



## Office of the Chief Executive Officer

Zachary L. Williams

Executive Assistant, Chief Operating Officer

Chief Executive Officer  
Michael L. Thurmond

### Board of Commissioners

District 1  
Nancy Jester

District 2  
Jeff Rader

District 3  
Larry Johnson

District 4  
Steve Bradshaw

District 5  
Mereda D. Johnson

District 6  
Kathie Gannon

District 7  
Gregory Adams

### MEMORANDUM

TO: CEO Michael L. Thurmond  
Board of Commissioners

FROM:   
Zachary L. Williams  
Chief Operating Officer

DATE: July 23, 2018

SUBJECT: **UPDATE OF COUNTY DEBT AND INVESTMENT FINANCIAL POLICIES**

The Finance Department maintains an ongoing initiative to review and update County financial policies. As a result, the County Debt Management and Investment Policies have undergone revision based on collaborative effort of both internal and external resources. Each policy is intended to provide a workable framework, guidance and direction on best practices, but is not intended to be mandatory in all situations. Circumstances may dictate changes, alterations and revisions. Deviations will require formal written notice to the Governing Authority.

At the request of the Finance, Accounting & Budget Committee Chair at the July 17, 2018 meeting, we are circulating these policies for all recipients to review. These policies will be submitted for consideration and approval at the July 24, 2018 Board of Commissioners regular meeting.

1. **The Debt Management Policy** has been thoroughly reviewed by both internal and external stakeholders with updates including:
  - a. Redevelopment and Debt;
  - b. Special District Debt;
  - c. Debt Service Structure and Capitalized Interest;
  - d. Financing Team Selection process; and
  - e. Arbitrage Liability Management.

The Debt Management policy update included ensuring specific best practice guidelines identified as "essential" by the Government Financial Officers Association (GFOA) were incorporated into the County Policy. These essential elements included: 1) Acceptable purpose and conditions for use of debt; 2) Permissible debt instruments; 3) General debt limitations; 4) Maturity guidelines; and 5) Compliance practices, amongst others.

2. **The Investment Management Policy** has been reviewed by both internal and external stakeholders with updates including:

- a. Standards of Prudence;
- b. Internal controls and investment procedures;
- c. Authorized and Unauthorized investments; and
- d. Safekeeping and Custody.

The Investment Management policy update included ensuring specific best practice guidelines identified as "essential" by the Government Financial Officers Association (GFOA) were incorporated into the County Policy. These essential elements included: 1) Authority to invest; 2) Prudence; 3) Conflicts of interest and ethics; 4) Authorized investments; and 5) Internal controls, amongst others.

ZLW/waw/zg

cc: Vivienne Ernstes, Interim County Attorney  
La'Keitha Carlos, Chief of Staff, CEO  
Antwyn Brown, Chief of Staff, BOC  
Dianne McNabb, Interim CFO  
Robert 'Bob' Atkins, Treasurer  
Shaheem Williams, Assistant County Attorney



# DeKalb County Government

Manuel J. Maloof Center  
1300 Commerce Drive  
Decatur, Georgia 30030

## Agenda Item

File ID: 2018-2106

Substitute

7/24/2018

Public Hearing: YES  NO

Department: Finance

### SUBJECT:

Commission District(s): All Commission Districts

The adoption of the County Debt Management Policy for the purpose of setting forth parameters for issuing debt and managing outstanding debt. The intent is to provide structure for decisions regarding types and amounts of permissible debt, method of sale that may be used, structural features that may be incorporated, and the timing and purposes for which debt may be issued.

Information Contact: Dianne McNabb, Interim Chief Financial Officer

Phone Number: 404-371-2745

### PURPOSE:

This version changes content related to County titles for the Executive Assistant and Finance Director included within and specific verbiage about the intent of the policy itself.

### NEED/IMPACT:

The attached County policies explicitly: (1)Set forth parameters for issuing debt and managing outstanding debt. The intent is to provide structure for decisions regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used, and structural features that may be incorporated. The Debt Policy Addendums include: 1. The Post-Issuance Compliance Policy; and 2.The Continuing Disclosure

### FISCAL IMPACT:

No Fiscal Impact

### RECOMMENDATION:

Adopt the County Debt Management Policy and Addendums



# DeKalb County Government

Manuel J. Maloof Center  
1300 Commerce Drive  
Decatur, Georgia 30030

## Agenda Item

File ID: 2018-2108

Substitute

7/24/2018

Public Hearing: YES  NO

Department: Finance

### SUBJECT:

Commission District(s): All Commission Districts

Adoption of an updated County Investment Management Policy for the purpose of providing guidance and direction on best practices to ensure the prudent management of public funds, the availability of operating and capital funds when needed.

Information Contact: Dianne McNabb, Interim Chief Financial Officer

Phone Number: 404-371-2745

### PURPOSE:

This version changes content related to County titles for the Executive Assistant and Finance Director included within and specific verbiage about the intent of the policy itself.

### NEED/IMPACT:

The attached County policy explicitly sets forth the investment and operational policies for the management of the public funds of DeKalb County.

### FISCAL IMPACT:

No Fiscal Impact

### RECOMMENDATION:

Adopt the updated County Investment Management Policy.

# DeKalb County, Georgia

## Finance Department – Treasury

### Investment Management Policy

Version 7.17.18



## I. Purpose

The purpose of this Investment Management Policy (hereafter the "Policy") is to set forth the investment and operational policies for the management of the public funds of DeKalb County, Georgia (hereinafter the "County"). These policies have been adopted by, and can be changed only by, Resolution of the Governing Authority.

The overriding purpose of this Policy is to acknowledge clearly that any investment instrument or decision carries with it certain elements of risk. There are, however, numerous safeguards that can be instituted to minimize such risks while endeavoring to earn a market rate of return. These guidelines not only establish a framework for implementing those safeguards but they shall govern the investment and reinvestment of funds and the sale and liquidation of investment securities, as well as the monitoring, maintenance, accounting, reporting, and internal controls by and of the County with respect to these investment securities.

The Policy is designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices. The County has a fiduciary responsibility to protect public funds and to prudently manage cash and investments to achieve the investment objectives of safety, liquidity, compliance and return. The protection of principal against default and investment risk is paramount.

## II. Policy Statement

This Policy was developed to ensure effective management of the day-to-day operations of DeKalb County government. This Policy applies to the entire DeKalb County organization to which the Chief Executive Officer and the Board of Commissioners have authority and control. Additionally, this Policy shall apply to all funds under budgetary control of the DeKalb County Board of Commissioners.

This policy is intended to provide guidance and direction on best practices but is not intended to be mandatory in all situations. Circumstances may dictate changes, alterations and revisions. Deviations require formal written notice to the Governing Authority.

## III. Definitions of Terms

- A. **Liquidity Portfolio** – The liquidity portfolio consists of cash, money-market accounts, "money-market-like" funds such as Georgia Fund 1, Georgia Extended Asset Pool, and may include other investments such as short-term treasury notes, customized and collateralized bank products or other investments with maturities that are generally less than one year. The purpose of the liquidity portfolio is to provide for operating or other near-term cash needs and to obtain a short-term market return on significant portions of operating reserves.
- B. **Investment Portfolio** – A portfolio of investments with average maturities or durations that match longer-term liabilities and with expected cash flows that match the attendant funding requirements. For example, this portfolio might hold securities matching the cash flow needs of large capital projects with long lead-in periods. It is expected that the investment horizon for the Investment Portfolio will change based upon changing circumstances and cash flow requirements, but will be generally within the 1 – 5 year maturity range.
- C. **Bond Portfolio** – A portfolio of investments with average maturities or durations that match longer-term liabilities and with expected cash flows that match the attendant funding requirements. This portfolio holds securities designated for specific construction projects and debt service payments. These investments must be segregated from other funds for compliance with the bond covenants.

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- D. **Investment Manager** – For purposes of this policy, an Investment Manager means an employee, individual, group, or firm possessing appropriate experience, credentials, resources and infrastructure, and who are engaged professionally in providing investment advice or in directly managing (buying, selling, holding) a portfolio of securities. Investment Manager can refer to private sector professionals who manage portfolios, to the Office of the State Treasurer at the State of Georgia or equivalent, or to any entity the County engages to manage a portfolio of cash or cash equivalents.
- E. **Investment Consultant** – An Investment Consultant is an individual or firm hired to advise the Investment Committee, to assist the Department, and to represent the interests of the County in managing and monitoring the work and performance of Investment Managers. The Investment Consultant may provide related services such as asset allocation modeling or other services the County may need from time to time.
- F. **Fiduciary** – Means any individual or group of individuals as defined in ERISA, Section 3 (21) (a).
- G. **County Executive Assistant** – Is the most senior and chief appointed management official in the County and who shall have supervisory responsibility for County operations.
- H. **Finance Director** – Is the senior appointed management official in the County who shall have oversight for the Finance Department.
- I. **Department** – For purposes of this Policy shall mean the Finance Department.
- J. **Deputy Finance Director** – The senior financial management official of the Finance Department, having supervisory responsibility for the Department. Also herein referred to as the Assistant Director of Finance.
- K. **Investment Committee** – A committee comprised of (1) the Finance Director (2) the Deputy Finance Director, (Assistant Director of Finance), (3) the Treasurer, (4) the Controller, (5) the Watershed Management Assistant Director, Finance, (6) representative from the Office of Independent Internal Audit, and (7) representative from the designated Financial Advisor.
- L. **Securities** – Refers to marketable investment securities that meet the legal mandates of Georgia law and the requirements of this Policy.
- M. **Benchmark** – Unmanaged investment index that consists of a predetermined set of securities whose performance can be easily tracked and compared to a similar actively managed portfolio.
- N. **Investment Risk** –
1. **Interest Rate Risk:** The potential for fluctuations in bond prices due to changes in interest rates.
  2. **Credit Risk:** The possibility that an issuer will fail to make timely payment of either interest or principal or whose prospects to make payments have diminished since the time of purchase.
  3. **Reinvestment Risk:** The potential for a decline in the portfolio's income due to falling market interest rates.
  4. **Prepayment Risk:** For Collateralized Mortgage Obligations ("CMOs") and Asset Backed Securities ("ABS") or Call Risk (for some agency and corporate bonds) the likelihood that, during periods of falling interest rates, securities with high stated interest rates will be prepaid or called prior to maturity, requiring the portfolio to invest the proceeds at generally lower interest rates.

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5. **Liquidity Risk:** The possibility that the liquidity of the market for a security may decline thereby (i) making it more difficult to dispose of the security promptly; (ii) presenting difficulties in valuation of the security; and (iii) causing the security to experience greater price volatility.
6. **Duration:** A measurement of a financial asset's price sensitivity to changes in yield.
7. **FFIEC High-Risk Security Test:** The Federal Financial Institutions Examination Council (FFIEC) has derived three tests, an average life test, an average life sensitivity test, and a price sensitivity test to determine whether a derivative mortgage security is "high-risk", and thus ineligible to be held as an investment by US depository institutions.

#### **IV. Related Documents and References:**

Collateralization of Public Deposits Policy

#### **V. Investment Policy:**

- A. **Scope** – This Policy is comprehensive and is intended to serve as a guide for the overall administration and investment management of those funds held in the County's Liquidity, Investment, and Bond Portfolios (unless other existing policies or indentures are in effect for such funds) (the "County Portfolio"), excluding pension and other post employee benefit trusts. This Policy shall apply to such funds from the time of receipt until the time the funds ultimately leave the County's accounts. The County Portfolio includes assets in various operating and capital funds that are under the direct control of the Finance Department (hereinafter the "Department"), including, but not limited to, the following:
1. Tax Supported Funds (General, etc.)
  2. Special Assessment Funds (Street Lighting, etc.)
  3. Special Revenue Funds
  4. Debt Service and Bond Proceeds
  5. Enterprise Funds
  6. Capital Project Funds
  7. Internal Service Funds
  8. Other Operating or Capital Funds that may be established

The guidance set forth herein is to be referenced by all those responsible for any aspect of the management or administration of these funds.

All of the above funds, with the exception of certain Capital Project Funds, Water & Sewer Revenue Bonds, are currently commingled for investment purposes in the Concentration Account provided for in the County's Banking Security Contract. Those funds not in the Concentration Account are held in individual bank accounts or the State Local Government Investment Pool as provided for in the resolutions establishing the funds.

Investment activities, if any, by Constitutional officers holding various trust and agency funds, also reported in the DeKalb County Comprehensive Annual Financial Report, are not subject to the provisions of this policy.

Excess cash balances of individual operating funds and capital project funds may be commingled and placed in individual depository or investment accounts, unless otherwise restricted by law, policy or debt covenants. Bond funds should be deposited or invested according to applicable laws and bond covenants.

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Interest income earned on depository balances will be allocated and credited to participating funds monthly based on the average daily cash balances held during the month. Investment income earned on investment securities and paid on interest payment dates will be credited to the source funds at the time of payment. Market value adjustments and interest accruals between interest payment dates will be made quarterly.

**B. Investment Objectives – The investment objectives of the County are set forth below in order of priority and are applicable to both the Liquidity Portfolio and Investment Portfolio:**

1. **Safety of Principal:** The single most important objective of the County's investment program is the preservation of principal of those funds within the portfolio. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio.
2. **Adequate Liquidity:** The portfolio shall be managed in such a manner that assures that funds are available as needed to meet those immediate and/or future operating requirements of the County, including but not limited to payroll, accounts payable, capital projects, debt service and any other payments.
3. **Legality:** County funds will at all times be invested in conformity with the laws of the State of Georgia, specifically O.C.G.A. § 36-80-3, O.C.G.A. § 36-80-4, and O.C.G.A. § 36-83-4; and in conformity with bond ordinances or covenants, referenced in O.C.G.A. § 36-82-7, this Policy and the Department's written administrative procedures. Where there are policies contained in Debt Covenants and Official Statements, those provisions shall apply only to those funds, and are incorporated by reference within this Policy.
4. **Return on Investment:** **(This section will be further developed by the Investment Committee once established.)** The County's portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. However, return is attempted through active management where the Investment Advisor utilizes a total return strategy (which includes both realized and unrealized gains and losses in the portfolios). This total return strategy seeks to increase the value of the County's portfolio through reinvestment of income and capital gains. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed. Despite this, an Investment Advisor may trade to recognize a loss from time to time to achieve a perceived relative value based on its potential to enhance the total return of the County's portfolio.

**C. Delegation of Authority**

1. **County Executive Assistant:** The County Executive Assistant shall oversee the investment activities of the Finance Director or their designee and is hereby delegating the authority as necessary to carry out the various components of this Policy. The County Executive Assistant or their designee may execute agreements or documents necessary to effectively administer the investment program.
2. **Finance Director or their designee:** Georgia law provides for assigning a person, who is subject to the supervision of the Finance Director, with direct responsibility for the management of the County's investment assets, including discretionary investment management decisions to buy, sell or hold individual investment securities within this Policy. The Finance Director or their designee shall have the authority to establish and implement the necessary organization structure and financial reporting and controls in order to achieve the objectives of this Policy. Procedures should include references



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to safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, collateral/depository agreements and banking service contracts. The Finance Director or their designee shall discharge his or her duties solely in the interest of the County. The specific responsibilities of the Finance Director or their designee relating to the investment management of Portfolio assets include:

- i. Projecting and forecasting the County's overall financial and cash flow needs, and incorporating such requirements into the investment program.
  - ii. Determining the County's risk tolerance and investment horizon, and communicating relevant information to the appropriate parties who are engaged in management and investment of County funds.
  - iii. Recommending to the Investment Committee, when appropriate, qualified investment professionals. The Investment Committee shall have the final authority over the hiring of external private sector professionals that provide investment management or investment consulting services.
  - iv. Regularly evaluating the administration and performance of the investment program for adherence to policies and achievement of objectives.
  - v. Developing and monitoring controls and management procedures.
  - vi. Making provision for financial audits and other reviews of the investment program.
3. Investment Committee: The County shall have an Investment Committee that serves in an advisory capacity. The Committee is responsible for adequately communicating appropriate objectives and goals to the CEO, Board of Commissioners, County Executive Assistant, and Finance Director or their designee. The Investment Committee will be charged with the following activities:
- i. Establish procedures for calling and conducting its meetings.
  - ii. Meet at least annually to review the administration and performance of the County's Investment Program.
  - iii. Evaluate and approve changes to this Policy.
  - iv. Periodically deliberate such topics as economic outlook, portfolio diversification, risks and returns.
  - v. Ensure adequate controls are in place and the County is in compliance with current law and internal policies.

The Finance Department shall provide administrative support to the Investment Committee. The Department will maintain written records of the Committee's activities and will provide investment reports pursuant to this Policy.

The Investment Committee may, using the County purchasing policy and process, select, contract for services, and otherwise engage Investment Managers, Investment Consultants and other professionals to assist in managing County funds. Such Investment Manager must be registered under the Investment Advisers Act of 1940 or exempt from registration.

4. Investment Manager: Each third-party Investment Manager engaged to provide professional investment management services must acknowledge in writing its acceptance of responsibility as a fiduciary under applicable regulations. Each Investment Manager will have discretion to make investment decisions for the assets placed under its jurisdiction, while observing and operating within all policies, guidelines, constraints, and philosophies, as outlined in this statement. Specific responsibilities of the investment manager(s) include:

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- i. Discretionary investment management including decisions to buy, sell, or hold individual securities, within the guidelines established in this statement.
- ii. Reporting, on a timely basis, the quarterly investment performance results of the portfolio, comparisons to the appropriate benchmark(s), and other reports or information that may reasonably be requested.
- iii. Promptly communicating any major changes to economic outlook, investment strategy, or any factors, which affect implementation of investment process, or the investment objectives progress of the County's investment management to the Department.
- iv. Promptly informing the Finance Director or their designee regarding any material change in the investment organization. Examples include, but are not limited to, changes in portfolio management personnel, ownership structure and investment philosophy.
- v. Voting proxies on behalf of the County, and communicating such voting records to the Finance Director or their designee on a timely basis.

5. Investment Advisor: A third-party Investment Consultant's role shall be two-fold. The first and primary function is that of an Investment Advisor to the Investment Committee. The second duty is that of a Consultant assisting the Finance Director or their designee in the management, operations and administration of the investment program. An Investment Advisor may represent only the interests of the County and any other relationship that might provide basis for a conflict is expressly prohibited. Specific responsibilities of the Investment Advisor might include:

- i. Assisting the Investment Committee in the development of a periodic review of all aspects of the investment program, including benchmarking and establishment of investment goals.
- ii. Conducting Investment Manager searches when requested by the Department.
- iii. Monitoring the performance of the Investment Manager(s) and reporting same to the Finance Director or their designee and the Investment Committee.

D. Standard of Prudence – The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures and this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided significant deviations from expectations are reported to the Governing Authority in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy. The "Prudent Person" rule states the following:

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived from the investment.

While the standard of prudence to be used by the investment officials who are officers or employees is the Prudent Person standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to a higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the person and/or firm hired shall exercise the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

The Finance Director, their designee and other County employees and officials involved in the Investment process acting in accordance with the Code of Georgia, this Policy and any other written procedures

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pertaining to the administration and management of the County's Portfolio and who exercise the proper due diligence shall be relieved of personal responsibility for an individual security's risk or market place changes, provided that any negative deviations are reported in a timely fashion to the County's Investment Committee and that reasonable and prudent action is taken to control any prevent any further adverse developments.

- E. **Ethics and Conflicts of Interest – External contracted investment professionals in addition to Committee members, management and staff involved in the investment process shall refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.** Employees and investment officials shall disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio. Employee and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the County.
- F. **Internal Controls and Investment Procedures – As delegated by the County Executive Assistant, the Finance Director or their designee shall establish a system of internal controls and operational procedures that are in writing and made a part of the County's financial operating procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and recordkeeping, wire transfer agreements, banking service contracts, collateral/depository agreements, and "delivery-vs-payment" procedures. No person may engage in an investment transactions except as authorized under the terms of this policy.**

Independent auditors as a normal part of the annual financial audit of the County shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

- G. **Continuing Education - The Finance Director or their designee and any other personnel responsible for overseeing investments shall attend at least one investment training session within 12 months after taking office or assuming duties and receive not less than 8 hours of instruction relating to investment responsibilities every two years.**
- H. **Authorized Investments – and Portfolio Composition – Investments will be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the County's needs change. When the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the Finance Director or their designee in consultation with the County's Investment Advisor(s) may sell the investment at the then-prevailing market price and place the proceeds into the proper account at the County's custodian.**

The following are the investment requirements and allocation limits on security types, issuers, and maturities as established by the County. Diversification strategies within the established guidelines shall be reviewed and revised periodically as necessary by the Finance Director or their designee in consultation with the County's Investment Advisor. The Finance Director or their designee, in consultation with the County's Investment Advisor, shall have the option to further restrict investment percentages from time to time based on market conditions, risk and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment, at the time of purchase. Investments not listed in this policy are prohibited.

