs of issuance.

C. The County is permitted to issue federally taxable bonds to accomplish advance refundings, insofar as cost savings consistent with the immediately above target can be achieved.

D. In the event of advance refundings, policy dictates that State and Local Government Series (SLGS) securities should be used for advance refundings escrow accounts to the extent available.

X. Post-Issuance Administration/Arbitrage

A. In connection with each issuance of debt the interest on which will qualify for exemption from federal income tax, the County will execute such certificate(s) and file such information returns as Bond Counsel advises are necessary and appropriate to establish qualification for such exemption.

B. Subsequent to the issuance of any issue of tax-exempt debt the County will comply with such requirements for the maintenance of the tax-exempt status of the interest payable on the debt (including without limitation restrictions related to arbitrage yield restrictions, rebate of arbitrage profits, and private business use) as are contained in the certificate(s) referenced in paragraph X.A or as may otherwise become applicable to the debt subsequent to its issuance.

C. The County intends that its tax-exempt debt be issued in such amounts and at such times relative to the expected expenditure of proceeds as to reasonably expect, as of the time of issuance, that the expenditure of proceeds will qualify for an exception to the arbitrage rebate and yield restriction rules of federal income tax law.

D. The investment of unspent bond proceeds shall be in accordance with the County's Investment Policy, the tax certificate executed by the County in connection with the issuance of such debt, and the trust indenture or other documents, if any, entered into by the County in connection with the issuance of the debt and imposing restrictions on such investment.

E. All trust accounts will be closed timely when no longer needed.

F. The County has adopted its Statement of Procedures and Responsibilities with Respect to Post-Issuance Tax Compliance for Tax-Exempt Financing to assure compliance with the requirements of federal income as are applicable to its tax-exempt debt following issuance.

XI. Continuing Disclosure

A. The County will comply with all disclosure requirements established by the Securities and Exchange Commission.

B. The Continuing Disclosure Agreements can be found as an appendix to every Official Statement.

XII. Service Providers

A. The County Executive is responsible for establishing a selection and contracting process for professional services relative to the issuance of debt. The criteria used in selecting service providers include quality of services, cost of services, experience in their respective expertise, and ability and willingness to comply with the County's terms and conditions. The main service providers include:

1. Financial Advisor

a. Relative to non-debt issuance, the Financial Advisor may be asked for advice related to investment activity and policy, rate setting processes and other financial issues.

b. The Financial Advisor has a role in every form of County debt issuance except conduit debt, interfund loans and State Revolving Loans.

c. The Director of Finance shall advise the County Executive relative to the solicitation for and selection of and duration of employment for the Financial Advisor.

d. The Financial Advisor firm will not bid on nor underwrite any County debt issues.

e. The County shall not limit itself to having a single Financial Advisor or firm under contract at any one time.

2. Bond Counsel

a. As part of its responsibility to manage outside attorney contracts, the County Attorney will work closely with the Director of Finance and advise the County Executive relative to the duties and responsibilities and the solicitation and selection of and duration of employment for Bond Counsel

b. Bond Counsel will have a role in all debt issues except interfund loans.

c. In addition to debt related issues, Bond Counsel may be employed to handle issues related to tax matters and Internal Revenue Service procedural issues.

d. The County shall not limit itself to having a single Bond Counsel firm under contract at any one time.

XIII. Credit Ratings

A. The County's ability to borrow at the lowest cost of funds depends upon its credit standing as assessed by major credit rating agencies.

B. In order to enhance the County's position in the debt market, the Director of Finance will be responsible for determining whether ratings will be requested.

C. The Director of Finance is responsible for maintaining relationships with these agencies and keeping them informed relative to material economic events that occur in the County between debt issuances (between official rating events). The County Executive, Bond Counsel and the County's Financial Advisor may be consulted when determining whether an economic event is of significant proportion to qualify for such a notification.

D. The County shall maintain adequate systems of internal control, comply with applicable laws and regulations, and conduct its financial affairs in such a way as to sustain a strong financial position in order to maintain the highest credit rating level possible.

E. The County presently carries credit ratings from Fitch Ratings, Moody's Investors Service, and S&P Global Ratings. The County is not required to seek a rating on all publicly issued forms of indebtedness from all three firms each time it issues debt and it may drop one agency for any reason in its sole discretion. The County may consider adding new ratings from new entrants into the rating agency business if it believes that such action would enhance the marketability of County bond issues.

XIV. Administration/Responsibilities

A. The County Executive is responsible for implementing and revising these policies as appropriate.

B. The debt policies are to be reviewed formally by the Director of Finance at least every five (5) years.

C. The Director of Finance is responsible for the administration of these policies.

D. The Director of Finance, based upon advice and counsel from the Financial Advisor and Bond Counsel, may deviate from the guidelines established in this debt policy on a case by case basis, as may be warranted in particular circumstances, with the advance approval of the County Executive.