CUYAHOGA COUNTY

Municipal Infrastructure Program

Policies and Procedures

Approved by Investment Advisory Committee

February 3, 2014

Overview and Purpose

Cuyahoga County (the "County") has determined that it is in the best interest of the County and the political subdivisions that are located within the County to establish a program whereby the County purchases debt (bonds and notes) directly from political subdivisions within the County in the event that those entities do not have direct access to the markets that have been traditionally available to them in raising money for capital projects.

Specifically, most political entities have typically accessed the capital markets through the issuance of Limited Tax General Obligation Notes and Bonds ("LTGO Debt") in the public market. Some communities have been precluded from issuing new LTGO Debt since the most recent reappraisal of property in the County. With a reduction of assessed valuation, these communities are unable (or have limited capacity) to issue additional LTGO Debt under Ohio's constitutional ten-mill limitation. This constitutional debt limit sets a cap on maximum annual debt service on LTGO debt for all overlapping political subdivisions at 10 mills of property taxation. Consequently, as assessed valuation falls, the capacity to issue new LTGO Debt also falls.

The goal of the program is to assist the various local governments throughout the County in accessing capital in an efficient and cost effective manner. The County intends to invest in bonds and notes issued by local government entities. The County intends to invest only in securities that it deems to be secure. It will analyze each bond or note purchased to determine if the security features being offered by the borrower are adequate to provide the County with the protection it needs. The County intends for this program to be consistent with the risk limitations that apply to other investments that are eligible to be purchased in its portfolio.

Eligibility

Type of Government: Cities, villages, townships, school districts and special districts whose boundaries are fully or partially within the County.

Need of Local Government:

- ✓ <u>Ability to Issue GO debt:</u> An applicant must demonstrate that (i) it does not currently have capacity to issue additional LTGO Debt or (ii) that the issuance of the new debt that is the subject of the application would result in less than 1 mill of remaining capacity under the 10 mill limitation if it were issued as LTGO Debt.

- ✓ Project Size: The County will consider applications for projects of $3,000,000 or less and will limit its total exposure to any entity to $3,000,000.

Credit Considerations

Types of Credit: The County will consider bonds and notes secured by the following types of revenue streams:

- ✓ Income Tax Pledge
- ✓ Non-tax Revenue Pledge
- ✓ Utility (Water and Sewer) Revenue Pledge

The County will not consider purchasing LTGO Debt because the primary purpose of the program is to assist entities nearing their LTGO debt limit. The County is also explicitly excluding bonds backed solely by a TIF revenue pledge or special assessment revenue pledge due to the perceived higher level of risk associated with such bonds and notes.

Maturity: Consistent with its current investment policy, the maximum maturity of any issue will not exceed 5 years from its date of issuance. Due to the illiquid nature of these investments, the County will not commit its resources for a longer duration.

Amortization: The County prefers to purchase bonds/notes from issuers participating in this program that will be fully amortized over the initial term of the loan. Nevertheless, the County recognizes that not all participating entities will have the desire or financial wherewithal to fully amortize the loan during the period that the securities are initially held by the County.

- ✓ Minimum Amortization: For those entities that do not fully amortize the loan during the initial term, the County is exposed, by definition, to risk associated with the ability of the borrower to refinance the balloon at the end of the initial term (presumably 5 years). In order to partially mitigate this risk, the County will require 40% amortization during the period it holds the bonds/notes and amortization will commence no later than the first anniversary of the loan and such amortization will result in approximately level total debt service payments in years 1 – 4 with a balloon for the balance in year 5. Bonds that are not fully amortized (without a balloon payment) will bear a higher interest rate than fully amortizing bonds (See "Interest Rates" below).

Coverage: For bonds/notes that are secured by either an income tax or non-tax revenue pledge, the issuer will be required to demonstrate minimum coverage of 300% of maximum annual debt service (excluding the balloon payment) The coverage will be calculated using the actual revenue stream from the pledged source from the year immediately preceding the issuance of the bonds.

It is important to demonstrate strong coverage so that the issuer has the demonstrated capacity to refinance the bonds at the end of the initial 5 year period. If coverage is not strong, the issuer may not have an alternative outlet, and the County could be placed in a position of refinancing the loan for an indefinite period of time after the initial 5 year term. This potential constraint on the County's liquidity is not acceptable. Minimum coverage requirements for water or sewer utility debt will be set at lower levels (150%).

Lien Status: The County will require a pledge from the issuer that it has not issued and will not issue any debt that has a lien on the revenue stream that is superior to the lien received by the County. In other words, the County should not be subordinated to any other debt of the issuer that employs the same revenue stream as the bonds/notes held by the County. The County shall allow the issuance of additional bonds of the issuer pledging the same revenue stream on a parity or subordinated basis under the condition that the additional bonds do not jeopardize the minimum coverage requirement pledged to the County held bonds.

Debt Service Reserve: There will be no formal requirement for a debt service reserve fund, but the County reserves the right to insist upon a reserve up to 10% of the issue if it deems the credit quality of the applicant to be weak.

Payment Schedule: The County will require deposits into principal and interest accounts on a monthly basis and will further require that the accounts be fully funded at least 30 days prior to the principal or interest payment date which it is intended to fund. This funding system provides the County with an "early warning system" in the event that the issuer does not make timely deposits into the appropriate principal or interest account. Principal and interest payments will be payable semi-annually.