In accordance with the laws of the State of Georgia O.C.G.A. § 36-80-3, O.C.G.A. § 36-80-4, and O.C.G.A. § 36-83-4, the County shall be permitted to invest in any of the following securities:

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Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement <sup>1</sup>	Maximum Maturity
<u>U.S. Treasury</u>	<u>100%</u>	<u>100%</u>	<u>N/A</u>	<u>5.50 Years</u> ( <u>5.50 Years</u> avg. life <sup>3</sup> for GNMA)
<u>GNMA</u>		<u>35%</u>		
Other U.S. Government		<u>10%</u>		
<u>Guaranteed (e.g. AID, GTC)</u>				
<u>Federal Agency/GSE: FNMA, FHLMC, FHLB, FFCB</u>	<u>100%</u>	<u>35%</u> <sup>2</sup>	<u>N/A</u>	<u>5.50 Years</u>
<u>Federal Agency/GSE other than those above</u>		<u>10%</u>		
<u>Municipals</u>	<u>100%</u>	<u>5%</u>	<u>Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)</u>	<u>5.50 Years</u>
<u>Agency Mortgage-Backed Securities (MBS)</u>	<u>100%</u>	<u>35%</u> <sup>2</sup>	<u>N/A</u>	<u>5.50 Years</u> Avg. Life <sup>3</sup>
<u>Non-Negotiable Collateralized Bank Deposits or Savings Accounts</u>	<u>25%</u>	<u>50%</u>	<u>None, if fully collateralized.</u>	<u>2 Years</u>

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement <sup>1</sup>	Maximum Maturity
<u>Repurchase Agreements (Repo or RP)</u>	<u>25%</u>	<u>20%</u>	<u>Counterparty (or if the counterparty is not rated by an NRSRO, then the counterparty's parent) must be rated in the Highest ST Rating Category (A-1/P-1, or equivalent)</u> <u>If the counterparty is a Federal Reserve Bank, no rating is required</u>	<u>360 Days</u>
<u>Prime banker's acceptances</u>	<u>100%</u>	<u>5%</u>	<u>Highest ST Rating Category (A-1/P-1, or equivalent)</u>	<u>270 Days</u>
<u>Certificates of deposit of Commercial</u>	<u>75%</u>	<u>5%</u>	<u>N/A</u>	<u>5.50 Years</u>

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<u>Banks</u>				
<u>Certificates of deposit of Savings &amp; Loan Banks</u>	<u>10%</u>	<u>5%</u>	<u>N/A</u>	<u>5.50 Years</u>
<u>Intergovernmental Pools (LGIPs)</u>	<u>100%</u>	<u>5%</u>	<u>Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)</u>	<u>N/A</u>
<u>Georgia Fund 1</u>		<u>80%</u>	<u>Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)</u>	<u>N/A</u>
<u>Georgia Fund 1 Extended Asset Pool</u>		<u>10%</u>	<u>Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)</u>	<u>N/A</u>

**Notes:**

- <sup>1</sup> Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization (“NRSRO”), unless otherwise noted. ST=Short-term; LT=Long-term.
- <sup>2</sup> Maximum exposure to any one Federal agency, including the combined holdings of Agency debt and Agency MBS, is 40%.
- <sup>3</sup> The maturity limit for MBS is based on the expected average life at time of settlement, measured using Bloomberg or other industry standard methods.
- \* Federal National Mortgage Association (FNMA); Federal Home Loan Mortgage Corporation (FHLMC); Federal Home Loan Bank or its District banks (FHLB); Federal Farm Credit Bank (FFCB).

1. U.S. Treasury & Government Guaranteed - U.S. Treasury obligations, and obligations the principal and interest of which are backed or guaranteed by the full faith and credit of the U.S. Government.
2. Federal Agency/GSE - Debt obligations, participations or other instruments issued or fully guaranteed by any U.S. Federal agency, instrumentality or government-sponsored enterprise (GSE).
3. Municipal Obligations: Bonds, notes and other evidences of indebtedness of the State of Georgia or other political subdivisions of the state upon which there is no default.
4. Agency Mortgage Backed Securities - Mortgage-backed securities (MBS), backed by residential, multi-family or commercial mortgages, that are issued or fully guaranteed as to principal and interest by a U.S. Federal agency or government sponsored enterprise, including but not limited to pass-throughs, collateralized mortgage obligations (CMOs) and REMICs.
5. Non-Negotiable Collateralized Bank Deposits or Savings Accounts in any national banking association, federal savings and loan association, trust company, savings institution or federal savings bank located in Georgia or organized under Georgia law. This includes customized, collateralized short term bank products offered by a County approved depository bank or qualified institution that is a member of the Federal Reserve System and/or regulated by the Comptroller of the Currency, the Federal Deposit Insurance Corporation or a Federal Reserve Bank.

Bank deposits will be secured in accordance with the O.C.G.A. Sec. 45-8-12 and O.C.G.A. Sec. 50-17-59 that requires:

- i. Collateralization on all deposits of County funds in excess of the amount protected by federal deposit insurance or a surety bond with a market value equal to not less than

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- 110 percent of the funds being secured; and,
- ii. Collateralization in the form of (1) bonds, bills, certificates of indebtedness, notes, or other direct obligations of the United States or of this state; (2) bonds, bills, certificates of indebtedness, notes, or other obligations of the counties or municipalities of this state; (3) bonds of any public authority created by the laws of this state, if the statute creating such authority provides that the bonds of the authority may be used for this purpose and the bonds have been duly validated as provided by law, and as to which there has been default in payment, either of principal or interest; (4) industrial revenue bonds or bonds of development authorities created by the laws of this state, which bond have been duly validated as provided by law and as to which there has been no default in payment, either of principal or interest; (5) bonds, bills, certificates of indebtedness, notes, or other obligations of a subsidiary corporation of the United States government, which are fully guaranteed by the United States government both as to principal and interest, or debt obligations issued by or securities guaranteed by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, the Central Bank of Cooperatives, the Farm Credit Banks, the Federal Home Loan Mortgage Corporation, or the Federal National Mortgage Association.
- f. Repurchase Agreements: Contracts for the present purchase and subsequent resale at a specified time in the future of specific securities at specified prices at price differential representing the interest income to be earned by the County. Such contracts shall be invested in only if the following conditions are met:
- i. The repurchase agreement has a term to maturity of no greater than three-hundred sixty (360) days or may be open-ended with an automatic overnight maturity.
  - ii. The contract is fully secured by deliverable U.S. Treasury or Federal Agency Obligations as described in (a) and (b) above (without limit to maturity), having a market value at all times of at least one hundred two percent (102%) of the amount of the contract;
  - iii. A master repurchase agreement of specific written, repurchase agreement governs the transaction;
  - iv. The securities are held free and clear of any lien and by an independent third party custodian acting solely as agent for the County (which may include a tri-party arrangement) and is:
    1. a Federal Reserve Bank; or,
    2. a bank which is a member of the Federal Deposit Insurance Corporation and which as combined capital, surplus and undivided profits of not less than \$25 million;
  - v. A perfected first security interest under the Uniform Commercial Code in accordance with book entry procedures prescribed at 31 C.F.R. 306.1 et seq. in such securities is created for the benefit of the County;
  - vi. For repurchase agreements with terms to maturity of greater than one (1) day, the County will value the collateral securities continuously and require that if additional collateral is required then that collateral must be delivered within one business day (if a collateral deficiency is not corrected within this time frame, the collateral securities will be liquidated);
  - vii. The County will enter into repurchase agreements only with reputable firms that have a short-term debt rating of 'A-1' or higher or have a long-term debt rating of at least "AA" from a Nationally Recognized Statistical Rating Organization ("NRSROs") that rates issuer and are;
  - viii. Primary government securities dealers who are members of the National Association of Securities Dealers, report daily to the Federal Reserve Bank of New York and have \$25 billion in assets and \$350 million in capital;
  - ix. A bank, savings bank or savings and loan association having \$5 billion in assets and \$500 million in capital and regulated by the Superintendent of Financial Institutions, or through an

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- institution regulated by the Comptroller of the Currency, Federal Deposit Insurance Corporation, or Board of Governors of the Federal Reserve System; or
- x. Diversified securities broker-dealers who are members of the National Association of Securities Dealers having \$5 billion in assets and \$350 million in capital and subject to regulation of capital standards by any state or federal regulatory agency.
- g. Prime Bankers' acceptances issued by a domestic bank or a federally chartered domestic office of a foreign bank, which are eligible for purchase by the Federal Reserve System may be purchased.
  - i. Municipal Obligations: Bonds, notes and other evidences of indebtedness of the State of Georgia or other political subdivisions of the state upon which there is no default.
  - ii. Certificates of Deposit which have deposits insured by the Federal Deposit Insurance Corporation; provided, however, that that portion of such certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation shall be collateralized or secured by direct obligations of this state or the United States which are of a par value equal to that portion of such certificates of deposit which would be uninsured in accordance with O.C.G.A. Sec. 36-80-3. While a maximum of 40% of the County's Total Portfolio may be invested in Certificates of Deposit and up to a maximum of 50% of the County's Total Portfolio may be invested with each approved County Depository Bank, no more than 5% of the County's Total Portfolio may be invested in certificates of deposit and investment securities issued by a single Depository Bank. This requirement excludes CDARS placements through Promontory Interfinancial Network as each CD placement is limited to a maximum value of Federal Deposit Insurance Corporation (FDIC) coverage of \$250,000.00, and BNY Mellon is record-keeper for the FDIC.
  - iii. Local Government Investment Pool established by O.C.G.A. Sec. 36-83-8 managed by the State Treasurer of the State of Georgia including Georgia Fund 1 and Georgia Extended Asset Pool.
- I. Maximum Maturity and Liquidity Requirements – Maintenance of adequate liquidity to meet the cash flow needs of the County is essential. Accordingly, the portfolio will be structured in a manner that ensures sufficient cash is available to meet anticipated liquidity needs. Selection of investment maturities must be consistent with the cash requirements of the County in order to avoid the forced sale of securities prior to maturity.

For purposes of this policy, assets of the County shall be segregated into three categories based on expected liquidity needs and purposes – Liquidity Portfolio, Investment Portfolio and Bond Proceeds.

1. Liquidity Portfolio: Assets categorized as the short-term funds will be invested in permitted investments with an average maturity of twelve (12) months or less. The average weighted maturity of the Liquidity Portfolio will not exceed 360 days.

Notwithstanding any other reserve policies, the Finance Director or their designee shall at all times endeavor to maintain a liquidity reserve set at a minimum of 1/12 of the total expenditures of the immediately preceding fiscal year. The reserve shall be held intact, to be used exclusively for emergencies or extraordinary unforeseen circumstances. This liquidity requirement applies to all major operating funds, which includes tax supported general government operating funds; special

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assessment funds; certain special revenue funds; enterprise operating; and internal service funds. Balances shall be placed only in liquid investments with an overall maturity not exceeding 60 days. In the event of a drawdown of an emergency liquidity fund, the Finance Director or their designee shall promptly and without delay initiate measures to replenish such liquidity account.

The Finance Director or their designee may establish more restrictive temporary guidelines as may be required by the prevailing circumstances. The foregoing shall be construed to apply to the County's operating funds and not to capital project funds. For this policy, a major operating fund is any fund whose annual revenues are 10 percent or more of the total operating revenues.

2. **Investment Portfolio:** (The investment portfolio, its composition and management will be determined by the Investment Committee once established.) The Investment Portfolio will be invested in permitted investments with a final stated maturity of no more than five and one-half (5.50) years from the date of purchase settlement. At the time of purchase, settlement agency mortgage backed securities shall have an average life of no more than five and one-half (5.50) years.

Notwithstanding these limitations, in no case will the assets in either category be invested in securities with a term to maturity that exceeds the expected disbursement date of those funds.

3. **Bond Proceeds:** Proceeds from the sale of bonds will be invested in compliance with the specific requirements of the bond covenants without further restriction as to the maximum term to maturity of securities purchased. However, the effective duration of the bond proceeds portfolio will not exceed two (2) years without the approval of the Investment Committee.

**J. Prohibited Investments and Investment Practices:**

1. Short sales (selling a specific security before it has been legally purchased);
2. Borrowing funds for the sole purpose of reinvesting the proceeds of such borrowing;
3. Commodities and Futures Contracts;
4. Private Placements;
5. Options;
6. Letter Stock;
7. Speculative Securities;
8. Investments not specifically addressed by this statement are forbidden without the Investment Committees written consent;
9. Domestic or International Equity Securities;
10. Fixed Income Mutual Funds;
11. Any derivative of any instrument that does not pass the FFIEC High Risk Security Test 1 and 2 at any time using Bloomberg median pre-payment speeds; and,
12. Any investment instrument prohibited by state law.

- K. **Investment of Bond Proceeds –** The County intends to comply with all applicable sections of the Internal Revenue Code of 1986, Arbitrage Rebate Regulations and bond covenants with regard to the investment of bond proceeds. Accounting records will be maintained in a form and for a period of time sufficient to document compliance with these regulations.

Sector	Sector Maximum (%)	Per Issuer Maximum (%)	Minimum Ratings Requirement <sup>1</sup>	Maximum Maturity
<u>U.S. Treasury</u>		100%		



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<u>GNMA</u>	<u>100%</u>	35%	<u>N/A</u>	<u>5.50 Years</u>
<u>Other U.S. Government Guaranteed (e.g. AID, GTC)</u>		10%		
<u>Federal Agency/GSE: Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, and the Central Bank for Cooperatives</u>	<u>100%</u>	35%	<u>N/A</u>	<u>5.50 Years</u>
<u>Municipals</u>	<u>100%</u>	5%	<u>Highest ST or Three Highest LT Rating Categories (SP-1/MIG 1, A-/A3, or equivalent)</u>	<u>5.50 Years</u>
<u>Public Housing Agency</u>	<u>100%</u>	<u>None, if fully collateralized</u>	<u>None, if fully collateralized.</u>	<u>2 Years</u>
<u>Money Market Funds (MMFs)</u>	<u>100%</u>	50%	<u>Highest Fund Rating by all NRSROs who rate the fund (AAAm/Aaa-mf, or equivalent)</u>	<u>N/A</u>
<u>Certificates of deposit of banks which have deposits insured by the Federal Deposit Insurance Corporation</u>	<u>100%</u>	25%	<u>N/A</u>	<u>5.50 Years</u>
<u>Intergovernmental Pools (LGIPs)</u>	<u>100%</u>	80%	<u>Highest Fund Quality and Volatility Rating Categories by all NRSROs who rate the LGIP, (AAAm/AAAf, S1, or equivalent)</u>	<u>N/A</u>

Notes:

<sup>1</sup> Rating by at least one SEC-registered Nationally Recognized Statistical Rating Organization ("NRSRO"), unless otherwise noted. ST=Short-term; LT=Long-term.

Bond proceeds investments will be limited to those securities authorized by O.C.G.A. § 36-82-7 and include the following securities:

1. Full Faith & Credit of U.S. Government Obligations: Bonds or other obligations of the United States or of subsidiary corporations of the United States government which are fully guaranteed by such government.
2. Select Federal Agency Obligations: Obligations of agencies of the United States government issued by the Federal Land Bank, the Federal Home Loan Bank, the Federal Intermediate Credit Bank, and the Central Bank for Cooperatives.

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3. **Municipal Obligations:** Bonds or obligations of such county, municipal corporation, school district, political subdivision, authority, or body of bonds or obligations of this state or of other counties, municipal corporations, and political subdivisions of this state.
  4. **Public Housing Agencies:** Bonds or other obligations issued by any public housing agency or municipal corporation in the United States.
  5. **Money Market Mutual Funds:** No load, open-end management type investment company or investment trust registered under the Investment Company Act of 1940, as from time to time amended, invested in obligations referenced in "A" above and repurchase agreements fully collateralized by any such obligations.
  6. **Certificates of Deposit secured or collateralized by securities** in an aggregate principal amount equal to at least to the amount of excess of insurance in (1) direct and general obligations of this state or of any county or municipal corporation in this state, (2) obligations of the United States or subsidiary corporations from A above, (3) obligations of the agencies of the United States government from C above, and (4) bonds, obligations, or project notes of public housing agencies, urban renewal agencies or municipalities.
  7. **Local Government Investment Pools** created in O.C.G.A. § 36-83-1 et seq.
- L. **Risk and Diversification** - Assets held shall be diversified to control risks resulting from over concentration of assets in a specific maturity, issuer, instruments, dealer, or bank through which these instruments are bought and sold. The Finance Director or their designee shall consult with the County's Investment Advisor to determine diversification strategies within the established guidelines.
- M. **Master Repurchase Agreement** - The Finance Director or their designee will as directed by the County's Investment Advisor require all approved institutions and dealers transacting repurchase agreements to execute and perform as stated in the Securities Industry and Financial Markets Association (SIFMA) Master Repurchase Agreement. All repurchase agreement transactions will adhere to requirements of the SIFMA Master Repurchase Agreement.
- N. **Selection, Approval of Brokers, Qualified Financial Institutions** – The Finance Director or their designee shall only purchase securities from investment institutions which are designated as Primary Dealers by the Federal Reserve Bank of New York.  
(source of information: [http://www.newyorkfed.org/markets/pridealers\\_current.html](http://www.newyorkfed.org/markets/pridealers_current.html)).

The Finance Director or their designee shall only enter into repurchase agreements with financial institutions that are Primary Dealers as designated by the Federal Reserve Bank of New York.

The Finance Director or designee shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes and only firms meeting the following requirements will be eligible to serve as Qualified Institutions:

1. Regional dealers that qualify under Securities and Exchange Commission Rule 15C3-1 (uniform net capital rule);
2. Capital of no less than \$10,000,000;
3. Registered as a dealer under the Securities Exchange Act of 1934;
4. Member of the Financial Industry Regulatory Authority, Inc. (FINRA);
5. Registered to sell securities in Georgia;

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6. The firm and assigned broker have been engaged in the business of effecting transactions in U.S. government and agency obligations for at least five (5) consecutive years;

No policy deposit shall be made except in a qualified public depository as established by state law.

The County's Investment Manager shall utilize and maintain its own list of approved primary and non-primary dealers.

The Finance Director, their designee, and/or the County's Investment Manager shall maintain a list of financial institutions and broker/dealers that are approved for investment purposes ("Qualified Institutions").

All brokers, dealers and other financial institutions deemed to be Qualified Institutions shall be provided with current copies of the Policy. A current audited financial statement prepared by an independent certified public accounting firm is required to be on file for each financial institution and broker/dealer with which the County transacts business. For each year that brokers, dealers and other financial institutions remain qualified, a current audited financial statement must be submitted to the County annually within six months after the end of the fiscal year.

In addition, all financial institutions interested in transacting securities trades with the County are required to complete a "Broker/Dealer Questionnaire and Certification". Investment staff shall conduct an annual review of the financial condition of approved financial institutions and broker/dealers to ensure they continue to meet the County's guidelines for qualifications.

- O. **Competitive Selection of Investment Instruments** – It will be the policy of the County to transact all securities purchase/sales only with Qualified Institutions or approved Broker Dealers through a formal and competitive process requiring the solicitation and evaluation of at least three bids/offers. The County will accept the offer which (a) has the highest rate of return within the maturity required; and (b) optimizes the investment objective of the overall portfolio. When selling a security, the County will select the bid that generates the highest sale price.

It will be the responsibility of the personnel involved with each purchase/sale to produce and retain written records of each transaction including the name of the financial institutions solicited, rate quoted, description of the security, investment selected, and any special considerations that had an impact on the decision. If the lowest priced security (highest yield) was not selected for purchase, an explanation describing the rationale will be included in this record.

