

BEDFORD COUNTY PUBLIC SERVICE AUTHORITY
OPERATING POLICY MANUAL

Chapter: Finance
Document Number: 13.12
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Issue (Effective) Date: March 17, 2009
Approval Date: March 17, 2009
Approved By: Board of Directors

DEBT MANAGEMENT

Section 1. PURPOSE

The purpose of this policy is to establish the parameters governing the issuance, management, continuing evaluation of, and reporting on all debt obligations issued by the Bedford County Public Service Authority (“Authority”). Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective Debt Management Policy provides guidelines for a government to manage its debt program with those available resources.

Section 2. POLICY

- A. In accordance with the other terms of this policy, the Authority may issue debt for the purpose of financing the costs of planning, design, land acquisition, or the construction of water facilities, sewer facilities, buildings, structures and attached fixtures, and infrastructure.
- B. Whenever feasible, debt issuances will be pooled together to minimize issuance costs.
- C. The Executive Director and Financial Manager are responsible for post issuance compliance. (See Section 8.)

Section 3. TYPES OF DEBT

- A. Revenue Bonds:
 - 1. The Authority may issue Revenue Bonds to finance its enterprise activities or for capital projects which generate a revenue stream.
 - 2. The bonds will include written covenants which will require that the revenue sources are sufficient to fund the debt service requirements, including ratios as specified in Section 4.E.
 - 3. Costs of issuance, debt service reserve funds, and capitalized interest may be included in the capital project costs and thus fully eligible for reimbursement from bond proceeds as permitted by applicable law.
- B. Capital Acquisition Notes and Leases:
 - 1. The Authority may issue short-term notes or capital leases to purchase buildings, machinery, and fixtures.

Section 4. DEBT LIMITS

- A. Debt financing will be used for major, non-recurring items with an economic life of greater than 5 years.
- B. The maximum maturity of any debt will not exceed the expected weighted average useful life of the project for which the debt is issued.
- C. The Authority will not fund current operations from proceeds of borrowed funds.
- D. The Authority will reserve the use of long-term borrowing and leases to capital improvements, projects, or equipment that cannot be financed from current financial resources.

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- E. For Revenue Bonds, the Authority will fix and collect rates, fees, and other charges for the use of and for services furnished or to be furnished by its System, and will from time to time revise such rates, fees, and other charges so that in each fiscal year Net Revenues Available for Debt Service will equal at least 115% of the amount required in the fiscal year to pay the principal and interest on the bond and all other indebtedness of the Authority payable from Revenues, including without limitation, indebtedness under leases which are treated as capital leases under generally accepted accounting principles.

Section 5. DEBT STRUCTURING

- A. Bond maturities shall not exceed the useful life of assets purchased with the proceeds.
- B. Debt service reserve funds and other funds as required by bond covenants shall be established and monitored annually to ensure continued compliance with bond covenants, Authority policies, and Federal and State Regulations.
- C. Investment of bond proceeds shall be in compliance with the Authority's Investment Policy of the Operating Procedures and Policy Manual and meet the requirements of the bond proceeds covenants.
- D. All debt issuances subject to arbitrage shall be monitored by the Financial Manager and arbitrage liability calculations shall be performed in a timely manner.

Section 6. DEBT ISSUANCE PROCESS

- A. The Authority will generally use the competitive sale method unless there are compelling reasons where a negotiated sale or private placement would have a more favorable result due to prevailing conditions in the market, a financing structure which requires special pre-marketing efforts, or factors are present that are expected to result in an insufficient number of bids.
- B. The Authority may issue advance or current refunding or refinancing of bonds in accordance with federal tax law.
 - 1. Refunding is a process whereby an issuer refinances an outstanding bond issue by issuing new bonds. The advantages to refunding are to reduce an issuer's interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced.
 - 2. Generally the issuance of refunding bonds shall occur if the present value of debt service savings exceeds three (3) percent of the debt service amount of the refunded bonds and/or the net present value of future savings warrants such refunding.

Section 7. DISCLOSURE REQUIREMENTS

- A. The Authority will maintain good communications with agencies to inform them of the Authority's financial position by providing them with the Authority's Comprehensive Annual Financial Report (CAFR) and the annual adopted budget.

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- B. The Authority will disclose the preceding ten (10) fiscal year's Schedule of Debt Coverage in the CAFR.

Section 8. POST ISSUANCE COMPLIANCE PROCEDURES

- A. Expenditure of Bond Proceeds:
 - 1. Three-Year Capital Projects:
 - a. Expenditure Test – 85% of proceeds are expected to be used within three (3) years.
 - b. Time Test – Issuer will enter into a contract for at least 5% of net sales proceeds within six (6) months.
 - c. Due Diligence Tests – Must proceed with due diligence to complete the projects.
 - d. May be extended to five (5) years if the Engineer or architect certifies that the project cannot be completed in the three (3) year time period.
- B. Arbitrage Yield Restriction and Rebate:
 - 1. Rebate Requirements:
 - a. First installment of arbitrage rebate is due on the fifth anniversary of the bond issuance plus 60 days.
 - b. Succeeding installments every five (5) years.
 - c. Final installment 60 days after retirement of last bonds of issue.
 - d. Monitor expenditures prior to semi-annual target dates for 6-month, 18-month, or 24-month spending exception.
 - e. Monitor expenditures generally against date of issuance expectations for:
 - i. Three-year or five-year temporary periods
 - ii. Changes in use of financed facilities.
 - iii. Application of bond proceeds to qualified costs as per Indenture, Financing Agreement or state law.
 - 2. Record Retention Requirements:
 - 1. Maintain general records relating to issue for life of the issue plus any refunding plus three (3) years.
 - 2. Record to be Maintained:
 - a. Federal tax or information returns (Form 8038 series returns).
 - b. Comprehensive Annual Financial Reports (CAFR).
 - c. Bond transcripts, official statements, and other documents of the bond financing.
 - d. Minutes and resolutions authorizing the issuance of the bonds.
 - e. Certifications of the issue price of the bond financings.
 - f. Appraisals, demand surveys, or feasibility studies for bond financed property.
 - g. Trustee statements for bond financings.
 - h. Correspondence (letters, emails, faxes, etc.) for bond financings.
 - i. Arbitrage documents:
 - i. Computations of bond yield.
 - ii. Computations of rebate and yield reduction payments.
 - iii. Form 8038-T: Arbitrage Rebate, Yield Reduction, and Penalty in Lieu of Arbitrage Rebate.

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- iv. Form 8038-R: Request for Recovery of Overpayments under Arbitrage Rebate Provisions.
- j. Expenditure and Asset Records:
 - i. Allocations of bond-financing proceeds to bond issuance costs.
 - ii. Copies of requisitions, draw schedules, draw requests, invoices, bills and cancelled checks related to bond proceeds spent during the construction period.
 - iii. Copies of all contracts entered into for the construction, renovation, or purchase of bond-financed facilities.
 - iv. Records of expenditure reimbursements incurred prior to issuing bonds for facilities financed with bond proceeds.
 - v. An asset list for all bond financed facilities or equipment.
 - vi. Depreciation schedules for bond-financed depreciable property.
 - vii. Records that track purchases and sales of bond financed assets.

Section 9. REVISIONS

- A. This policy was approved and adopted by the Authority's Board of Directors on March 17, 2009.