Call Feature: The County will permit issuers to call all or a portion of any note/bond issue at par on or after the second anniversary date of the issue by providing 30 days' notice to the County. The County seeks to provide the participants in the program with maximum flexibility in managing their individual debt portfolios. The County will not permit bonds/notes to be called prior to maturity if the called securities are to be refinanced with an additional loan from the program.

Revenue Intercept: The County will expect each participating jurisdiction to enter into an agreement with the County that will enable the County to intercept Local Government Fund payments due to the participating jurisdiction from the County in the event that the participating jurisdiction is delinquent in making required deposits of principal and interest in a timely manner. The County will consider purchasing bonds/notes without the intercept feature, but such issues will carry a higher rate of interest than those incorporating the intercept feature (See "Interest Rates" below).

Application and Review Process

The County strives to create an application and review process that is thorough yet simple and streamlined. Each participant application should include the following information:

- ✓ Name of Issuer
- ✓ Primary Contact Information
- ✓ Bond Counsel Contact Information
- ✓ Project Description
- ✓ 2 Most Recent Audited Financial Reports
- ✓ Description of Revenue Stream Pledged
- ✓ 5 Year History of Pledged Revenue Stream
- ✓ Schedule of Outstanding Debt of the Issuer with an identification of any outstanding debt secured by the pledged revenue stream
- ✓ Future Capital Plans
- ✓ Authorizing Legislation
- ✓ Most recent rating reports (if available)
- ✓ Budget projections for next 5 years (if available)
- ✓ Other supporting documentation as required by the County to make an informed decision.

The County will create a review committee to approve/deny each application. This Committee will consist of the County Treasurer (or designee), the County's investment advisor, the County's financial advisor and legal counsel to the County. There will be a modest fee charged by the advisor(s) and legal counsel, and such fee will be incorporated into the costs of issuance of the borrower's bond/note issue. Fees imposed by the County will be available to the borrower at the time of application.

As part of the review process, a "due diligence call" will be held with the issuer at which time the review team members can pose questions directly to the issuer.

Loan Documentation

At the closing of each bond/note issue, the County will receive a transcript of proceedings from the issuer that includes all of the typical closing documents except that the County will not require:

- ✓ Preliminary or Final Official Statement

- ✓ Ratings
- ✓ Opinion attesting to the tax-exempt status of the bonds being purchased.

Program Parameters

Program Size: The program size will be capped at 10% of the average par amount of the County's investment pool for the preceding three years.

Maximum Bonds Maturing Per Year: The County will strive to have the total amount of bonds maturing in any year to be no more than 25% of the maximum pool size. This provision will be phased in over the first 5 years of the program.

Interest Rates

The County intends to provide the issuer with a fair and attractive interest rate while at the same time earning an attractive yield on its portfolio. Since the County does not benefit from tax-exempt interest rates, the rates will be set based upon a "spread" to treasuries, which is the most common method of pricing taxable municipal bonds.

The spread to treasuries will change over time in the market. The County will publish its interest rate setting mechanism on a quarterly basis for bonds purchased by the County during that quarter. The yield on the 5 year treasury bond will be utilized as the benchmark rate and the credit spread will be set by the County with input from its investment advisor. The base rate will be for issues that participate in the intercept program and also are fully amortized (no balloon) during the initial term of the issue. Additional spread will be added for loans that do not participate in the intercept program and for loans that are not fully amortized (balloon at final maturity). The actual rate for each bond issue will be set on the date that the County purchases the bonds based upon the 5 year treasury rate on that date plus (or minus) the approved "spread" for the then current quarterly period. Credit spreads for issuers not taking advantage of the intercept feature and for those not structuring a fully amortizing loan will be set by the County with input from its investment advisor at the same time that the base interest rate spread is set each quarter.

The County understands that the program will not always produce the optimal result for some issuers. It is the County's goal to offer an alternative to other available financing tools, but the County encourages issuers to examine all of the financing options available to them.

Miscellaneous

The following items (not previously discussed) are hereby addressed in this policy:

- ✓ <u>Bond Counsel:</u> Bond Counsel will be selected by the issuer.
- ✓ <u>Paying Agent/Registrar:</u> The County will hire a single paying agent/registrar for the program whose primary responsibility will be to hold (i) any debt

service reserve funds, (ii) monthly deposits of principal and interest, and (iii) pay principal and interest to the County when due.

- ✓ Program Fees: The County intends to recover its expenses for administering the program (investment advisor/financial advisor/legal counsel). A master fee schedule will be available to issuers at the time of application.
- ✓ Ratings: Not required
- ✓ Credit Enhancement: Not required
- ✓ Notice to County Prior to Maturity: Each issuer must provide notice to the County of its plans to refinance the bonds/notes held by the County on their final maturity date at least 1 year prior to such date. If the entity plans to refinance the original bonds/notes with an additional sale to the County, it must submit a new application at the time that the notice is given. The County will approve or reject the application within 60 days of its receipt. This process is intended to provide each issuer with ample time to seek alternative financing plans in the event that the County elects to not purchase the refunding notes/bonds. If a renewal bond or note is purchased by the County, the interest rate will be set at the maturity of the initial bond or note being refinanced.