Primary fixed price federal agency offerings may be purchased from the list of Qualified Institutions without competitive solicitation if it is determined that no agency obligations meeting the County's requirements are available in the secondary market at a higher yield.

- P. **Safekeeping and Custody** – Securities with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by the County should be properly designated as an asset of the County. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Georgia, or any other state or territory of the United States which has a branch or principal place of business in the State of Georgia, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Georgia. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

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The custodian shall accept transaction instructions only from those persons who have been duly authorized by the Finance Director or their designee and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

Monthly, the custodian shall provide the Accounting Manager or designee and/or the County's Investment Advisor with detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Only after receiving written authorization from the Accounting Manager or designee shall authorized securities be delivered "free". Securities held as collateral shall be held free and clear of any liens.

Appropriate County officials and representatives of the custodial agent responsible for, or in any manner involved with, the safekeeping and custody process of the County shall be bonded in such a fashion as to protect the County from losses from malfeasance and misfeasance.

**Q. Performance Standards – (Investment performance standards will be developed by the Investment Committee once established.)** In order to assist in the evaluation of the portfolios' performance, the County will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the County to measure its returns against other investors in the same markets.

1. The short-term investment portfolio shall be designed with the annual objective of exceeding the weighted average return (net book value rate of return) of the S&P Rated GIP Index Government 30-Day Gross of Fees Yield.
2. The long-term investment portfolio shall be designed with the annual objective of exceeding the return of the Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index compared to the portfolio's total rate of return. The Bank of America Merrill Lynch 1-5 Year U.S. Treasury Index represents all U.S. Treasury securities maturing over one year, but less than five years. This maturity range is an appropriate benchmark based on the objectives of the County.

**R. Reporting –** The Finance Director, their designee or Investment Manager shall prepare an investment report not less than quarterly for the Investment Committee. The Investment Committee selected electronic dissemination of reports and information as the preferred method of distribution and notification. The investment report shall include: (i) a listing of the existing portfolio in terms of investment securities, amortized book value, maturity date, yield-on-cost, market value, credit rating and other features deemed relevant and (ii) a listing of all transactions executed during the month, if so requested. For purposes of internal reporting, the liquidity portfolio will include cash and short-term money market bank deposits and instruments and certificates of deposit. The investment portfolio will include all investments categorized as either short (less than 1 year) or long (greater than 1 year). The internal categories of liquidity and investment portfolio products may coordinate with account headings in SAP (i.e. cash and cash equivalent) but may not necessarily agree with GASB 40 reporting requirements that include cash and cash equivalents of less than 90 days.

The Finance Director, their designee, and/or Investment Manager shall prepare and submit to the Investment Committee a "Semi-Annual Investment Report" that summarizes (i) recent market conditions, economic developments and anticipated investment conditions, (ii) the investment strategies employed in the most recent quarter, (iii) a description of all securities held in investment portfolios at month-end, (iv) the total rate of return for each quarter and year-to-date versus appropriate benchmarks, and (v) any areas of policy

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concern warranting possible revisions to current or planned investment strategies. The market values presented in these reports will be consistent with accounting guidelines in GASB Statement 31 pertaining to the valuation of investments and the treatment of unrealized gains/losses. Detailed cash and investment transactions are available upon request.

## **VI. Quality Control and Quality Assurance:**

It is the responsibility of the Finance Director or their designee to ensure the presence of, and compliance with, procedures that provide sufficient guidance to affected County personnel to fulfill the intent of this policy.

## **VII. Metrics:**

See the "Performance Standards" Section.

## **VIII. Change Requirements**

The DeKalb County Board of Commissioners has the authority to recommend changes, additions and deletions to this Policy through coordination with the County Finance Department.



**Attachment A**

**Glossary of Cash and Investment Management Terms**

The following is a glossary of key investing terms, many of which appear in the County's investment policy. This glossary clarifies the meaning of investment terms generally used in cash and investment management. This glossary has been adapted from the GFOA Sample Investment Policy and the Association of Public Treasurers of the United States and Canada's Model Investment Policy.

**Accrued Interest.** Interest earned but which has not yet been paid or received.

**Agency.** See "Federal Agency Securities."

**Ask Price.** Price at which a broker/dealer offers to sell a security to an investor. Also known as "offered price."

**Asset Backed Securities (ABS).** A fixed-income security backed by notes or receivables against assets other than real estate. Generally issued by special purpose companies that "own" the assets and issue the ABS. Examples include securities backed by auto loans, credit card receivables, home equity loans, manufactured housing loans, farm equipment loans, and aircraft leases.

**Average Life.** The average length of time that an issue of serial bonds and/or term bonds with a mandatory sinking fund feature is expected to be outstanding.

**Bankers' Acceptance (BA's).** A draft or bill of exchange drawn upon and accepted by a bank. Frequently used to finance shipping of international goods. Used as a short-term credit instrument, bankers' acceptances are traded at a discount from face value as a money market instrument in the secondary market on the basis of the credit quality of the guaranteeing bank.

**Basis Point.** One hundredth of one percent, or 0.01%. Thus 1% equals 100 basis points.

**Bearer Security.** A security whose ownership is determined by the holder of the physical security. Typically, there is no registration on the issuer's books. Title to bearer securities is transferred by delivery of the physical security or certificate. Also known as "physical securities."

**Benchmark Bills:** In November 1999, FNMA introduced its Benchmark Bills program, a short-term debt securities issuance program to supplement its existing discount note program. The program includes a schedule of larger, weekly issues in three- and six-month maturities and biweekly issues in one-year for Benchmark Bills. Each issue is brought to market via a Dutch (single price) auction. FNMA conducts a weekly auction for each Benchmark Bill maturity and accepts both competitive and non competitive bids through a web based auction system. This program is in addition to the variety of other discount note maturities, with rates posted on a daily basis, which FNMA offers. FNMA's Benchmark Bills are unsecured general obligations that are issued in book-entry form through the Federal Reserve Banks. There are no periodic payments of interest on Benchmark Bills, which are sold at a discount from the principal amount and payable at par at maturity. Issues under the Benchmark program constitute the same credit standing as other FNMA discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

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**Benchmark Notes/Bonds:** Benchmark Notes and Bonds are a series of FNMA “bullet” maturities (non-callable) issued according to a pre-announced calendar. Under its Benchmark Notes/Bonds program, 2, 3, 5, 10, and 30-year maturities are issued each quarter. Each Benchmark Notes new issue has a minimum size of \$4 billion, 30-year new issues having a minimum size of \$1 billion, with re openings based on investor demand to further enhance liquidity. The amount of non-callable issuance has allowed FNMA to build a yield curve in Benchmark Notes and Bonds in maturities ranging from 2 to 30 years. The liquidity emanating from these large size issues has facilitated favorable financing opportunities through the development of a liquid overnight and term repo market. Issues under the Benchmark program constitute the same credit standing as other FNMA issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Benchmark.** A market index used as a comparative basis for measuring the performance of an investment portfolio. A performance benchmark should represent a close correlation to investment guidelines, risk tolerance, and duration of the actual portfolio's investments.

**Bid Price.** Price at which a broker/dealer offers to purchase a security from an investor.

**Bond.** Financial obligation for which the issuer promises to pay the bondholder (the purchaser or owner of the bond) a specified stream of future cash-flows, including periodic interest payments and a principal repayment.

**Book Entry Securities.** Securities that are recorded in a customer's account electronically through one of the financial markets electronic delivery and custody systems, such as the Fed Securities wire, DTC, and PTC

(as opposed to bearer or physical securities). The trend is toward a certificate-free society in order to cut down on paperwork and to diminish investors' concerns about the certificates themselves. The vast majority of securities are now book entry securities.

**Book Value.** The value at which a debt security is reflected on the holder's records at any point in time. Book value is also called “amortized cost” as it represents the original cost of an investment adjusted for amortization of premium or accretion of discount. Also called “carrying value.” Book value can vary over time as an investment approaches maturity and differs from “market value” in that it is not affected by changes in market interest rates.

**Broker/Dealer.** A person or firm transacting securities business with customers. A “broker” acts as an agent between buyers and sellers, and receives a commission for these services. A “dealer” buys and sells financial assets from its own portfolio. A dealer takes risk by owning inventory of securities, whereas a broker merely matches up buyers and sellers. See also “Primary Dealer.”

**Bullet Notes/Bonds.** Notes or bonds that have a single maturity date and are non-callable.

**Call Date.** Date at which a call option may be or is exercised.

**Call Option.** The right, but not the obligation, of an issuer of a security to redeem a security at a specified

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value and at a specified date or dates prior to its stated maturity date. Most fixed-income calls are a par, but can be at any previously established price. Securities issued with a call provision typically carry a higher yield than similar securities issued without a call feature. There are three primary types of call options (1) European - one-time calls, (2) Bermudan - periodically on a predetermined schedule (quarterly, semi-annual, annual), and (3) American - continuously callable at any time on or after the call date. There is usually a notice period of at least 5 business days prior to a call date.

**Callable Bonds/Notes.** Securities which contain an imbedded call option giving the issuer the right to redeem the securities prior to maturity at a predetermined price and time.

**Certificate of Deposit (CD).** Bank obligation issued by a financial institution generally offering a fixed rate of return (coupon) for a specified period of time (maturity). Can be as long as 10 years to maturity, but most CDs purchased by public agencies are one year and under.

**Collateral.** Investment securities or other property that a borrower pledges to secure repayment of a loan, secure deposits of public monies, or provide security for a repurchase agreement.

**Collateralization.** Process by which a borrower pledges securities, property, or other deposits for securing the repayment of a loan and/or security.

**Collateralized Mortgage Obligation (CMO).** A security that pools together mortgages and separates them into short, medium, and long-term positions (called tranches). Tranches are set up to pay different rates of interest depending upon their maturity. Interest payments are usually paid monthly. In "plain vanilla" CMOs, principal is not paid on a tranche until all shorter tranches have been paid off. This system provides interest and principal in a more predictable manner. A single pool of mortgages can be carved up into numerous tranches each with its own payment and risk characteristics.

**Commercial Paper.** Short term unsecured promissory note issued by a company or financial institution. Issued at a discount and matures for par or face value. Usually a maximum maturity of 270 days and given a short-term debt rating by one or more NRSROs.

**Convexity.** A measure of a bond's price sensitivity to changing interest rates. A high convexity indicates greater sensitivity of a bond's price to interest rate changes.

**Corporate Note.** A debt instrument issued by a corporation with a maturity of greater than one year and less than ten years.

**Counterparty.** The other party in a two party financial transaction. "Counterparty risk" refers to the risk that the other party to a transaction will fail in its related obligations. For example, the bank or broker/dealer in a repurchase agreement.

**Coupon Rate.** Annual rate of interest on a debt security, expressed as a percentage of the bond's face value.

**Current Yield.** Annual rate of return on a bond based on its price. Calculated as (coupon rate / price), but does not accurately reflect a bond's true yield level.

**Custody.** Safekeeping services offered by a bank, financial institution, or trust company, referred to as



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the “custodian.” Service normally includes the holding and reporting of the customer’s securities, the collection and disbursement of income, securities settlement, and market values.

**Dealer.** A dealer, as opposed to a broker, acts as a principal in all transactions, buying and selling for his/her own account.

**Delivery Versus Payment (DVP).** Settlement procedure in which securities are delivered versus payment of cash, but only after cash has been received. Most security transactions, including those through the Fed Securities Wire system and DTC, are done DVP as a protection for both the buyer and seller of securities.

**Depository Trust Company (DTC).** A firm through which members can use a computer to arrange for securities to be delivered to other members without physical delivery of certificates. A member of the Federal Reserve System and owned mostly by the New York Stock Exchange, the Depository Trust Company uses computerized debit and credit entries. Most corporate securities, commercial paper, CDs, and BAs clear through DTC.

**Derivatives.** (1) Financial instruments whose return profile is linked to, or derived from, the movement of one or more underlying index or security, and may include a leveraging factor, or (2) financial contracts based upon notional amounts whose value is derived from an underlying index or security (interest rates, foreign exchange rates, equities, or commodities). For hedging purposes, common derivatives are options, futures, interest rate swaps, and swaptions. All Collateralized Mortgage Obligations (CMOs) are derivatives.

**Derivative Security.** Financial instrument created from, or whose value depends upon, one or more underlying assets or indexes of asset values.

**Designated Bond.** FFCB’s regularly issued, liquid, non-callable securities that generally have a 2 or 3 year original maturity. New issues of Designated Bonds are \$1 billion or larger. Re-openings of existing Designated Bond issues are generally a minimum of \$100 million. Designated Bonds are offered through a syndicate of two to six dealers. Twice each month the Funding Corporation announces its intention to issue a new Designated Bond, reopen an existing issue, or to not issue or reopen a Designated Bond. Issues under the Designated Bond program constitute the same credit standing as other FFCB issues; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Discount Notes.** Unsecured general obligations issued by Federal Agencies at a discount. Discount notes mature at par and can range in maturity from overnight to one year. Very large primary (new issue) and secondary markets exist.

**Discount Rate.** Rate charged by the system of Federal Reserve Banks on overnight loans to member banks. Changes to this rate are administered by the Federal Reserve and closely mirror changes to the “fed funds rate.”

**Discount Securities.** Non-interest bearing money market instruments that are issued at discount and redeemed at maturity for full face value. Examples include: U.S. Treasury Bills, Federal Agency Discount Notes, Bankers’ Acceptances, and Commercial Paper.

**Discount.** The amount by which a bond or other financial instrument sells below its face value. See also

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"Premium."

**Diversification.** Dividing investment funds among a variety of security types, maturities, industries, and issuers offering potentially independent returns.

**Dollar Price.** A bond's cost expressed as a percentage of its face value. For example, a bond quoted at a dollar price of 95 ½, would have a principal cost of \$955 per \$1,000 of face value.

**Duff & Phelps.** One of several NRSROs that provide credit ratings on corporate and bank debt issues.

**Duration.** The weighted average maturity of a security's or portfolio's cash-flows, where the present values of the cash-flows serve as the weights. The greater the duration of a security/portfolio, the greater its percentage price volatility with respect to changes in interest rates. Used as a measure of risk and a key tool for managing a portfolio versus a benchmark and for hedging risk. There are also different kinds of duration used for different purposes (e.g. MacAuley Duration, Modified Duration).

**Fannie Mae.** See "Federal National Mortgage Association."

**Fed Money Wire.** A computerized communications system that connects the Federal Reserve System with its member banks, certain U. S. Treasury offices, and the Washington D.C. office of the Commodity Credit Corporation. The Fed Money Wire is the book entry system used to transfer cash balances between banks for themselves and for customer accounts.

**Fed Securities Wire.** A computerized communications system that facilitates book entry transfer of securities between banks, brokers and customer accounts, used primarily for settlement of U.S. Treasury and Federal Agency securities.

**Fed.** See "Federal Reserve System."

**Federal Agency Security.** A debt instrument issued by one of the Federal Agencies. Federal Agencies are considered second in credit quality and liquidity only to U.S. Treasuries.

**Federal Agency.** Government sponsored/owned entity created by the U.S. Congress, generally for the purpose of acting as a financial intermediary by borrowing in the marketplace and directing proceeds to specific areas of the economy considered to otherwise have restricted access to credit markets. The largest Federal Agencies are GNMA, FNMA, FHLMC, FHLB, FFCB, SLMA, and TVA.

**Federal Deposit Insurance Corporation (FDIC).** Federal agency that insures deposits at commercial banks, currently to a limit of \$250,000 per depositor per bank.

**Federal Farm Credit Bank (FFCB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system that is a network of cooperatively-owned lending institutions that provides credit services to farmers, agricultural cooperatives and rural utilities. The FFCBs act as financial intermediaries that borrow money in the capital markets and use the proceeds to make loans and provide other assistance to farmers and farm-affiliated businesses. Consists of the consolidated operations of the Banks for Cooperatives, Federal Intermediate Credit Banks, and Federal Land Banks. Frequent issuer of discount notes, agency notes and callable agency securities. FFCB debt is not an obligation of, nor is it guaranteed by the U.S.

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government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and agricultural industry. Also issues notes under its "designated note" program.

**Federal Funds (Fed Funds).** Funds placed in Federal Reserve Banks by depository institutions in excess of current reserve requirements, and frequently loaned or borrowed on an overnight basis between depository institutions.

**Federal Funds Rate (Fed Funds Rate).** The interest rate charged by a depository institution lending Federal Funds to another depository institution. The Federal Reserve influences this rate by establishing a "target" Fed Funds rate associated with the Fed's management of monetary policy.

**Federal Home Loan Bank System (FHLB).** One of the large Federal Agencies. A government sponsored enterprise (GSE) system, consisting of wholesale banks (currently twelve district banks) owned by their member banks, which provides correspondent banking services and credit to various financial institutions, financed by the issuance of securities. The principal purpose of the FHLB is to add liquidity to the mortgage markets. Although FHLB does not directly fund mortgages, it provides a stable supply of credit to thrift institutions that make new mortgage loans. FHLB debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes and callable agency securities. Also issues notes under its "global note" and "TAP" programs.

**Federal Home Loan Mortgage Corporation (FHLMC or "Freddie Mac").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides stability and assistance to the secondary market for home mortgages by purchasing first mortgages and participation interests financed by the sale of debt and guaranteed mortgage backed securities. FHLMC debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities, and MBS. Also issues notes under its "reference note" program.

**Federal National Mortgage Association (FNMA or "Fannie Mae").** One of the large Federal Agencies. A government sponsored public corporation (GSE) that provides liquidity to the residential mortgage market by purchasing mortgage loans from lenders, financed by the issuance of debt securities and MBS (pools of mortgages packaged together as a security). FNMA debt is not an obligation of, nor is it guaranteed by the U.S. government, although it is considered to have minimal credit risk due to its importance to the U.S. financial system and housing market. Frequent issuer of discount notes, agency notes, callable agency securities and MBS. Also issues notes under its "benchmark note" program.

**Federal Reserve Bank.** One of the 12 distinct banks of the Federal Reserve System.

**Federal Reserve System (the Fed).** The independent central bank system of the United States that establishes and conducts the nation's monetary policy. This is accomplished in three major ways: (1) raising or lowering bank reserve requirements, (2) raising or lowering the target Fed Funds Rate and Discount Rate, and (3) in open market operations by buying and selling government securities. The Federal Reserve System is made up of twelve Federal Reserve District Banks, their branches, and many national and state banks throughout the nation. It is headed by the seven member Board of Governors

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known as the "Federal Reserve Board" and headed by its Chairman.

Financial Industry Regulatory Authority, Inc. (FINRA). A private corporation that acts as a self-regulatory organization (SRO). FINRA is the successor to the National Association of Securities Dealers, Inc. (NASD). Though sometimes mistaken for a government agency, it is a non-governmental organization that performs financial regulation of member brokerage firms and exchange markets. The government also has a regulatory arm for investments, the Securities and Exchange Commission (SEC).

Fiscal Agent/Paying Agent. A bank or trust company that acts, under a trust agreement with a corporation or municipality, in the capacity of general treasurer. The agent performs such duties as making coupon payments, paying rents, redeeming bonds, and handling taxes relating to the issuance of bonds.

Fitch Investors Service, Inc. One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

Floating Rate Security (FRN or "floater"). A bond with an interest rate that is adjusted according to changes in an interest rate or index. Differs from variable-rate debt in that the changes to the rate take place immediately when the index changes, rather than on a predetermined schedule. See also "Variable Rate Security."

Freddie Mac. See "Federal Home Loan Mortgage Corporation."

Ginnie Mae. See "Government National Mortgage Association."

Global Notes: Notes designed to qualify for immediate trading in both the domestic U.S. capital market and in foreign markets around the globe. Usually large issues that are sold to investors worldwide and therefore have excellent liquidity. Despite their global sales, global notes sold in the U.S. are typically denominated in U.S. dollars.

Government National Mortgage Association (GNMA or "Ginnie Mae"). One of the large Federal Agencies. Government-owned Federal Agency that acquires, packages, and resells mortgages and mortgage purchase commitments in the form of mortgage-backed securities. Largest issuer of mortgage pass-through securities. GNMA debt is guaranteed by the full faith and credit of the U.S. government (one of the few agencies that are actually full faith and credit of the U.S. government).

