

Cumberland County Board of Commissioners

Debt Management Policy

**Established with the adoption of Resolution 11-2011-1
on November 21, 2011**

A. Transparency

Cumberland County shall comply with legal requirements for notice and for public meetings related to debt issuance. In the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens/members, governing body, and other stakeholders in a timely manner.

The Cumberland County Finance Director is responsible for ensuring compliance with this policy and with analysis reporting. To ensure transparency of decisions for annual debt reports, annual budgets and specific issuance, debt reports shall be prepared and available for public review and comment.

The annual debt report shall be submitted to the county legislative body by January of each fiscal year and made available for public view and comment.

The Finance Director shall prepare multi-year debt budgets as part of the annual debt report.

Cumberland County shall not issue debt that exceeds the life of the capital asset. No debt should exceed 30 years.

B. Professionals

1. Cumberland County shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both Cumberland County and the lender or conduit issuer, if any. This includes "soft" costs or compensations in lieu of direct payments.
2. Counsel: Cumberland County shall enter into an engagement letter agreement with each lawyer or law firm representing Cumberland County in a debt transaction. *(No engagement letter is required for any lawyer who is an employee of Cumberland County or lawyer or law firm which is under a general appointment or contract to serve as counsel to Cumberland County. Cumberland County does not need an engagement letter with counsel not representing Cumberland County, such as underwriters' counsel.)*
3. Financial Advisor: If Cumberland County chooses to hire financial advisors, Cumberland County shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions.
4. Whether in a competitive or negotiated sale, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance.
5. Underwriter: If there is an underwriter, Cumberland County shall require the underwriter to clearly identify itself in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with Cumberland County with respect to that issue.

The underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction and that it has financial and other interests that differ from those of Cumberland County. The underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to the governing body (*or its designated official*) in advance of the pricing of the debt.

6. Cumberland County shall have a financial advisor hired by RFP and approved by the full legislative body.
7. The county legislative body shall approve all contracts for financial services.
8. Disclosures shall occur in a timely manner to allow the county to have full understanding of potential conflicts prior to taking formal action on selection of service providers or financial commitments.
9. Issuers should include a contract provision prohibiting any firm from engaging in activities on behalf of the issuer that produce a direct or indirect financial gain for the financial advisor, other than the agreed upon compensation, without the legislative body's approval.

C. Conflicts

1. Professionals involved in a debt transaction hired or compensated by Cumberland County shall be required to disclose to Cumberland County existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow Cumberland County to appreciate the significance of the relationships.
2. Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.
3. Professionals involved in a debt transaction or compensated by Cumberland County are required to enter into an engagement letter related to their proposed services, cost, and any potential conflict of interest.

D. Additional Considerations

1. The objective of Cumberland County is to reach and maintain a debt ratio of 65 percent fixed rate debt to 35 percent variable rate debt. Interest swap agreements and derivative arrangements will be counted as variable rate debt.
2. The objective of Cumberland County is to limit outstanding debt to a maximum of \$1,200 per capita.

3. In the event of variable interest debt, the county should budget, at minimum, an additional 2% above the current variable rate to protect the county in the event of an upswing in interest rates.
4. Refunding should only occur to achieve overall savings on debt service costs above the costs associated with refunding, restructuring outstanding debt, or to improve terms and conditions of the bond.
5. Refunding debt amortization shall not extend beyond the original anticipated life of the asset acquired by the debt.
6. No new debt will be issued that engages in interest swap agreements or derivative arrangements.
7. Debt should be amortized according to the life of the asset being financed. Cumberland County will seek to structure debt with level or declining debt service payments over the life of each individual bond issue or loan. As a rule, Cumberland County will not backload, use "wrap-around" techniques, balloon payments or other exotic formats to pursue the financing of projects. No new back loaded debt will be issued.
8. Cumberland County shall avoid the use of credit enhancements on any new debt issuance.
9. All new debt issuance shall be submitted to the Debt Management Committee for recommendation to the full legislative body.
10. The objective of Cumberland County is to maintain a debt service fund balance range from a low of 150% to a high of 300% in relation to the Debt Service annual budget. The fund balance could grow over 300% if the county is accumulating funds for future large debt issuances.

E. General Guidance

The guidelines outlined herein are only intended to provide general direction regarding the future issuance of debt. Cumberland County maintains the right to modify this Debt Policy and may make exceptions to any of its guidelines at any time to the extent that the execution of such debt achieves the goals of Cumberland County and as long as such exceptions or changes are consistent with TCA and any rules and regulations promulgated by the State. Any deviation from this policy shall require a 2/3 majority vote of the county legislative body.