Government Securities. An obligation of the U.S. government, backed by the full faith and credit of the government. These securities are regarded as the highest quality of investment securities available in the U.S. securities market. See "Treasury Bills, Notes, Bonds, and SLGS."

Government Sponsored Enterprise (GSE). Privately owned entity subject to federal regulation and supervision, created by the U.S. Congress to reduce the cost of capital for certain borrowing sectors of the economy such as students, farmers, and homeowners. GSEs carry the implicit backing of the U.S. government, but they are not direct obligations of the U.S. government. For this reason, these securities will offer a yield premium over U.S. Treasuries. Examples of GSEs include: FHLB, FHLMC, FNMA, and SLMA.

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**Government Sponsored Enterprise Security.** A security issued by a Government Sponsored Enterprise. Considered Federal Agency Securities.

**Index.** A compilation of statistical data that tracks changes in the economy or in financial markets.

**Interest-Only (IO) STRIP.** A security based solely on the interest payments from the bond. After the principal has been repaid, interest payments stop and the value of the security falls to nothing. Therefore, IOs are considered risky investments. Usually associated with mortgage-backed securities.

**Internal Controls.** An internal control structure ensures that the assets of the entity are protected from loss, theft, or misuse. The internal control structure is designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that 1) the cost of a control should not exceed the benefits likely to be derived and 2) the valuation of costs and benefits requires estimates and judgments by management. Internal controls should address the following points:

**Control of collusion -** Collusion is a situation where two or more employees are working in conjunction to defraud their employer.

**Separation of transaction authority from accounting and record keeping -** A separation of duties is achieved by separating the person who authorizes or performs the transaction from the people who record or otherwise account for the transaction.

**Custodial safekeeping -** Securities purchased from any bank or dealer including appropriate collateral (as defined by state law) shall be placed with an independent third party for custodial safekeeping.

**Avoidance of physical delivery securities -** Book-entry securities are much easier to transfer and account for since actual delivery of a document never takes place. Delivered securities must be properly safeguarded against loss or destruction. The potential for fraud and loss increases with physically delivered securities.

**Clear delegation of authority to subordinate staff members -** Subordinate staff members must have a clear understanding of their authority and responsibilities to avoid improper actions. Clear delegation of authority also preserves the internal control structure that is contingent on the various staff positions and their respective responsibilities.

**Written confirmation of transactions for investments and wire transfers -** Due to the potential for error and improprieties arising from telephone and electronic transactions, all transactions should be supported by written communications and approved by the appropriate person. Written communications may be via fax if on letterhead and if the safekeeping institution has a list of authorized signatures.

**Development of a wire transfer agreement with the lead bank and third-party custodian -** The designated official should ensure that an agreement will be entered into and will address the following points: controls, security provisions, and responsibilities of each party making and receiving wire transfers.

**Inverse Floater.** A floating rate security structured in such a way that it reacts inversely to the direction of interest rates. Considered risky as their value moves in the opposite direction of normal fixed-income investments and whose interest rate can fall to zero.

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**Investment Advisor.** A company that provides professional advice managing portfolios, investment recommendations, and/or research in exchange for a management fee.

**Investment Adviser Act of 1940.** Federal legislation that sets the standards by which investment companies, such as mutual funds, are regulated in the areas of advertising, promotion, performance reporting requirements, and securities valuations.

**Investment Grade.** Bonds considered suitable for preservation of invested capital, including bonds rated a minimum of Baa3 by Moody's, BBB- by Standard & Poor's, or BBB- by Fitch. Although "BBB" rated bonds are considered investment grade, most public agencies cannot invest in securities rated below "A."

**Liquidity.** Relative ease of converting an asset into cash without significant loss of value. Also, a relative measure of cash and near-cash items in a portfolio of assets. Additionally, it is a term describing the marketability of a money market security correlating to the narrowness of the spread between the bid and ask prices.

**Local Government Investment Pool (LGIP).** An investment by local governments in which their money is pooled as a method for managing local funds, (e.g., Georgia Fund 1).

**Long-Term Core Investment Program.** Funds that are not needed within a one-year period.

**Market Value.** The fair market value of a security or commodity. The price at which a willing buyer and seller would pay for a security.

**Mark-to-market.** Adjusting the value of an asset to its market value, reflecting in the process unrealized gains or losses.

**Master Repurchase Agreement.** A widely accepted standard agreement form published by the Securities Industry and Financial Markets Association (SIFMA) that is used to govern and document Repurchase Agreements and protect the interest of parties in a repo transaction.

**Maturity Date.** Date on which principal payment of a financial obligation is to be paid.

**Medium Term Notes (MTN's).** Used frequently to refer to corporate notes of medium maturity (5-years and under). Technically, any debt security issued by a corporate or depository institution with a maturity from 1 to 10 years and issued under an MTN shelf registration. Usually issued in smaller issues with varying coupons and maturities, and underwritten by a variety of broker/dealers (as opposed to large corporate deals issued and underwritten all at once in large size and with a fixed coupon and maturity).

**Money Market.** The market in which short-term debt instruments (bills, commercial paper, bankers' acceptance, etc.) are issued and traded.

**Money Market Mutual Fund (MMF).** A type of mutual fund that invests solely in money market instruments, such as: U.S. Treasury bills, commercial paper, bankers' acceptances, and repurchase agreements. Money market mutual funds are registered with the SEC under the Investment Company Act of 1940 and are subject to "rule 2a-7" which significantly limits average maturity and credit quality of holdings. MMF's are

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managed to maintain a stable net asset value (NAV) of \$1.00. Many MMFs carry ratings by a NRSRO.

**Moody's Investors Service.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**Mortgage Backed Securities (MBS).** Mortgage-backed securities represent an ownership interest in a pool of mortgage loans made by financial institutions, such as savings and loans, commercial banks, or mortgage companies, to finance the borrower's purchase of a home or other real estate. The majority of MBS are issued and/or guaranteed by GNMA, FNMA, and FHLMC. There are a variety of MBS structures with varying levels of risk and complexity. All MBS have reinvestment risk as actual principal and interest payments are dependent on the payment of the underlying mortgages which can be prepaid by mortgage holders to refinance and lower rates or simply because the underlying property was sold.

**Mortgage Pass-Through Securities.** A pool of residential mortgage loans with the monthly interest and principal distributed to investors on a pro-rata basis. The largest issuer is GNMA.

**Municipal Note/Bond.** A debt instrument issued by a state or local government unit or public agency. The vast majority of municipals are exempt from state and federal income tax, although some non-qualified issues are taxable.

**Mutual Fund.** Portfolio of securities professionally managed by a registered investment company that issues shares to investors. Many different types of mutual funds exist (e.g., bond, equity, and money market funds); all except money market funds operate on a variable net asset value (NAV).

**Negotiable Certificate of Deposit (Negotiable CD).** Large denomination CDs (\$100,000 and larger) that are issued in bearer form and can be traded in the secondary market.

**Net Asset Value.** The market value of one share of an investment company, such as a mutual fund. This figure is calculated by totaling a fund's assets including securities, cash, and any accrued earnings, then subtracting the total assets from the fund's liabilities, and dividing this total by the number of shares outstanding. This is calculated once a day based on the closing price for each security in the fund's portfolio. (See below.)

$$\frac{[(\text{Total assets}) - (\text{Liabilities})]}{(\text{Number of shares outstanding})}$$

**NRSRO.** A "Nationally Recognized Statistical Rating Organization" (NRSRO) is a designated rating organization that the SEC has deemed a strong national presence in the U.S. NRSROs provide credit ratings on corporate and bank debt issues. Only ratings of a NRSRO may be used for the regulatory purposes of rating. Includes Moody's, S&P, Fitch, and Duff & Phelps.

**Offered Price.** See also "Ask Price."

**Open Market Operations.** A Federal Reserve monetary policy tactic entailing the purchase or sale of government securities in the open market by the Federal Reserve System from and to primary dealers in order to influence the money supply, credit conditions, and interest rates.

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**Par Value.** The face value, stated value, or maturity value of a security.

**Physical Delivery.** Delivery of readily available underlying assets at contract maturity.

**Portfolio.** Collection of securities and investments held by an investor.

**Premium.** The amount by which a bond or other financial instrument sells above its face value. See also "Discount."

**Primary Dealer.** A designation given to certain government securities dealer by the Federal Reserve Bank of New York. Primary dealers can buy and sell government securities directly with the Fed. Primary dealers also submit daily reports of market activity and security positions held to the Fed and are subject to its informal oversight. Primary dealers are the largest buyers and sellers by volume in the U.S. Treasury securities market.

**Prime Paper.** Commercial paper of high quality. Highest rated paper is A-1+ /A-1 by S&P and P-1 by Moody's.

**Principal.** Face value of a financial instrument on which interest accrues. May be less than par value if some principal has been repaid or retired. For a transaction, principal is par value times price and includes any premium or discount.

**Prudent Expert Rule.** Standard that requires that a fiduciary manage a portfolio with the care, skill, prudence, and diligence, under the circumstances then prevailing, that a prudent person acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of a like character and with like aims. This statement differs from the "prudent person" rule in that familiarity with such matters suggests a higher standard than simple prudence.

**Prudent Investor Standard.** Standard that requires that when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency. More stringent than the "prudent person" standard as it implies a level of knowledge commensurate with the responsibility at hand.

**Qualified Public Depository -** Per Subsection 280.02(26), F.S., "qualified public depository" means any bank, savings bank, or savings association that:

Is organized and exists under the laws of the United States, the laws of this state or any other state or territory of the United States.

Has its principal place of business in this state or has a branch office in this state which is authorized under the laws of this state or of the United States to receive deposits in this state.

Has deposit insurance under the provision of the Federal Deposit Insurance Act, as amended, 12 U.S.C.



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ss.1811 et seq.

Has procedures and practices for accurate identification, classification, reporting, and collateralization of public deposits.

Meets all requirements of Chapter 280, F.S.

Has been designated by the Finance Director as a qualified public depository.

**Range Note.** A type of structured note that accrues interest daily at a set coupon rate that is tied to an index. Most range notes have two coupon levels; a higher accrual rate for the period the index is within a designated range, the lower accrual rate for the period that the index falls outside the designated range. This lower rate may be zero and may result in zero earnings.

**Rate of Return.** Amount of income received from an investment, expressed as a percentage of the amount invested.

**Realized Gains (Losses).** The difference between the sale price of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See “Unrealized Gains (Losses).”

**Reference Bills:** FHLMC’s short-term debt program created to supplement its existing discount note program by offering issues from one month through one year, auctioned on a weekly or on an alternating four-week basis (depending upon maturity) offered in sizeable volumes (\$1 billion and up) on a cycle of regular, standardized issuance. Globally sponsored and distributed, Reference Bill issues are intended to encourage active trading and market-making and facilitate the development of a term repo market. The program was designed to offer predictable supply, pricing transparency, and liquidity, thereby providing alternatives to U.S. Treasury bills. FHLMC’s Reference Bills are unsecured general corporate obligations. This program supplements the corporation’s existing discount note program. Issues under the Reference program constitute the same credit standing as other FHLMC discount notes; they simply add organization and liquidity to the short-term Agency discount note market.

**Reference Notes:** FHLMC’s intermediate-term debt program with issuances of 2, 3, 5, 10, and 30-year maturities. Initial issuances range from \$2 - \$6 billion with re-openings ranging \$1 - \$4 billion.

The notes are high-quality bullet structures securities that pay interest semiannually. Issues under the Reference program constitute the same credit standing as other FHLMC notes; they simply add organization and liquidity to the intermediate- and long-term Agency market.

**Repurchase Agreement (Repo).** A short-term investment vehicle where an investor agrees to buy securities from a counterparty and simultaneously agrees to resell the securities back to the counterparty at an agreed upon time and for an agreed upon price. The difference between the purchase price and the sale price represents interest earned on the agreement. In effect, it represents a collateralized loan to the investor, where the securities are the collateral. Can be DVP, where securities are delivered to the investor’s custodial bank, or “tri-party” where the securities are delivered to a third party intermediary. Any type of security can be used as “collateral,” but only some types provide the investor with special bankruptcy

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protection under the law. Repos should be undertaken only when an appropriate Securities Industry and Financial Markets Association (SIFMA) approved master repurchase agreement is in place.

**Reverse Repurchase Agreement (Reverse Repo).** A repo from the point of view of the original seller of securities. Used by dealers to finance their inventory of securities by essentially borrowing at short-term rates. Can also be used to leverage a portfolio and in this sense, can be considered risky if used improperly.

**Safekeeping.** Service offered for a fee, usually by financial institutions, for the holding of securities and other valuables. Safekeeping is a component of custody services.

**Secondary Market.** Markets for the purchase and sale of any previously issued financial instrument.

**Securities Industry and Financial Markets Association (SIFMA).** The bond market trade association representing the largest securities markets in the world. In addition to publishing a Master Repurchase Agreement, widely accepted as the industry standard document for Repurchase Agreements, the SIFMA also recommends bond market closures and early closes due to holidays.

**Securities Lending.** An arrangement between an investor and a custody bank that allows the custody bank to "loan" the investor's investment holdings, reinvest the proceeds in permitted investments, and share any profits with the investor. Should be governed by a securities lending agreement. Can increase the risk of a portfolio in that the investor takes on the default risk on the reinvestment at the discretion of the custodian.

**Sinking Fund.** A separate accumulation of cash or investments (including earnings on investments) in a fund in accordance with the terms of a trust agreement or indenture, funded by periodic deposits by the issuer (or other entity responsible for debt service), for the purpose of assuring timely availability of moneys for payment of debt service. Usually used in connection with term bonds.

**Spread.** The difference between the price of a security and similar maturity U.S. Treasury investments, expressed in percentage terms or basis points. A spread can also be the absolute difference in yield between two securities. The securities can be in different markets or within the same securities market between different credits, sectors, or other relevant factors.

**Standard & Poor's.** One of several NRSROs that provide credit ratings on corporate and municipal debt issues.

**STRIPS (Separate Trading of Registered Interest and Principal of Securities).** Acronym applied to U.S. Treasury securities that have had their coupons and principal repayments separated into individual zero-coupon Treasury securities. The same technique and "strips" description can be applied to non-Treasury securities (e.g., FNMA strips).

**Structured Notes.** Notes that have imbedded into their structure options such as step up coupons or derivative-based returns.

**Supranational.** Supranational organizations are international financial institutions that are generally established by agreements among nations, with member nations contributing capital and participating in

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management. These agreements provide for limited immunity from the laws of member countries. Bonds issued by these institutions are part of the broader class of Supranational, Sovereign, and Non-U.S. Agency (SSA) sector bonds. Supranational bonds finance economic and infrastructure development and support environmental protection, poverty reduction, and renewable energy around the globe. For example, the World Bank, International Finance Corporation (IFC), and African Development Bank (AfDB) have “green bond” programs specifically designed for energy resource conservation and management.

Supranational bonds, which are issued by multi-national organizations that transcend national boundaries. Examples include the World Bank, African Development Bank, and European Investment Bank.

Swap. Trading one asset for another.

TAP Notes: Federal Agency notes issued under the FHLB TAP program. Launched in 6/99 as a refinement to the FHLB bullet bond auction process. In a break from the FHLB’s traditional practice of bringing numerous small issues to market with similar maturities, the TAP Issue Program uses the four most common maturities and reopens them up regularly through a competitive auction. These maturities (2, 3, 5, and 10 year) will remain open for the calendar quarter, after which they will be closed and a new series of TAP issues will be opened to replace them. This reduces the number of separate bullet bonds issued, but generates enhanced awareness and liquidity in the marketplace through increased issue size and secondary market volume.

Tennessee Valley Authority (TVA). One of the large Federal Agencies. A wholly owned corporation of the United States government that was established in 1933 to develop the resources of the Tennessee Valley region in order to strengthen the regional and national economy and the national defense. Power operations are separated from non-power operations. TVA securities represent obligations of TVA, payable solely from TVA’s net power proceeds, and are neither obligations of nor guaranteed by the United States. TVA is currently authorized to issue debt up to \$30 billion. Under this authorization, TVA may also obtain advances from the U.S. Treasury of up to \$150 million. Frequent issuer of discount notes, agency notes, and callable agency securities.

Total Return. Investment performance measured over a period of time that includes coupon interest, interest on interest, and both realized and unrealized gains or losses. Total return includes, therefore, any market value appreciation/depreciation on investments held at period end.

Treasuries. Collective term used to describe debt instruments backed by the U.S. government and issued through the U.S. Department of the Treasury. Includes Treasury bills, Treasury notes, and Treasury bonds. Also a benchmark term used as a basis by which the yields of non-Treasury securities are compared (e.g., “trading at 50 basis points over Treasuries”).

Treasury Bills (T-Bills). Short-term direct obligations of the United States government issued with an original term of one year or less. Treasury bills are sold at a discount from face value and do not pay interest before maturity. The difference between the purchase price of the bill and the maturity value is the interest earned on the bill. Currently, the U.S. Treasury issues 4-week, 13-week, and 26-week T Bills.

Treasury Bonds. Long-term interest-bearing debt securities backed by the U.S. government and issued with

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maturities of ten years and longer by the U.S. Department of the Treasury.

**Treasury Notes.** Intermediate interest-bearing debt securities backed by the U.S. government and issued with maturities ranging from one to ten years by the U.S. Department of the Treasury. The Treasury currently issues 2-year, 3-year, 5-year, and 10-year Treasury Notes.

**Trustee.** A bank designated by an issuer of securities as the custodian of funds and official representative of bondholders. Trustees are appointed to insure compliance with the bond documents and to represent bondholders in enforcing their contract with the issuer.

**Uniform Net Capital Rule.** SEC Rule 15c3 1 that outlines the minimum net capital ratio (ratio of indebtedness to net liquid capital) of member firms and non-member broker/dealers.

**Unrealized Gains (Losses).** The difference between the market value of an investment and its book value. Gains/losses are “realized” when the security is actually sold, as compared to “unrealized” gains/losses which are based on current market value. See also “Realized Gains (Losses).”

**Variable-Rate Security.** A bond that bears interest at a rate that varies over time based on a specified schedule of adjustment (e.g., daily, weekly, monthly, semi-annually, or annually). See also “Floating Rate Note.”

**Weighted Average Maturity (or just “Average Maturity”).** The average maturity of all securities and investments of a portfolio, determined by multiplying the par or principal value of each security or investment by its maturity (days or years), summing the products, and dividing the sum by the total principal value of the portfolio. A simple measure of risk of a fixed-income portfolio.

**Weighted Average Maturity to Call.** The average maturity of all securities and investments of a portfolio, adjusted to substitute the first call date per security for maturity date for those securities with call provisions.

**Yield Curve.** A graphic depiction of yields on like securities in relation to remaining maturities spread over a time line. The traditional yield curve depicts yields on U.S. Treasuries, although yield curves exist for Federal Agencies and various credit quality corporates as well. Yield curves can be positively sloped (normal) where longer-term investments have higher yields, or “inverted” (uncommon) where longer-term investments have lower yields than shorter ones.

**Yield to Call (YTC).** Same as “Yield to Maturity,” except the return is measured to the first call date rather than the maturity date. Yield to call can be significantly higher or lower than a security’s yield to maturity.

**Yield to Maturity (YTM).** Calculated return on an investment, assuming all cash-flows from the security are reinvested at the same original yield. Can be higher or lower than the coupon rate depending on market rates and whether the security was purchased at a premium or discount. There are different conventions for calculating YTM for various types of securities.

**Yield.** There are numerous methods of yield determination. In this glossary, see also “Current Yield,” “Yield Curve,” “Yield to Call,” and “Yield to Maturity.”



**Attachment B**  
**Investment Pool/Fund Questionnaire**

1. A description of eligible investment securities, and a written statement of investment policy and objectives.
2. A description of interest calculations and how it is distributed, and how gains and losses are treated.
3. A description of how the securities are safeguarded (including the settlement processes), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposit and withdrawal are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Are reserves, retained earnings, etc. utilized by the pool/fund?
7. A fee schedule, and when and how is it assessed.
8. Is the pool/fund eligible for bond proceeds and/or will it accept such proceeds?





## **Purpose**

The purpose of this policy is to guide DeKalb County, Georgia (the “County”) in meeting its obligations under the applicable statutes, regulations and documentation associated with publicly offered and privately placed securities of the County. The issuance of debt obligations plays an important role in financing the construction and improvement projects for the County. These debt obligations require ongoing compliance with federal tax law (with respect to tax-exempt securities), securities laws (with respect to ongoing disclosure) and contractual commitments made by the County.

This policy is intended to provide guidance and direction on best practices but is not intended to be mandatory in all situations. Circumstances may dictate changes, alterations and revisions. Deviations require formal written notice to the Governing Authority.

## **Policy Statement**

In order to minimize the County’s exposure to liabilities imposed by taxing and legal authorities, the County must follow the procedural guidance stated in this policy. The County recognizes that compliance with pertinent law is an ongoing process, necessary during the entire term of the obligations, and is an integral component of the County’s debt management program. Accordingly, the analysis of those facts and implementation of the Policy will require ongoing monitoring and consultation with bond counsel, disclosure counsel, and the County’s accountants and advisors.

This policy outlines procedures and guidelines that may be applicable to each issue of bonds and identifies the party to be responsible for monitoring compliance. In the County, the *Deputy Finance Director (Assistant Director of Finance) and Treasurer* collectively, (the “Compliance Officer”) have the overall responsibility for ensuring that the policy is followed and checklists and records maintained. The Compliance Officer may delegate responsibility to employees and outside agents for developing records, maintaining records and checklists. The County will provide educational opportunities (opportunities to attend educational programs/seminars on the topic) for the parties identified in this policy with responsibilities for post-issuance compliance in order to facilitate their performance of these obligations.

## **Contents**

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## **Definitions and Terms**

**Arbitrage:** occurs when the gross proceeds of a bond issue are used to acquire investments that earn a yield higher than the arbitrage yield. In these situations, Section 148 of the Internal Revenue Code of 1986, as amended allows the IRS to assess a penalty equal to one hundred percent (100%) of the excess earnings. The rebate amount due to the Federal Government is equal to the excess of the amount earned on all non-purpose investments purchased with gross proceeds of the bonds over the amount which would have been if such non-purpose investments were invested at a rate equal to the yield on the bonds. Certain exceptions are provided in the IRS Regulations that would reduce the penalty.

**Available Construction Proceeds:** an amount equal to (a) the sum of (i) the Issue Price of an issue, (ii) Investment Proceeds on that Issue Price, (iii) earnings on any reasonably required reserve or replacement fund allocable to the issue not funded from the Issue Price, and (iv) Investment Proceeds and earnings on (ii) and (iii), (b) reduced by the portions, if any, of the Issue Price of the issue (i) attributable to Pre-Issuance Accrued Interest and earnings thereon, (ii) allocable to the underwriter's discount, (iii) used to pay other Issuance Costs of the issue, and (iv) deposited in a reasonably required reserve or replacement fund allocable to the issue. Available Construction Proceeds does not include Investment Proceeds or earnings on a reasonable required reserve or replacement fund allocable to the issue for any period after the earlier of (a) the close of the 2-year period that begins on the Issuance Date or (b) the date the construction of the project financed by the issue is substantially completed, provided, however, that such Investment Proceeds or earnings shall be excluded from "Available Construction Proceeds" if the Issuer has timely elected such exclusion. If an issue is a Multipurpose Issue that includes a New Money Portion that is a Construction Issue, this definition shall be applied by substituting "New Money Portion" for "issue" each place the latter term appears. If an issue or the New Money Portion of Multipurpose Issue, as applicable, is not a Construction Issue, and the Issuer makes the bifurcation election under Regulations Sec. 1.148-7(j)(1) and Section 148(f)(4)(C)(v) to treat the issue or the New Money Portion as two separate issues consisting of the Construction Portion and the Nonconstruction Portion, this definition shall be applied by substituting "Construction Portion" for "issue" each place the latter term appears.

**Bifurcated Issue:** a New Money Issue or the New Money Portion of a Multipurpose Issue that the County, pursuant to Internal Revenue Code Section 148(f)(4)(C)(v) and Regulations Sec. 1.148-7(j), has elected in its Tax Certificate to bifurcate into a Construction Portion, which finances 100% of the Construction Expenditures, and a Nonconstruction Portion.

**Bona Fide Debt Service Fund:** a fund, including a portion of or an account in that fund (or in the case of a fund established for two or more issues, the portion of that fund properly allocable to an issue), or a combination of such funds, accounts or portions that is used primarily to achieve a proper matching of revenues with Debt Service on an issue within each Bond Year and that is depleted at least once each year except for a reasonable carryover amount not to exceed the greater of the earnings thereon for the immediately preceding Bond Year or one-twelfth of the annual Debt Service on the issue for the immediately preceding Bond Year.

**Bond Year:** the annual period relevant to the application of Section 148(f) to an issue, except that the first and last Bond Years may be less than 12 months long. The last day of a Bond Year shall be the close of business on the day preceding the anniversary of the Issuance Date of an issue unless the Issuer selects another date on which to end a Bond Year in the manner permitted by the Code.

**Code:** the Internal Revenue Code of 1986, the Regulations (whether temporary or final) under that Code or the statutory predecessor of that Code, and any amendments of, or successor provisions to, the



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foregoing and any official rulings, announcements, notices, procedures and judicial determinations regarding any official rulings, announcements, notices, procedures and judicial determinations regarding any of the foregoing, all as and to the extent applicable. Unless otherwise indicated, reference to a Section includes any applicable successor section or provision and such applicable Regulations, rulings, announcements, notices, procedures and determinations pertinent to the Section.

**Current Refunding Issue:** a refunding issue that is issued *not more* than 90 days before the final payment of principal or interest (redemption) on the prior issue.

**Debt Service:** principal of and interest and any redemption premium on an issue.

**Governmental Bond:** a bond issued as a part of an issue, no portion of which consists of a private activity bond.

**Issuance Costs:** costs to the extent incurred in connection with, and allocable to, the issuance of an issue, and includes underwriter's compensation withheld from the Issue Price, bond counsel fees, financial advisory fees, rating agency fees, trustee fees, paying agent fees, bond registrar, certification and authentication fees, accounting fees, printing costs for bonds and offering documents, public approval process costs, engineering and feasibility study costs, guarantee fees other than for a Qualified Guarantee and similar costs, but does not include fees charged by the Issuer.

**Issuance Date:** the date of physical delivery of an issue by the Issuer in exchange for the purchase price of the issue.

**Issue Price:** New Issue Price Regulations became effective for bonds sold on or after June 7, 2017 as summarized below.

**Public Offering – Actual Sales Standard.** As a general rule, the issue price of publicly offered bonds is the first price at which a substantial amount (still defined as 10%) is sold to the public. This general rule is based on actual sales of bonds, and (except for certain public sales) issue price may no longer be established based on the reasonable expectations of the underwriter. Except for these competitive sale exemptions, there are two alternatives for determining how the issue price is determined

**Alternative #1 to the General Rule – Hold-the-Offering-Price-Rule** – As an alternative to the general rule discussed above, an issuer may elect to establish the issue price by having the underwriter certify (1) it offered the bonds at the initial offering prices on or before the sale date, along with documents that support the certification (e.g. the pricing wire); and (2) that it did not offer nor sell the bonds to any person at a price higher than the initial offering prices for a specified period of time after the sale date. This “hold –the-offering-price period” begins on the sale date and ends on the earlier of: (1) the close of the 5<sup>th</sup> business day after the sale date; or (2) the date on which 10% of the bonds are sold to the public at or below the initial offering prices.

**Alternative #2 to the General Rule – Competitive Sale Alternative** – Another special alternative to the general issue price rule is available for eligible public (competitive) sales of bonds. A public sale will be eligible to employ this issue price method if: (1) the issuer distributes the notice of sale in a way designed to reach prospective underwriters; (2) all bidders have an equal opportunity to bid; (3) at least three bids are received from underwriters with established industry reputations for underwriting municipal bonds; and (4) the issuer awards the sale to the bidder who offers the highest price/lowest interest cost. If an issuer

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satisfies these requirements, it may establish the issue price of its bonds on the sale date by receiving a certification from the winning bidder regarding the reasonably expected initial offering price upon which the winning bid was based.

If more than one of the issue price alternatives discussed above is available for an issue of bonds, the issuer may choose which rule it will apply. This choice must be made on or before the issue date of the bonds and must be identified in the books and records maintained for the bonds (e.g., in an arbitrage or tax certificate).

**Private Placement.** The issue price of bonds sold for money in a private placement to a single buyer is the price paid by the buyer. The buyer cannot be an underwriter or a party related to an underwriter. As a general matter, if a buyer and an underwriter have more than 50% common ownership or control, the parties will be related for this purpose (see Treas. Reg. Section 1.150-1(b)). In the final regulations, an underwriter is defined as (1) any legal entity that agrees in a written contract with the issuer (or with the lead underwriter to form an underwriting syndicate) to sell the bonds to the public; and (2) any legal entity that enters into a written contract with a person described in (1) above to participate in the initial sale of the bonds to the public. In addition, the term "public" is defined as any person other than the underwriter or a related party to an underwriter.

1. **Ongoing (Continuing) Disclosure:** obligations set forth under SEC Rule 15c2-12 that requires issuers of municipal securities to provide and disseminate annual financial information and material event notices to the public.

**Private Activity Bond:** A municipal security of which the proceeds are used by one or more private entities. A municipal security is considered a private activity bond if it meets two sets of conditions set out in Section 141 of the Internal Revenue Code. (see "private business use test" below) and the payment of the principal of or interest on more than 10 percent of the proceeds of such issue is secured by or payable from property used for a private business use (see "private payment or security test" below). A municipal security also is a private activity bond if, with certain exceptions, the amount of proceeds of the issue used to make loans to non-governmental borrowers exceeds the lesser of 5 percent of the proceeds of \$5 million (see "private loan financing test").

Interest on private activity bonds is not excluded from gross income for federal income tax purposes unless the bonds fall within certain defined categories ("qualified bonds" or "qualified private activity bonds"), as described below. Most categories of qualified private activity bonds are subject to the alternative minimum tax. The following categories of private activity bonds are qualified bonds under current federal tax laws:

**Exempt facility bonds –** Private activity bonds issued to finance various types of facilities owned or used by private entities, including airports, docks and certain other transportation-related facilities; water, sewer and certain other local utility facilities; solid and hazardous waste disposal facilities; certain residential rental projects (including multi-family housing revenue bonds); and certain other types of facilities. Enterprise zone and recovery zone facility bonds are also considered exempt facility bonds.

**Private Activity Use:** Any activity that constitutes a trade or business that is carried on by Nongovernmental Persons. Any activity carried on by a person other than a natural person is treated as a trade or business. Any asset financed with tax exempt securities not owned by the County or another Governmental Entity will be considered to be used in a Private Use. In most cases, Private Use will occur only if a Nongovernmental Person has a special legal entitlement to use the bond financed property. Such a special legal entitlement includes ownership or actual beneficial use pursuant to a lease, management, service or incentive payment contract, output contract, research agreement or similar arrangement. Private

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Use may also be established solely on the basis of a special economic benefit to one or more Nongovernmental Person.

**Private Business Use Test:** More than 10% of the proceeds of an issue used for any private business use. In applying this test, bond proceeds can be used to finance the working capital expenditures of a governmental entity.

**Private Loan Financing Test:** Amount of proceeds of the issue which is to be used (directly or indirectly) to make or finance loans to persons other than governmental entities exceeds the lesser of 5% of such proceeds or \$5,000,000.

**Private Payment or Security Test:** More than 10% of the payment of principal or interest on the bond issue is either made or secured (directly or indirectly) by payments or property used or to be used for a private business use.

**Private Person:** Any natural person or any artificial person, including a corporation, partnership, trust or other entity, other than a governmental unit. "Private Person" includes the United States and any agency or instrumentality of the United States.

**Rebate Exceptions:** There are certain exceptions that are available to the County in order to avoid arbitrage rebate. These include the 6-month, 18-month and two-year spending exception, bona fide debt service fund exception, payment of penalty in lieu of rebate and the small issuer exception where arbitrage rebate is not required for bond issues less than \$5,000,000 in one year.

**Rebate Monitor:** Individual authorized within the County to maintain records relative to investment of bond proceeds and monitor compliance with arbitrage rebate obligations of the County.

**Rebate Requirements:** The rebate amount due to the Federal Government is equal to the excess of the amount earned on all non-purpose investments purchased with gross proceeds of the bonds over the amount which would have been earned if such non-purpose investments were invested at a rate equal to the arbitrage yield on the bonds.

**Record Retention:** The Internal Revenue Service guidelines require that certain books and records to support positions taken in the treatment of a bond issue be maintained over a stated period of time to facilitate a review and examination should the need arise. The books and records should be maintained over the life of the bonds plus three years after the final redemption of the bonds.

**Remedial Action:** Process by which a condition of noncompliance is remedied to preserve the tax exempt status on a debt issue. Examples of remedial actions taken to cure noncompliance include redemption or defeasance of bonds, alternative use of disposition proceeds and alternative use of bond-financed facilities. An additional remedial action is entering into a closing agreement under the TEB (Tax-Exempt Bond) Voluntary Closing Agreement Program (VCAP).

**Temporary Period:** As set forth in Section 1.148-2 of the Treasury Regulations, the period during which the proceeds and replacement proceeds on an issue may be invested in higher yielding investments without causing bonds in the issue to be arbitrage bonds. The direct and indirect investment of bond proceeds in a materially higher yielding investment does not cause the bonds of an issue to be an arbitrage bond in the following three instances: during the temporary period (i.e. generally, 3-year temporary period for capital projects and 13 months for restricted working capital expenditures); as a part of a reasonably required reserve or replacement fund; and as part of a minor portion (an amount not exceeding the lesser of 5% of the sale proceeds of the issue or \$100,000).

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**Voluntary Closing Agreement Program (VCAP):** This program provides remedies to issuers who voluntarily come forward to resolve a violation. The terms of a closing agreement vary according to the degree of violation as well as the facts and circumstances surrounding the violation. The violations may but not necessarily limit themselves to private activity bonds, private business use or arbitrage violations.

**Yield Reduction Payments:** Payments made to the US Department of the Treasury to reduce the yield on yield-restricted investments when the yield on those earnings is materially higher than the yield of the bond issue. These payments are submitted by filing a Form 8038-T (Arbitrage Rebate and Penalty in Lieu of Arbitrage Rebate). Yield reduction payments are due every 5 years within 60 days after each computation date.

**Yield Restriction:** The direct and indirect investment of bond proceeds in a materially higher yielding investment does not cause the bonds of an issue to be an arbitrage bond in the following three instances: during the temporary period (i.e. generally, 3-year temporary period for capital projects and 13 months for restricted working capital expenditures); as a part of a reasonably required reserve or replacement fund; and as part of a minor portion (an amount not exceeding the lesser of 5% of the sale proceeds of the issue or \$100,000).

## Post Issuance Compliance Policy

1. **Transcripts.** The County's bond counsel shall provide the County with both two bound and two compact discs of a full transcript related to the issuance of securities (for each issue) to be distributed to the Department of Finance and the Department of Law, respectively, as part of the official records related to the bonds. The transcript shall be delivered within three months following the date of issuance of securities. It is expected that the transcript will include a full record of the proceedings related to the issuance of securities, including proof of filing a Form 8038, 8038-G or 8038-GC, if applicable.
2. **Federal Tax Law Requirements – (Applies to all securities issued as “tax exempt” securities).**
  - a. **Use of proceeds:** If the project(s) to be financed with the proceeds of the securities will be funded with multiple sources of funds, the County will adopt an accounting methodology that either:
    - i. Maintains each source of funding separately and monitors the actual expenditure of proceeds of the securities; or
    - ii. Blends the proceeds with other funding sources and monitors the expenditures on a first in, first out basis; or
    - iii. Provides for the expenditure of funds received from multiple sources on a proportionate basis.
  - b. Records of expenditures (construction contracts, purchase orders, requisitions, invoices, timing of expenditure and accounting distribution) of the proceeds of securities will be maintained by the Department of Finance – Treasury & Accounting Services or the area responsible authorized to submit requisitions.
  - c. Records of investments and interest earnings on the proceeds of securities will be maintained by the area responsible for Investments/Cash Management within the Department of Finance. Such records should include the amount of each investment, the date each investment is made, the date each investment matures and in if sold prior to maturity, its sale date, and its interest rate and/or yield. Interest earnings on proceeds will be deposited in the fund in which the proceeds of the securities were deposited (if not, then the plan for use of interest earnings will be discussed with the County's bond counsel.)

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- d. Similarly, records of interest earnings on reserve funds maintained for the securities will be maintained by the area responsible for Investments/Cash Management within the Department of Finance.
  - e. Maintain careful records of all facilities and other costs (e.g., issuance costs, credit enhancement and capitalized interest) and uses (e.g., deposit to reserve fund) for which bond proceeds were spent or used. These records should be maintained separately for each issue of bonds.
3. Arbitrage Rebate. The Compliance Officer and other individual authorized to maintain records related to investments within the Department of Finance of the County will monitor compliance with the arbitrage rebate obligations of the County for each issue of securities issue ("issue") which are described in further detail in the tax certificate if any, executed by the County for each issue and included in the transcript for the issue. The County will provide educational opportunities from a reputable source (College/University, the County's Financial Advisory firm, Bond Counsel, etc.) in order for staff to facilitate his/her performance of these obligations.
- a. If the Rebate Monitor determines that the total principal amount of tax-exempt governmental obligations (including all tax-exempt leases, etc.) of the County issued by or on behalf of the County and subordinate entities during the calendar year, including the issue, will not be greater than \$5,000,000, the Rebate Monitor will not be required to monitor arbitrage rebate compliance for the issue, except to monitor expenditures and use the proceeds after completion of the project (see section related to *Unused Proceeds Following Completion of Project* below). For purposes of this paragraph, tax-exempt governmental obligations issued to currently refund a prior tax-exempt governmental obligation will only be taken into account to the extent they exceed the outstanding amount of the refunded bonds.
  - b. If the Rebate Monitor determines that the total principal amount of tax-exempt governmental obligations (including all tax-exempt leases, etc.) of the County issued or incurred any calendar year is greater than \$5,000,000, the Rebate Monitor will monitor rebate compliance for each issue of tax-exempt governmental obligations issued during the calendar year.
    - i. Rebate Exception – The Rebate Monitor will review the tax certificate, if any, in the transcript in order to determine whether the County is expected to comply with a spending exception that would permit the County to avoid having to pay arbitrage rebate. If the tax certificate identifies this spending exception (referred to as the six-month exception, the 18 month exception or the 2-year exception), then the Rebate Monitor will monitor the records of expenditures (see section related to *Federal Tax Requirements Use of Proceeds* above) to determine whether the County met the spending exception (and thereby avoid having to pay any arbitrage rebate to the federal government). If the County did not execute a tax certificate in connection with potential applicability of spending exceptions.
    - ii. Rebate Compliance – If the County does not meet or does not expect to meet any of the spending exceptions described in (a) above, the County will:
      1. Review the investment earnings records retained as described in *Federal Tax Requirements Use of Proceeds* above in order to facilitate the preparation of arbitrage rebate reports.
      2. At the time of issuance, but in no event later than 60 days prior each Installment Computation Date, the County shall retain the services of an arbitrage rebate consultant in order to calculate any potential arbitrage rebate liability. The rebate consultant shall be selected through a method that is in compliance with the County's *Purchasing Policy*. A rebate consultant may be selected on an issue by issue basis or for all securities

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- issues of the County. The Rebate Monitor will obtain the names of at least three qualified consultants and request that the consultants submit proposals for consideration prior to being selected as the County's rebate consultant. Annually, the selected rebate consultant shall provide a written report to the County with respect to the issue and with respect to any arbitrage rebate owed if any.
3. Based on the report of the rebate consultant, file reports with and make any required payments to the Internal Revenue Service, no later than the fifth anniversary of the date of each issue (plus sixty (60) days), and every five years thereafter, with the final installment due no later than sixty (60) days following the retirement of the last obligation of the issue.
  4. At least annually, the County will cause to have its Post Issuance Compliance Checklist completed or updated. This Checklist will be filed along with the annual audit.
- c. **Yield Reduction Payments** – If the County fails to expend all amounts required to be spent as of the close of any temporary period set forth in the Treasury Regulations (generally 3 years for proceeds of a new money issue and 13 months for amounts held in a debt service fund), the County will follow the procedures described in *Arbitrage Rebate, Rebate Compliance* above to determine and pay any required yield reduction payment.
4. **Unused Proceeds Following Completion of the Project** – Following completion of the project(s) financed with the issue proceeds, the Department of Finance – Treasury & Accounting Services in conjunction with the liaison for the project construction management will:
    - a. Review the expenditure records to determine whether the proceeds have been allocated to the project(s) intended (and if any questions arise, consult with bond counsel in order to determine the method of reallocation of proceeds); and
    - b. Direct the use of remaining unspent proceeds (in accordance with the limitations set forth in the authorizing proceeds (i.e., bond ordinance) and if no provision is otherwise made for the use of unspent proceeds, to the redemption of defeasance of outstanding securities of the issue or for such other purpose as may be approved by the County's bond counsel.
  5. **Use of the Facilities Financed with Proceeds** – In order to maintain tax exemption of securities issued on a tax-exempt basis, the financed facilities/assets/projects are required to be used for governmental purposes during the life of the issue. The IRS Treasury Regulations prohibit private business use (including use by private parties (such as nonprofit organizations and the federal government)) of tax-exempt financed facilities/assets beyond permitted *de minimis* amounts unless cured by a prescribed remedial action. Private use may arise as a result of:
    - a. Sale of the facilities/assets;
    - b. Lease of the facilities/assets (including leases, easement or use arrangements for areas outside the four walls, e.g., hosting of cell phone towers);
    - c. Management contracts (in which the County authorizes a third party to operate a facility (e.g., cafeteria);
    - d. Preference arrangements (in which the County grants a third party preference of the facilities, e.g., preference parking in a public parking lot).
    - e. Before entering into any new management, service or research agreements described above, engage County's bond counsel to review such agreements to determine whether they result in private business use.
    - f. Analyze at least annually any private business use of debt financed facilities to determine whether the 5% limitation on private business use of proceeds of the issue is exceeded.

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- g. Maintain copies of all of the following contracts or arrangements (or, if no written contract exists, maintain detailed records of the following contracts or arrangements) with a Private Person:
    - i. Sales of debt financed facilities
    - ii. Leases of debt financed facilities
    - iii. Management or service contracts relating to debt financed facilities
    - iv. Research contracts under which a Private Person sponsors research in debt financed facilities.
  - h. Any other contracts involving “special legal entitlements” (such as naming rights or exclusive provider arrangements) granted to a Private Person with respect to debt financed facilities.
  - i. If the County identifies private use of tax-exempt debt financed facilities, the County will consult the County’s bond counsel to determine whether private use will adversely affect the tax-exempt status of the issue and if so, what remedial action is appropriate.
6. Records Retention
- a. Records with respect to matters described in this policy will be retained by the County for the life of the securities issue (and any issues that refunds the securities issue) and for a period of three (3) years thereafter.
  - b. If Bonds are refunded, life of refunding bonds and three (3) years thereafter.
  - c. Records to be retained include:
    - i. Board minutes and resolutions
    - ii. Appraisals
    - iii. The transcripts
    - iv. Arbitrage rebate reports prepared by outside consultants;
    - v. Work papers that were provided to the rebate consultants;
    - vi. Records of expenditures and investment receipts (showing timing of expenditure and the object code of the expenditure and in the case of investment, timing of receipt of interest earnings). (Maintenance of underlying invoices should not be required provided the records include the date of the expenditure, payee name, payment amount and object code; however, if those documents are maintained as a matter of policy in electronic form, then the County shall continue to maintain those records in accordance with this policy);
    - vii. Payments for credit facilities
    - viii. Copies of all certificates and returns filed with the IRS (e.g., for payment of arbitrage rebate); and
    - ix. Copies of all leases, user agreements for use of the financed property (agreements that provide for the use of the property for periods longer than 30 days), whether or not the use was within the four walls (e.g., use of the roof of the facility for a cell phone tower).
7. Ongoing (Continuing) Disclosure – Under the provisions of SEC Rule 15c2-12 (the “Rule”), underwriters are required to obtain an agreement for ongoing disclosure in connection with the public offering of securities. Unless the County is exempt from compliance with the Rule as a result of certain permitted exemptions, the transcript for each issue will include an undertaking by the County to comply with the Rule. The County will monitor compliance with its undertakings. These undertakings may include the requirement to file notices of listed “material events.” See (“Continuing Disclosure Policy and Procedures 2017”)

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8. Other Notice Requirements – In some instances, the proceedings authorizing the issuance of securities will require the County to file information periodically with other parties, e.g., bond insurers, banks, rating agencies. The types of information required to be filed may include:
- Budgets
  - Comprehensive Annual Financial Reports (CAFR)
  - Issuance of additional debt obligations
  - Amendments to financing documents, and
  - Event notices.

Event notices would include the following:

- Principal and interest payment delinquencies
- Non-payment related defaults
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements reflecting financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to rights of security holders
- Bond calls and tender offers
- Defeasances
- Release, substitution or sale of property
- Rating changes
- Bankruptcy, insolvency or receivership
- Merger, acquisition or sale of all issuer assets
- Appointment of successor trustee

The Department of Finance will maintain a listing of those requirements and monitor compliance.

## Related Documents

Debt Management Policy

Investment Policy

Continuing Disclosure Policy and Procedure

## Change Control Matrix

These procedures may be amended or supplemented at any time, including without limitations by the promulgation of memoranda addressing specific issues, with the approval of both the Compliance Officer and the Finance Director. All such amendments or supplements shall be reviewed by the County Attorney and outside counsel as necessary.

## References

Rule 15c2-12(b) (5) under the Securities Exchange Act of 1934

Internal Revenue Code of 1986, as amended

IRS Treasury Regulations



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**Version 7.17.18**



Master Bond Resolution Agreements

Tax Regulatory and No-Arbitrage Certificates, Various County Debt Issues

Publication 4079, "Tax-Exempt Governmental Bonds Compliance Guide", Internal Revenue Service website, <http://www.irs.gov/pub/irs-pdf>

Internal Revenue Service website providing information for the Tax Exempt Bond Community, <http://www.irs.gov/taxexemptbond/>

## **Appendix**

Post Issue Compliance Checklist

Bond Proceeds/Investment/Drawdown Report

Form 8038-T, Arbitrage Rebate, Yield Reduction and Penalty in Lieu or Arbitrage Rebate

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**DeKalb County, Georgia  
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**POST ISSUANCE COMPLIANCE CHECKLIST**

**DeKalb County, Georgia  
Finance Department – Treasury**



**Post Issuance Compliance Checklist**

Bond Issue:  
Date of Issue:  
Taxable or Non-Taxable: \_\_\_\_\_(YES/NO)

**TRANSACTION PARTIES**

Overall Responsible Office for Debt Management Activities  
Bond Counsel:  
Trustee  
Paying Agent:  
Rebate Specialist  
Other:  
Other:  
Other:

TAX COMPLIANCE MATTERS	DOCUMENT REFERENCE	RESPONSIBILITY
<b>GENERAL POLICY MATTERS:</b>  Ensure receipt of the closing binder and other customary transaction documents (the Bond transcript).		
Confirm whether bond counsel filed the applicable information returns (Form 8038, Form 8038-G, Form 8038-CP) with the IRS on a timely basis.		
Coordinate receipt and retention of relevant books and records with respect to investment and expenditure of the proceeds of such obligations.		
Use of Proceeds: No private business use arrangement with private entity (including federal government) including sale of facilities, lease, nonqualified management contract, nonqualified research contract, special legal entitlement.		

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<p><b>TAX COMPLIANCE MATTERS:</b>  <b>Arbitrage:</b>          Confirm that a certification of the initial offering prices of the Obligations with such supporting data, if any, required by bond counsel, is included in the transcript.</p>		
<p>Confirm that a computation of the yield on such issue from the financial advisor or bond counsel is contained in the transcript.</p>		
<p>Retain the services of an arbitrage rebate consultant in order to calculate any potential arbitrage rebate liability. Services should be procured in accordance with the County's Purchasing Policy.</p>		
<p>Coordinate the tracking of expenditures, including the expenditure of any investment earnings. If projects to be financed with proceeds of the obligations are funded with multiple sources of funds, confirm that an accounting methodology exists that maintains each source of financing separately and monitors the actual expenditure of proceeds of the obligations.</p>		

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<p>Monitor expenditures to semi-annual target dates for six-month, 18-month or 24-month spending exceptions.</p>		
<p>Monitor expenditures generally against date of issuance expectations for three-year or five-year temporary periods or five-year hedge bond rules.</p>		
<p>Monitor and maintain earnings on reserve funds maintained for the securities.</p>		
<p>Retain the services of an arbitrage rebate consultant in order to calculate any potential arbitrage rebate liability. Services should be procured in accordance with the County's Purchasing Policy.</p>		

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<p><b>Arbitrage Rebate</b></p> <ul style="list-style-type: none"> <li>(a) First installment of arbitrage rebate due on fifth anniversary of bond issuance plus 60 days.</li> <li>(b) Succeeding installments every five years.</li> <li>(c) Final installment 60 days after retirement of last bonds of issue.</li> </ul>		
<p>Maintain records determining and tracking facilities financed with specific obligations and the amount of proceeds spent on each facility.</p>		
<p><b>Private Activity Rules:</b>          Monitor private use of financed facilities to ensure compliance with applicable limitations on such use. Examples of potential private use include:</p> <ul style="list-style-type: none"> <li>(a) Sale of facilities, including sale of capacity rights;</li> <li>(b) Lease or sub-lease of the facilities (including leases, easements or use arrangements for areas outside the four walls, e.g. hosting of cell phone towers) or lease improvement contracts;</li> <li>(c) Management contracts (in which the issuer authorizes a third party to operate a facility, e.g., cafeteria) and research contracts;</li> <li>(d) Preference arrangements (in which the issuer permits a third party preference, such as parking in a public parking lot);</li> <li>(e) Joint-ventures, limited liability companies or partnership arrangements;</li> <li>(f) Output contracts or other contracts for use of utility facilities (including contracts with large utility users);</li> <li>(g) Development agreements which provide for guaranteed payments or property values from a developer;</li> <li>(h) Grants or loans made to private entities, including special assessment agreements; and</li> <li>(i) Naming rights arrangements.</li> </ul>		

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<p><b>Monitoring of private use should include the following:</b></p> <ul style="list-style-type: none"> <li>(a) Procedures to review the amount of existing private use on a periodic basis; and</li> <li>(b) Procedures for identifying in advance any new sale, lease or license, management contract, sponsored research arrangement, output or utility contract, development agreement or other arrangement involving private use of financed facilities and for obtaining copies of any sale agreement, lease, license, management contract, research arrangement or other arrangement for review by bond counsel.</li> </ul>		
<p><b>Federal Subsidy Payments:</b></p> <p>Calculate the amount of any federal subsidy payments and timely prepare and submit applicable tax form and application for federal subsidy payments for tax-advantaged obligations for Build America Bonds</p>		
<p><b>RECORD RETENTION:</b></p> <p>Retain the following records associated with the issuance of securities for the life of the bond issue plus three years:</p> <ul style="list-style-type: none"> <li>(a) Transcript relating to the bond issuance including any arbitrage or tax certificate and bond counsel opinion.</li> <li>(b) Documentation evidencing expenditure of issue proceeds</li> <li>(c) Documentation regarding the types of facilities financed with the proceeds of an issue, including, but not limited to, whether such facilities are land, buildings or equipment, economic life calculations and information regarding depreciation.</li> <li>(d) Documentation evidencing use of financed property by public and private entities (e.g., copies of leases, management contracts, utility user agreements, developer agreement and research agreements);</li> <li>(e) Documentation evidencing all sources of payment or security for the issue;</li> <li>(f) Documentation pertaining to any investment of proceeds of the issue (including the purchase and sale of securities, SLGs subscriptions, yield calculations for each class of investments, actual investment income received by the investment of proceeds, guaranteed investment contracts, and rebate calculations).</li> </ul>		

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<p>Coordinate the retention of all records in a manner that ensures their complete access to the IRS.</p>		
<p><b>CONTINUING DISCLOSURE:</b>          Verify certificate exists to enable the underwriter to comply with Rule 15c2-12 under the Securities Exchange Act of 1934.</p>		
<p>Maintain periodic disclosure of the following items to bond insurers, banks, rating agencies, et. al.</p> <ul style="list-style-type: none"> <li>(a) Budgets</li> <li>(b) Comprehensive Annual Financial Reports (CAFR)</li> <li>(c) Issuance of additional debt obligations</li> <li>(d) Amendments to financing documents</li> <li>(e) Event notices</li> </ul>		





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**FORM 8038-T (Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage)**

Form <b>8038-T</b> (Rev. April 2011) Department of the Treasury Internal Revenue Service		<b>Arbitrage Rebate, Yield Reduction and Penalty In Lieu of Arbitrage Rebate</b> Under Sections 143(g)(3) and 148(f) and Section 103(c)(6)(D) of the Internal Revenue Code of 1954		OMB No. 1545-1219	
<b>Part I Reporting Authority</b>					
1 Issuer's name			2 Check box if Amended Return <input type="checkbox"/>		
3 Number and street (or P.O. box no. if mail is not delivered to street address) Room/suite			4 Report number (For IRS Use Only)		
5 City, town, or post office, state, and ZIP code			6 Date of issue		
7 Name of issue			8 CUSIP number		
9 Name and title of officer of the issuer or other person whom the IRS may call for more information			10 Telephone number of officer or other person		
11 Type of issue ▶ Issue price ▶ 11					
<b>Part II Arbitrage Rebate and Yield Reduction Payments</b>					<b>Amount</b>
12 Computation date to which this payment relates (MM/DD/YYYY)					
13 Arbitrage rebate payment (see instructions) <input type="checkbox"/> check box if less than 100% of rebate amount					13
14 Yield reduction payment (see instructions) <input type="checkbox"/> check box if less than 100% of yield reduction amount					14
15 Rebate payment from Qualified Zone Academy Bond (QZAB) defeasance escrow (see instructions)					15
<b>Part III Penalty in Lieu of Arbitrage Rebate</b>					
16 Number of months since date of issue: <input type="checkbox"/> 6 mos <input type="checkbox"/> 12 mos <input type="checkbox"/> 18 mos <input type="checkbox"/> 24 mos <input type="checkbox"/> Other. No. of mos ▶					
17 Penalty in lieu of rebate					17
18 Date of termination election (MM/DD/YYYY)					
19 Penalty upon termination					19
<b>Part IV Late Payments</b>					
20 Does failure to pay timely qualify for waiver of penalty (see instructions) Yes <input type="checkbox"/> No <input type="checkbox"/>					
21 Penalty for failure to pay on time (see instructions)					21
22 Interest on underpayment (see instructions)					22
<b>Part V Total Payment</b>					
23 Total payment. Add lines 13, 14, 15, 17, 19, 21, and 22. Enter total here					23
<b>Part VI Miscellaneous</b>					
24 Unspent proceeds as of this computation date					24
25 Proceeds used to redeem bonds					25
26 Gross proceeds used for qualified administrative costs for guaranteed investment contracts (GICs) and defeasance escrows					26
27 Fees paid for a qualified guarantee					27
28 Is the issue a variable rate issue?					Yes No
29 Did the issuer enter into a hedge? Name of provider Term of hedge					29
30 Were gross proceeds invested in a GIC? Name of provider Term of GIC					30
31 Were any gross proceeds invested beyond an available temporary period?					31
32 Calculations for filing of this form prepared by: <input type="checkbox"/> Issuer <input type="checkbox"/> Preparer					
Under penalties of perjury, I declare that I have examined this return, and accompanying schedules and statements, and to the best of my knowledge and belief, they are true, correct, and complete. I further declare that I consent to the IRS's disclosure of the issuer's return information, as necessary to process this return, to the person that I have authorized above.					
<b>Signature and Consent</b>		Signature of issuer's authorized representative		Date	
		Type or print name and title			
<b>Paid Preparer Use Only</b>		Print/Type preparer's name		Preparer's signature	
		Date		Check <input type="checkbox"/> if self-employed PTIN	
		Firm's name ▶		Firm's EIN ▶	
		Firm's address ▶		Phone no.	

For Paperwork Reduction Act Notices, see the separate instructions.

Cal No 11545Y

Form 8038-T (Rev. 4-2011)



# DeKalb County, Georgia

## Finance Department – Treasury

### Continuing Disclosure Policy and Procedures

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## Purpose

Disclosures by municipal issuers are generally made in three contexts:

- 1) Primary market disclosure through offering documents prepared for primary offerings of securities (e.g., an "Official Statement");
- 2) Secondary market disclosures prepared in compliance with undertakings under Rule 15c2-12 of the Securities and Exchange Commission under the Securities and Exchange Act of 1934 (the "Rule"); and
- 3) Releases and/or statements by the issuer and its officials that are reasonably expected to reach investors and the trading markets, such as communications through investor websites, press releases or other public responses.

In connection with the issuance of Obligations to the public, DeKalb County (the "County") will enter into an agreement (a "Continuing Disclosure Agreement") pursuant to the Rule wherein the County shall agree to provide certain annual financial and operating information, along with notices of certain listed events as set forth in such agreement.

This continuing disclosure policy sets forth procedures aimed at maintaining compliance with agreements, provisions and obligations with underwriters and purchasers of debt obligations issued by the County.

This policy is intended to provide guidance and direction on best practices but is not intended to be mandatory in all situations. Circumstances may dictate changes, alterations and revisions. Deviations will require formal written notice to the Governing Authority.

## Policy Statement

It is the policy of the County to use its good faith efforts (a) to comply with all continuing disclosure agreements and other obligations (together, the "Continuing Disclosure Obligations") entered into with underwriters or purchasers in connection with the issuance of bonds, notes, commercial paper programs, or other obligations (collectively, "Bonds") issued by or for the benefit for the County and (b) to implement and carry out the policies and procedures set forth herein (the "Procedures") to ensure compliance with all such Continuing Disclosure Obligations and to preserve appropriate records to evidence such compliance.

Further, it is in the County's best interest to incorporate robust disclosure practices in order to enhance its credibility in the marketplace, foster liquidity for its debt securities and demonstrate a solid disclosure track record that will be viewed favorably by investors, credit rating agencies and the public.

## Contents

This document contains the following:

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**DeKalb County, Georgia**  
**Finance Department – Treasury**

**Continuing Disclosure Policy and Procedures**

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## **Continuing Disclosure Policy and Procedures**

- 1. Responsible Officers.** The individual acting as Treasurer (the “Treasurer”) or such other individual designated by the Finance Director is the initial designated Compliance Officer for implementing and monitoring compliance with the Procedures (the “Compliance Officer”). The Compliance Officer shall have the responsibility of gathering, reporting and monitoring data necessary to carry out the purposes of these Policies and Procedures. The Compliance Officer and others designated to assist him/her shall consult with qualified attorneys as necessary and appropriate to perform their respective roles as described herein and to otherwise comply with the requirements of Continuing Disclosure Obligations. All reference to “Disclosure Counsel” herein shall denote any firm serving as Disclosure Counsel to the County in connection with the issuance of any Bonds. The Compliance Officer may act through other officers or employees of the County.
- 2. Responsibilities During Bond Issuance.** Whenever the County (either directly or through a conduit issuer where the County is an “obligated party” within the meaning of Rule 15c2-12) undertakes to issue Bonds in connection with a financing or refinancing, the Compliance Officer shall work with Disclosure Counsel for such issuance to identify non-compliance, in the past five years, of County’s Continuing Disclosure Obligations. If non-compliance exists, the Compliance Officer and Disclosure Counsel should determine whether a curative filing should be made and shall ensure that such non-compliance is disclosed in any Official Statement within the required reporting period.
- 3. Responsibilities After Bond Issuance.** The Compliance Officer shall be responsible for ensuring that certain annual financial information, operating data and event notices are timely posted to the Electronic Municipal Market Access (EMMA) website portal currently at <http://emma.msrb.org/Home>, unless another system is designated by the Municipal Securities Rulemaking Board as an approved repository for such purpose. The Compliance Officer shall be familiar with all Continuing Disclosure Obligations and shall be responsible for ensuring that all Continuing Disclosure Obligations are satisfied.
- 4. Annual Information.** The Compliance Officer shall publish, to EMMA, any required Annual Information set forth in the Continuing Disclosure Obligations by the deadline set forth therein. In the event the Compliance Officer determines the County may not be in a position to provide a scheduled filing by the date required, she or he shall contact Disclosure Counsel in advance of the deadline to seek guidance as to whether, and to what extent, a notice or other disclosure should be submitted respecting the pending late filing, and if such determination is made after the scheduled deadline the Compliance Officer shall immediately contact Disclosure Counsel to seek guidance and to prepare any required event notices or similar filings resulting from the late filing.

  - a. Operating Information.** The Compliance Officer shall publish or post, to EMMA, any required Operating Information set forth in the Continuing Disclosure Obligations by the deadline set forth therein.
  - b. Event Notices (under Continuing Disclosure Obligations).** The Compliance Officer shall publish or post to EMMA, any required Event Notices set forth in the Continuing Disclosure Obligations by the deadline set forth therein.

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## Finance Department – Treasury



### Continuing Disclosure Policy and Procedures

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- c. **Event Notices (under SEC Rule 15c2-12).** The Compliance Officer shall publish or post, to EMMA, notice within ten (10) business days upon the occurrence of any of the following events:
- Principal and interest payment delinquencies;
  - Non-payment related defaults, if material;
  - Unscheduled draws on debt service reserves reflecting financial difficulties;
  - Unscheduled draws on credit enhancements reflecting financial difficulties;
  - Substitution of credit or liquidity providers, or their failure to perform;
  - Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
  - Modifications to rights of security holders, if material;
  - Bond calls, if material, and tender offers;
  - Defeasances;
  - Release, substitution, or sale of property securing repayment of the securities, if material;
  - Rating changes;
  - Bankruptcy, insolvency, receivership or similar event of the Obligated Person (within the meaning of the Rule).
  - Consummation of a merger, consolidation, or acquisition involving an Obligated Person or the sale of all or substantially all of the assets of an Obligated Person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; or
  - Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Noncompliance with this Section 4 shall constitute non-compliance under the Continuing Disclosure Obligations, but does not constitute a default in respect of the related Bonds.

5. **Annual Examination and Report.** In addition, the Compliance Officer shall periodically prepare a written report on matters occurring within such fiscal year relevant to these Procedures. This report shall set forth in reasonable detail any issues relevant to the Procedures that occurred in a fiscal year, including without limitation (a) non-compliance with Continuing Disclosure Obligations, (b) efforts to remedy such non-compliance, and (c) additional procedures, if any, that would enhance compliance with Continuing Disclosure Obligations.
6. **Policy and Legislative Updates.** The Compliance Officer shall contact the County Attorney and such external counsel as shall be designated thereby to discuss pending or approved legislation, proposed and actual actions of the federal government, and strategic and policy considerations. If any of such matters are believed to be "significant" or "noteworthy", they should be replied to and reviewed by Bond Counsel (and if engaged for a particular transaction, Disclosure Counsel and Underwriter's Counsel), and the County's financial advisor to determine if any of such matters are material disclosure issues.
7. **Amendments and Supplements to the Procedures.** These procedures may be amended or supplemented at any time, including without limitation by the promulgation of memoranda addressing specific issues, with the approval of both the Compliance Officer and the Finance Director. All such amendments or supplements shall be reviewed by the County Attorney and

# DeKalb County, Georgia

## Finance Department – Treasury



### Continuing Disclosure Policy and Procedures

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Disclosure Counsel. All such amendments and supplements shall be circulated as reasonably appropriate to Designated Parties (as described in Section 10 hereof).

8. **Recordkeeping.** The Compliance Officer shall be responsible for maintaining all records relating to compliance with the Continuing Disclosure Obligations.
9. **Training.** Prior to the preparation of a report as required by Section 5 hereof, the Compliance Officer will provide for at least one meeting or conference call with Disclosure Counsel to (a) report on the issues that will be addressed in the report, and (b) receive from the Disclosure Counsel a report on developments affecting the Continuing Disclosure Obligations and their enforcement that may be relevant to the work of the Compliance Officer. The County Executive Assistant or designee shall participate in all such meetings or conference calls.

The initial Compliance Officer and the County Executive Assistant, together with such other County personnel as may be designated by the Compliance Officer (a "Supporting Officer") to assist such parties with the execution and monitoring of these Procedures, shall attend an initial training session with Disclosure Counsel to review and discuss key elements of the Continuing Disclosure Obligations. If a new Compliance Officer is appointed, such replacement officer shall be required to attend a meeting with Disclosure Counsel (or review pre-recorded materials provided by Disclosure Counsel) and at least one other County officer who has previously received training in accordance herewith, to review these Procedures and their implementation.

The foregoing provisions of this Section shall not be construed as limiting the training that the Compliance Officer and shall be required to undertake. Upon the advice of Disclosure Counsel or the County Attorney, or at the request of the County Executive Assistant, the Compliance Officer and/or the Supporting Officer shall undergo such additional training as deemed necessary to the proper fulfillment of their respective duties as described herein.

10. **Designated Parties; Ensuring Cooperation and Compliance.** The Compliance Officer shall circulate a copy of these Procedures, including any amendments and supplements hereto, to all "Designated Parties." The Designated Parties shall consist of:
  - a. The Finance Director
  - b. The County Executive Assistant
  - c. The County Attorney
  - d. Any other persons determined by the Compliance Officer to oversee matters relevant to these Procedures.
11. **No Authority.** Nothing herein, taken by itself, shall authorize the Compliance Officer or the Supporting Officer to bind the County in any way.
12. **Privilege to be Preserved.** Nothing herein shall require or authorize the Compliance Officer, the Supporting Officer, or any other County official to consult with Disclosure Counsel or any other attorney unless such consultation is protected by the attorney-client privilege.
13. **Limitation of Personal Liability.** It is the intent that the Compliance Officer, Finance Director, Supporting Officer or any other County Official acting in their official capacities and in good faith in the implementation of these policies and procedures shall not be personally liable for any failure of the County to comply with the obligations set for herein.



## **Related Documents**

Debt Management Policy

## **Change Control Matrix**

These procedures may be amended or supplemented at any time, including without limitation by the promulgation of memoranda addressing specific issues, with the approval of both the Compliance Officer and the Finance Director. All such amendments or supplements shall be reviewed by the County Attorney and Disclosure Counsel.

## **References**

Rule 15c2-12 under the Securities Exchange Act of 1934

Master Bond Resolution Agreements





# DeKalb County, Georgia

## Finance Department – Treasury



### Debt Management Policy

Version 7.17.18

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## Purpose

The purpose of the Debt Management Policy is to set forth parameters for issuing debt and managing outstanding debt. The intent is to provide structure for decisions regarding types and amounts of permissible debt, method of sale that may be used, structural features that may be incorporated, and the timing and purposes for which debt may be issued (both economic condition and operational need) including but not limited to:

1. Providing revenue smoothing bridge funding (Tax Anticipation Notes); and
2. Providing funding for capital intensive operations and redevelopment.

When the County issues debt, there are ongoing responsibilities related to federal tax law (with respect to tax-exempt securities) and securities laws (with respect to ongoing disclosure) or as a result of contractual commitments made by the County. The Post Issuance Compliance Policy for Tax Exempt Debt Obligations outlines the obligations that may be applicable to each issue and identifies the party to be responsible for monitoring compliance.

This policy is intended to provide guidance and direction on best practices but is not intended to be mandatory in all situations. Circumstances may dictate changes, alterations and revisions. Deviations require formal written notice to the Governing Authority.

It is also the intent of this policy to communicate that all debt agreements obligating the County be discussed with and/or notification be provided to an appropriate level representative within the Finance Department prior to execution. Appropriate level representative will be the Treasurer, Assistant Director of Finance or the County Finance Director. This policy will be reviewed periodically to ensure applicability and feasibility of its content taking into consideration best County interest, subjectable laws, industry best practices and fiduciary responsibility.

## Policy Statement

The mix and structure of deposits and debt has a significant impact on the County's profitability, financial stability, interest rate risk, and ability to grow the balance sheet. The Finance Department – Treasury Services is responsible for managing the County's debt, collateral and operating liquidity positions. Debt Management and Liquidity Management strategies are established by the Treasurer and are reported to the Finance Director or their designee.

Debt Management incorporates many factors, including but not limited to:

- Meeting current and projected cash needs at reasonable funding cost
- Adjusting debt and collateral positions to facilitate the settlement of asset sales and purchases and to reduce execution risk
- Meeting contractual terms of financing agreements
- Maintaining relationships with underwriters and lenders and other counterparties
- Maintaining relationships with rating agencies
- Maintaining financial alternatives to support projected liquidity needs

To meet the objectives listed above, the Treasurer may make borrowing decisions that are not always at the lowest cost of funds.

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## Definitions and Terms:

- A. **Advance Refunding** – A transaction in which new debt is issued to refinance existing debt (old debt), with the proceeds used to purchase Treasury securities (or kept in cash) that must be placed in escrow pending the call date or maturity (refunding in advance of redemption). An advance refunding is a refunding that occurs more than 90 days prior to the date when the outstanding issue is called for redemption. Tax-exempt bonds may be issued to advance refund an outstanding issue only once.
- B. **Arbitrage** – In the context of government finance, the reinvestment of the proceeds of tax-exempt securities in materially higher-yielding taxable securities which is restricted by regulations with specifically defined exemptions.
- C. **Arbitrage Rebate** – A payment made by an issuer to the federal government in connection with an issue of tax-exempt bonds. The payment represents the amount, if any, of arbitrage earnings on bond proceeds and certain other related funds, except for earnings that are not required to be rebated under limited exemptions provided under the Internal Revenue Code.
- D. **Anticipation Note** – A short-term, interest bearing note issued by a government in anticipation of another revenue source. The note is retired from proceeds of the revenue source to which it is related. Bond Anticipation Notes (BANs) and Tax Anticipation Notes (TANs) are two examples of common note types.
- E. **Bond Counsel** – An attorney or law firm, typically retained by the issuer, to give a legal opinion that the issuer is authorized to issue the proposed municipal securities, the issuer has met all legal requirements necessary for issuance. Typically, bond counsel may prepare or review and advise the issuer regarding authorizing resolutions, trust indentures, official statements, validation proceedings, and litigation.
- F. **The Bond Market Association (BMA) Rate** – The BMA rate is a tax-exempt municipal rate. As opposed to LIBOR, the BMA rate is a benchmark variable borrowing rate in the municipal (tax-exempt) market. The BMA Municipal Swap Index is issued weekly and is compiled from a weekly interest rate

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## Finance Department – Treasury

### Debt Management Policy

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resets of tax-exempt variable rate issues including in a database maintained by Municipal Market Data that meet specific criteria established by the Bond Market Association.

- G. **Callable Bond** – A bond that the issuer is permitted or required to redeem before the stated maturity at a specified price, usually at or above par, by giving notice of redemption in a manner specified in the bond contract.
- H. **Capitalized Interest** – A portion of the proceeds of an issue that is set aside to pay interest on the securities for a specified period of time. Interest is commonly capitalized for the construction period of a revenue-producing project, and sometimes for a period thereafter, so that debt service expense does not begin until the project is expected to be operational and producing revenues. Capitalized interest is sometimes referred to as “funded interest.”
- I. **Certificate of Participation** – A security that represents a share of an issuer’s lease payment. When a County government finances a public facility or asset through a lease-purchase transaction, the interest in that government’s lease payment often is assigned to a third party that issues certificates of participation. The certificates represent a share of the lease payment to be received by the investor.
- J. **Competitive Sale** – One of three methods of sale where underwriters submit price proposals for the purchase of a new issue of municipal securities and the securities are awarded to the underwriter of underwriter syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale. The underwriting of securities in this manner is also referred to as a “public sale” or “competitive bid.”
- K. **Compliance Officer** – Individual authorized within the County with overall responsibility of complying with the Post-Issuance Compliance Policy with respect to County-issued tax exempt obligations.
- L. **Commercial Paper (CP)** – Short-term, unsecured promissory notes, usually backed by a line of credit with a bank, that mature within 270 days. The issuer typically pays maturing principal of outstanding commercial paper with newly issued commercial paper, referred to as a “roll over,” thereby borrowing funds on a short-term basis for an extended period of time. Commercial paper is considered to be a note.
- M. **Conduit Financing** – The issuance of municipal securities by a governmental unit (referred to as the “conduit issuer”) to finance a project to be used primarily by a third party, usually a for-profit entity engaged in private enterprise of a 501(c)3 organization (referred to as the “conduit borrower”). The security for this type of issue is customarily the credit of the conduit issuer. Such securities do not constitute general obligations of the conduit issuer because the conduit borrower is liable for generating the pledged revenues.
- N. **Continuing Disclosure** – Disclosure of material information relating to municipal securities provided to the marketplace from time to time by the issuer of securities or any other entity obligated with respect to the securities.
- O. **Coverage Ratio** – Ratio of revenues pledged for debt to related debt service payments.
- P. **Credit Enhancement** – The use of the credit of an entity other than the issuer or obligor to provide additional security in a bond or note financing. This term typically is used in the context of bond insurance, bank letters of credit and other facilities, state school guarantees and credit programs of federal or state governments or federal agencies, but also refers more broadly to the use of any form of guaranty, secondary source of payment or similar additional credit-improving instruments.

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- Q. Confirmation – is executed for a specific Agreement and details the specific terms and conditions applicable to that Agreement (fixed rate, floating rate index, payment dates, calculation methodology, amortization, maturity date, etc.)
- R. Current Refunding – Refunding transaction in which the proceeds of the refunding debt are applied to redeem the debt to be refunded within 90 days prior of the redemption date for the prior bonds. A current refunding is a refunding that occurs within 90 days prior to the date when the outstanding issue is called for redemption.
- S. Defeasance or Defeased – Termination of the rights and interests of the bondholders and their lien on the pledged revenues or other security in accordance with the terms of the bond contract for an issue of securities. This is sometimes referred to as a “legal defeasance.” Defeasance usually occurs in connection with the refunding of an outstanding issue after provision has been made for future payment of all obligations under the outstanding bonds through funds provided by the issuance of a new series of bonds. In some cases, particularly where the bond contract does not provide a procedure for termination of these rights, interests and liens other than through payment of all outstanding debt in full, funds deposited for future payment of the debt may make the pledged revenues available for other purposes without affecting a legal defeasance. This is sometimes referred to as an “economic defeasance” or “financial defeasance.” If for some reason the funds deposited in an economic or financial defeasance prove insufficient to make future payment of the outstanding debt, the issuer would continue to be legally obligated to make payment on such debt from the pledged revenues.
- T. Disclosure Counsel – An attorney or law firm retained by the issuer to provide advice on issuer disclosure obligations and to prepare the official statement and continuing disclosure agreement.
- U. Escrow Account – A fund established to hold monies pledged and to be used solely for a designated purpose.
- V. Financial Advisory Services – With respect to a new issue of municipal bonds, a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. The financial advisor is sometimes referred to as a “municipal advisor”, a “fiscal consultant” or “fiscal agent.”
- W. Fixed Rate – An interest rate on a security that does not change for the remaining life of the security.
- X. Georgia Environmental Finance Authority (GEFA) – Founded in 1985, GEFA facilitates programs that conserve and protect Georgia’s energy, land and water resources. GEFA provides loans for water, sewer and solid waste infrastructure; manages energy efficiency and renewable energy programs; oversees land conservation projects; and manages and monitors state-owned fuel storage tanks.
- Y. General Obligation Bonds – A bond that is secured by the full faith, credit and taxing power of the issuer. General obligation bonds issued by the local units of government are typically secured by a pledge of the issuer’s ad valorem taxing power. Such bonds constitute debts of the issuer and require approval by election prior to issuance. In the event of a default, the holder of general obligation bonds has the right to compel a tax levy or legislative appropriation.
- Z. Lease/Purchase Agreements – An agreement entered into by two parties in which one provides a facility or equipment in exchange for a pledge from the other to make regular lease payments. Upon completion of the lease term, the lessee assumes ownership of the item.

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- AA. Letters of Credit – A commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the commitment. In municipal financings, bank letters of credit are sometimes used as additional sources of security for issues of municipal notes, commercial paper, or bonds, with the bank issuing the letter of credit committing to pay principal of and interest on the securities in the event that the issuer is unable to do so. A letter of credit may also be used to provide liquidity for commercial paper, variable rate demand obligations and other types of securities.
- BB. Level Debt Service – A debt service schedule in which the combined annual amount of principal and interest payments remains relatively constant over the life of the issue of bonds.
- CC. Long-Term Debt - Long-term debt consists of loans and financial obligations that mature over one year. Long-term debt for an organization would include any financing or leasing obligations that are to come due in a greater than 12-month period. Financial and leasing obligations, bonds also called long-term liabilities, or fixed liabilities, would include an organization's bond issues or long-term leases that have been capitalized on a firm's balance sheet.
- DD. The London Inter-Bank Offered Rate (LIBOR) – The interest rate that banks charge each other for loans (usually in Eurodollars). This rate is applicable to the short-term international interbank market, and applies to very large loans borrowed for anywhere from one day to five years. The LIBOR is officially fixed once a day by a small group of large London banks, but the rate changes throughout the day. LIBOR is the benchmark variable borrowing rate in the corporate (taxable) market.
- EE. Negotiated Sale – One of three methods of sale where the sale of a new issue of municipal securities by an issuer directly to an underwriter or underwriter's syndicate selected by the issuer. A negotiated sale is distinguished from a sale by competitive bid, which requires public bidding by the underwriters. Among the primary points of negotiation between the issuer and underwriter are the interest rate, call features and purchase price of the issue. The sale of a new issue of securities in this manner is also known as negotiated underwriting.
- FF. Notes – A short-term obligation of an issuer to repay a specified principal amount on a certain date, together with interest at a stated rate, usually payable from a defined source of anticipated revenues. Notes usually mature in one year or less, although notes of longer maturities are also issued. While they are not considered short-term obligations, the State of Georgia offers financing for infrastructure through the Georgia Environmental Finance Authority (GEFA) loans which are categorized as notes.
- GG. Private Activity Bonds – A municipal security of which the proceeds are used by one or more private entities. A municipal security is considered a private activity bond if it meets two sets of conditions set out in Section 141 of the Internal Revenue Code. A municipal security is a private activity bond if, with certain exceptions, more than 10 percent of the proceeds of the issue are used for any private business use ("the private business use test") and the payment of the principal of or interest on more than 10 percent of the proceeds of such issue is secured by or payable from property used for a private business use (the "private security or payment test"). A municipal security also is a private activity bond if, with certain exceptions, the amount of proceeds of the issue used to make loans to non-governmental borrowers exceeds the lesser of 5 percent of the proceeds or \$5 million (the "private loan financing test").
- HH. Private Placement – One of three methods of sale where a negotiated offering in which a new issue of municipal securities is sold on an agency basis by a placement agent directly to institutional or private investors rather than through an offering to the general investing public. Investors purchasing privately

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placed securities are often required to agree to restrictions as to resale and are sometimes requested or required to provide a private placement letter to that effect.

- II. Proceeds – The money paid to the issuer by the purchaser or underwriter of a new issue of municipal securities. These monies are used to finance the project or other purpose for which the securities were issued and to pay certain costs of issuance as may be provided in the bond contract or bond purchase agreement.
- JJ. Rebatable Arbitrage – Requirement to remit to the federal government interest earnings in excess of interest cost when the proceeds from a tax-exempt borrowing are reinvested in materially higher yielding taxable securities.
- KK. Redemption – A transaction in which the issuer repays the holder of an outstanding security the principal amount thereof (plus, in certain cases, an additional amount representing a redemption premium). Redemption can be made under several different circumstances: at maturity of the security, as a result of the issuer exercising a right under the bond contract to repay the security prior to its scheduled maturity date (often referred to as a “optional redemption” or a “call”), or as a result of the security holders’ election to exercise a put or tender option privilege. Redemption provisions in the bond contract for a security may provide the issuer the right to retire the debt fully or partially before the scheduled maturity date.
- LL. Refunding – Issuance of new debt whose proceeds are used to repay previously issued debt. The proceeds may be used immediately for this purpose, or they may be placed with an escrow agent and invested until they are used to pay principal and interest on the old debt at some later date.
- MM. Revenue Bonds – A bond that is payable from a specific source of revenue and to which the full faith and credit of the issuer with taxing power is not pledged. Revenue bonds are payable from identified sources of revenue and do not permit the bondholders to compel taxation or legislative appropriation of funds not pledged for payment of debt service. Pledged revenues may be derived from operation of the financed project, grants and excise or other non-ad-valorem taxes.
- NN. Rule 15c2-12 – A Securities and Exchange Commission rule under the Securities and Exchange Act of 1934 setting forth certain obligations of (i) underwriters to receive, review and disseminate official statements prepared by issuers of most primary offerings of municipal securities, (ii) underwriters to obtain continuing disclosure agreements from issuers and obligated persons to provide material event disclosures and annual financial information on a continuing basis, and (iii) broker-dealers to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.
- OO. Sinking Funds – A fund into which monies are deposited in order to be used to redeem securities in accordance with the redemption schedule in the bond contract. The term is sometimes used interchangeably with the term “mandatory sinking fund redemption.”
- PP. Special District – Special districts may be created for the purpose of providing local government services within such districts; and fees, assessments, and taxes may be levied and collected within such districts to pay, wholly or partially, the cost of providing such services.
- QQ. Ten-Year Payout Ratio – This ratio reflects the amortization of the County’s outstanding debt. A faster payout is considered to be a positive credit attribute.

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- RR. Termination Risk – The risk that a swap agreement could be terminated as a result of any of several events, which may include a ratings downgrade for the County or the counterparty, misrepresentation, covenant violation by either party, bankruptcy of either party, payment default by either party, tax events, illegality, and default events under a bond indenture. The County could owe a termination payment to the counterparty or receive a termination payment from the counterparty, depending on how interest rates at the time of termination compare with the fixed rate on the Agreement. The County will make reasonable efforts to ensure that remedies available to a counterparty resulting from the County defaulting on its Agreement obligation should not infringe on bondholder’s rights. These remedies shall always be subordinate to debt service on debt or lease purchase obligations.
- SS. Trustee – A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the trust indenture. In many cases, the trustee acts as paying agent, registrar and/or transfer agent for the bonds.
- TT. Underwriter – A broker-dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. The underwriter may acquire the securities either by negotiation with the issuer or by award on a basis of competitive bidding.
- UU. Variable Interest Rate – An interest rate sometimes referred to as a “floating rate,” on a security that changes at intervals according to market conditions or a predetermined index or formula.
- VV. Yield Reduction Payment – A payment made by some issuers to the federal government in order to reduce the yield on investment of bond proceeds to meet yield restrictions requirements under the Internal Revenue Service Code.
- WW. Yield Restriction – A general requirement under the Internal Revenue Service Code that proceeds of tax-exempt bonds not be used to make investments at a higher yield than the yield on the bonds. The Internal Revenue Service Code provides certain exceptions, such as for investment of bond proceeds for reasonable temporary periods pending expenditure and investments held in “reasonably required” debt service reserve funds.

**Related Documents and References:**

- A. Post Issuance Compliance Policy
- B. Continuing Disclosure Policy and Procedures

**Policy:**

As a general guideline, the following parameters of use of funding sources will be observed:

PARAMETERS	FUNDING SOURCES				
	Cash	Loans	Capital Leases	Short-term Notes	Long-term Bonds
Project life is less than 10 years	X	X	X	X	
Project life is 10 years or greater		X	X	X	X
Recommended temporary funding prior to a bond sale				X	
Recommended variable rate funding mechanism			X	X	

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The amount borrowed is less than \$5,000,000		X	X	X	
The amount borrowed is \$5,000,000 or larger		X		X	X

**Permissible Debt Instruments**

A. General Obligation Bonds – General Obligation bonds can be considered as a financing source by the County when:

- a. The service provided is essential to DeKalb County government;
- b. There is no clear underlying revenue stream;
- c. The project cannot be completed from current revenue sources or it is more equitable to finance the project over its useful life.

B. General Obligation Debt, as defined by Georgia Law, is backed by the full faith and credit and unlimited taxing power of the County and requires DeKalb voter approval unless the purpose is to refund outstanding general obligation bonds to achieve debt service savings.

- a. General Obligation bonds are considered Sales Tax General Obligation Bonds when a question concerning special purpose local option sales tax (“SPLOST”) is placed on the ballot. This policy allows the County to issue general obligation debt backed by the SPLOST sales taxes and is used for capital projects. If the sales tax is approved by the voters, general obligation debt is also approved.

This type of general obligation debt is payable first from sales tax and then from general funds of the issuer, if sales tax is not sufficient.

C. Revenue Bonds – Revenue bonds can be considered as a financing source by the County when:

- a. The service provided is essential to DeKalb County government and has a strong underlying revenue stream;
- b. The service provided is non-essential to DeKalb County government but has a moderate underlying revenue stream;
- c. The project cannot be completed from current revenue sources or it is more equitable to finance the project over its useful life.

When revenue bonds are issued, the County will maintain debt coverage ratios which are consistent with any agreements or covenants associated with those bonds.

Both principal and interest of revenue bonds must be paid only with the revenue pledged to the payment of such bonds. However, the County may, at its sole discretion, secure revenue bonds with a full faith and credit guarantee through the execution of intergovernmental agreements.



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- D. Redevelopment and Debt – Self-taxing arrangements are the preferred funding method for infrastructure within a Community Improvement District or a Tax Allocation District. The Tax Increment Financing (TIF) in conjunction with such an entity and self-tax arrangements may be utilized as a funding mechanism if it is authorized and demonstrated that a sufficient rate of return to encourage private investment is not otherwise available to the developer.

Any proposal for Tax Increment Financing shall include an independent financial feasibility study, demonstrate that the development contributes to the County's goals set forth in the Comprehensive Plan, and shall be structured in such a way that the County assumes no risk if there are insufficient revenues to pay debt service. Specifically, prior to moving forward with a TIF transaction, the developer would be required to provide proof of a letter of credit, bond insurance or other credit enhancement for the bonds which guarantee the full repayment of principal and interest on the bonds.

In the event that there is insufficient tax increment revenue to retire TIF bonds, which event consequently requires that the credit enhancement mechanism be called upon to service the TIF bonded indebtedness, contingent liability to reimburse a credit-enhancer would be the sole liability of the developer or its affiliates.

- E. Special District Debt - The County may incur debt on behalf of any special district created pursuant to the Georgia Constitution. Such debt may be incurred only after the County has provided for the assessment and collection of an annual tax within the special district sufficient in amount to pay the principal and interest on such debt and has received the assent of a majority of the voters of the special district voting on the issue. The proceeds of this tax shall be placed in a sinking fund to be held on behalf of such special district and to be used exclusively to pay off the principal and interest on such debt.
- F. Authority Debt and Conduit Financing – Authorities which are registered with the Georgia Department of Community Affairs can incur debt or credit obligations. Similarly, the County has established several authorities which have the authority to issue debt. From time to time, the Governing Authority may consider the approval of bond documents from authorities (such as the Metropolitan Atlanta Rapid Transit Authority or the DeKalb County Development Authority) or other County entities (such as Georgia DeKalb College or the DeKalb County Board of Education).

The consideration of such bonds does not represent a financial commitment of the County. As such, the debt capacity/limitations ratios are not included in the County's measures of debt affordability. According to Georgia law, bonds, obligations, and other indebtedness incurred by development authorities do not constitute an indebtedness or obligation of the state or County. Unless otherwise specified within a lease or intergovernmental agreement, authority debt is not considered a financial commitment of the County.

- G. Georgia Environmental Finance Authority (GEFA) – To date, GEFA has provided more than \$3 billion in low-interest loans to cities, counties and infrastructure authorities for improvements to water, sewer and solid waste systems. More than 1,400 projects have been funded by GEFA to date, including solid waste management projects and land conservation purchases and easements. DeKalb County may consider the use of financing from GEFA to fund all or a portion of its relevant projects.

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- H. Short-term and Other Borrowing – Interim debt may be utilized for temporary funding of operational cash flow deficits pending receipt of anticipated revenues, or construction financing needs. Such borrowing must be in compliance with state law and in the form of:
- a. Line of credit;
  - b. Anticipation notes;
  - c. Internal borrowings;
  - d. Commercial paper; or
  - e. Construction loan notes.

Repayment will occur over a period not to exceed the useful life of the underlying asset. Tax anticipation notes must mature by the end of the calendar year in which they were issued.

- I. Debt Capacity/Limitations – Management will consider the following when making the decision to issue debt:
- a. Legal Debt Margin – County outstanding General Obligation bonds cannot exceed legal debt limits established by the Constitution of the State of Georgia (10% of assessed valuation of taxable property within the County).
  - b. With Water and Sewerage Revenue Bonds, the County has covenanted to bondholders that it will maintain rates and charges necessary to provide debt service coverage of at least 120% of the Debt Service Requirement on all Prior Lien and Senior Bonds then Outstanding for the year of computation and 100% of the Debt Service Requirement on all Subordinate Bonds then Outstanding for the year of computation.
- J. Restrictions of Use of Long Term Debt
- a. Long Term Debt should not be used for funding operations.
  - b. The final maturity of a bond issue should be equal to a lesser than the remaining useful life of the assets being financed and the average life of the financing shall not exceed 120% of the average useful life of the assets being financed.
  - c. The County will observe all statutory limitations including legally authorization for debt limits and tax and/or expenditure ceilings. This may also include any legal limitations related to coverage requirements or additional bond tests imposed by bond covenants.
- K. Refinancing of Outstanding Debt – The County will contract with a Financial Advisor to monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debts. In adherence with federal tax law constraints, refunding will be considered if and when there is a net economic benefit of the refunding, the refunding is essential in order to modernize covenants or other commitments essential to operations and management, or to restructure payment schedules to optimize payments with anticipated revenue streams. As a general rule, refunding

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will be undertaken only if the present value savings of a particular refunding will exceed 3% of the refunded principal. Refunding issues that produce a net present value savings of less than targeted amounts may be considered on a case-by-case basis. Refunding issues with negative savings will not be considered unless a compelling public policy objective is served by the refunding.

**L. Debt Structure**

- a. **Length** – County debt will be amortized for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users, or to match the useful life of the project, and in keeping with other related provisions of the policy. The County will show a preference for the use of level debt service payments, unless specific compelling reasons exist to structure the debt otherwise.
- b. **Credit Enhancements** – Credit enhancements (letters of credit, liquidity provider, bond insurance, etc.) may be used if the present value reduction of debt service costs achieved by their use outweighs the initial cost of the enhancement or when they provide other significant financial benefits or appropriate risk reduction to the County.
- c. **Lien Levels** – Senior, Junior and Subordinated Junior lien levels for each revenue source will be utilized in a manner that will maximize the most critical constraint – typically either cost or capacity – thus allowing for the most beneficial use of the revenue source securing the bonds.
- d. **Debt Service Structure** – County staff will carefully consider the debt service structure for each bond issue. Factors such as the flow of revenues projected for a particular project, the need to fill in the gaps created by refunding specific maturities or to structure savings from a refunding in a particular year will be considered. Accelerated repayment will be considered within the bonding capacity constraints to provide capacity for future capital programs. Bonds will be amortized over a period not to exceed 120% of the estimated average useful life of the assets being financed.
- e. **Capitalized Interest** – Subject to state and federal law, interest may be capitalized from the date of issuance through the completion of construction to a maximum of three years. Interest may also be capitalized for projects in which the revenue projected to pay debt service on the bonds will be collected at a future date, not to exceed six months from estimated completion of construction. Any use of capitalized interest is subject to review and approval by bond counsel and the Finance Director.
- f. **Call Provisions** – Call provisions for bond issues shall serve the primary interests of providing financial flexibility. Call provisions shall be set in a manner that is as short as possible while achieving the lowest interest cost to the County.
- g. **Debt Pools/Intergovernmental Arrangements** – To the extent permitted by law, the County may form or enter into associations/agreements for joint issuance of debt. The purpose of such arrangements must be to share issuance costs, obtain better terms or rates, or to advance other fiscal goals. Only per contractual agreement or as permitted by law shall the County assume liability through any joint program for the debt obligations or tax consequences related to another government or organization's debt program.
- h. **Fixed Rate Debt** – The County has historically relied upon the budget certainty accruing from fixed rate debt to fund its borrowing needs and will continue to show a preference for

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this type of issuance. Fixed rate debt provides the benefit of fixed payments during the life of the bonds and budget certainty for long-term capital planning. However, fixed rate debt is typically longer and carries higher interest (assuming an upward sloping yield curve) than variable rate debt but is not subject to changes in interest rates. Fixed rate debt is the most common type of debt issued by the County.

- i. Variable Rate – Based on the situational or project specific reasons, the use of variable rate debt will be utilized in a limited way to the extent that it presents a significant interest savings to the County and does not subject the County to:
  - i. Excessive risk of unfavorable changes in interest rates;
  - ii. Pressure on the County's credit rating;
  - iii. Unexpected budgetary pressures; or
  - iv. Excessive debt service acceleration risk or the potential for balloon indebtedness in the event market access is restricted to the County the inability to repay variable rate obligations as they come due or escalating payments.

Those risks can be mitigated through the direct matching of variable rate debt with variable interest assets to create a natural hedge, by conservatively budgeting interest rate payments, or with an interest rate swap which has the effect of synthetically fixing the rate of debt service on the associated bonds. No derivative products will be utilized unless permitted by law or without prior authorization of the Governing Authority. No derivative products shall be utilized without an analysis by an independent financial advisor and the implementation of an independent monitoring program.

- M. Financing Team Selection Process – The County employs outside financial specialists to assist in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key participants in the County's financing transactions include its Financial Advisor, Bond Counsel, Disclosure Counsel, the Underwriter (in a negotiated sale), and County representatives. Other outside firms, such as those providing paying agent/registrars, trustee, credit enhancement, auditing, or printing services, are retained as required. The objectives of the selection process are participation from qualified providers, ensuring service excellence, and competitive cost structure. Unless exemptions apply, the County's Purchasing Policy governs the selection of professional service providers.
  - a. Financial Advisory Services – the County may solicit competitive proposals for financial advisory services. A panel appointed by the Finance Director or their designee shall review financial advisory proposals. The County may engage either an independent financial advisor or may employ a Financial Advisor who is a member of an investment banking firm. If the Financial Advisor is an employee of an underwriter, that firm may not participate in negotiated sales of County debt.

In addition, if the municipal advisor has any profit sharing or other type of agreement with any member of the underwriting syndicate, for the transaction in question, they will not be allowed to act as municipal advisor. In general, no agreement will be permitted that would compromise the advisor's ability to provide independent advice or that could reasonably

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be perceived by the County as a conflict of interest. Advisors must alert the Finance Director, in writing, of any conflict, potential conflict, or potentially perceived conflict arises. With the implementation of the 2010 Dodd-Frank Act, municipal advisors must register with the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB) and meet professional and testing standards. As part of the review process, the County will establish whether the financial advisor(s) being considered have secured these registrations and met the standards. While the County has typically employed a single Financial Advisor, it is permissible to contract with multiple professionals when there is a demonstrated need, as in the case of an especially complex transaction.

- b. **Underwriter Selection** – The County may solicit proposals for underwriting services for debt issued in private placement or negotiated sale via a Request for Qualifications (RFQ). The RFP may result in the selection of one or more underwriters for a single transaction or result in the identification of a pool of underwriters from which firms will be selected over a specific period of time for a number of different transactions. The Financial Advisor will be the primary point of contact during the proposal process. A committee appointed by the Finance Director or their designee shall review underwriting proposals and shall appoint an underwriting firm or firms, which may include senior and co-managers.

With either a private placement or a negotiated sale, the underwriter must disclose any potential conflicts of interest. The County must also recognize that the roles of the underwriter and the municipal advisor are separate, adversarial roles and cannot be provided by the same party. The Dodd-Frank Act establishes that the financial advisor must have a fiduciary responsibility to the issuer, there is not federal law establishing an underwriter's fiduciary responsibility. The County's objective in the underwriter selection process is to select the underwriters.

- c. **Paying Agent, Trustee, Arbitrage Calculation Services, Escrow Agent** – The County shall procure professional services for record keeping, banking services, or the other debt administration specialists in compliance with the Purchasing Policy.
- N. **Method of Sale** – The County will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions. Based on information provided by the Financial Advisor, the Finance Director or their designee are authorized to determine the most advantageous process for the marketing and placement of the County's debt. Methods of sale include but are not limited to:
- a. **Competitive Sales** – The County has a preference for issuing its debt obligations through competitive sales when it is determined that this form of sale will yield the lowest True Interest Cost to the County. The County and Financial Advisor will structure the sale parameters to meet the needs of the County while appealing to the broadest range of potential bidders. The County will reserve the right to reject any or all competitive bids they deem unsatisfactory, or to delay or rescind any scheduled competitive sale.
  - b. **Negotiated Sales** – When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits not available through a competitive sale, the County may elect to sell its debt obligations through a private or negotiated sale. Factors that may favor the use of a negotiated sale include:
    - i. The rating of the bonds is lower than single-A.
    - ii. Bond insurance or other credit enhancement is not available or not cost-effective.

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- iii. The structure of the bonds has features that may be better suited to negotiation.
- iv. The County desires to target underwriting participation to include DBE or local firms.
- v. Other factors that the County, in consultation with its municipal advisor, believes favor the use of the negotiated sale process.

**Please also refer to appendix document “Procedures Related to Negotiated Sale of Bonds”.**

- c. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. The underwriting team is selected through a competitive process, as previously identified.
  - d. Private (or “Direct”) Placement – Under certain circumstances, the County will directly negotiate financing terms with banks and financial institutions for specific borrowings on a private offering basis. Typically, private placements are carried out by the County: when external circumstances preclude public offerings; as an interim financing; or to avoid the costs of a public offering for smaller issuances. Because the buyer of the bonds is typically a “sophisticated investor,” that does its own due diligence, the County’s disclosure obligations are greatly reduced; there is no need for an official statement nor a rating. Specific terms and conditions can be negotiated directly with the investor, such as eliminating the debt service reserve requirement.
  - e. Lease/Purchase Agreements – The use of lease/purchase agreements in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option or a “pay-as-you-go” basis. While the lifetime cost of a lease typically will likely be higher than other financing options or cash purchases, lease/purchase agreements may be used by the County as funding options for capital acquisitions if operational or cash-flow considerations preclude the use of other financing techniques. Lease/purchase agreements may not extend beyond ten years except in the case where a revolving program has been established. Additionally, the repayment period of any lease purchase shall not exceed the projected economic life of the asset(s) being financed.
- O. Disclosure Practices – The County is committed to full and complete primary and secondary financial disclosure to rating agencies, national information repositories, state and national regulatory agencies, as well as those of the underwriting market, institutional buyers, and other market participants as a means to enhance the marketability of County bond issuances.

Official statements accompanying debt issues, Comprehensive Annual Financial Reports (CAFR), and continuous disclosure statements will meet (at a minimum) the standards articulated by the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), the Municipal Securities Rulemaking Board (MSRB) and Generally Accepted Accounting Principles (GAAP).

- a. Material Events Disclosure – Due to the nature of some material events, the Finance Director or their designee, in conjunction with the County Executive Assistant has responsibility for material event disclosure defined specifically in the County’s Continuing Disclosure Agreements and under SEC Rule 15c2-12.
- b. Ongoing Disclosure – The County will provide for routine, ongoing disclosure in accordance with SEC guidelines, specifically Rule 15(c)2-12. The County’s Comprehensive Annual

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Financial Report will serve as the primary disclosure vehicle. (See "Continuing Disclosure Policy").

- P. Arbitrage Liability Management – The County shall comply with all arbitrage rebate requirements as established by the Internal Revenue Service. The Finance Director or their designee shall establish a system of record-keeping and reporting to meet the arbitrage rebate compliance requirements of the tax code. The effort shall include tracking project expenditures financed with bond proceeds, tracking investment earnings on bond proceeds, calculating rebate payments in accordance with tax law, and remitting any earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding tax-exempt debt.

It is the County's policy to minimize the cost of arbitrage rebate and yield restrictions while strictly complying with applicable arbitrage regulations on the investment of bond proceeds. Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the advice of Bond Counsel and other qualified experts will be sought whenever questions about arbitrage rebate regulations arise. The County shall procure an outside firm for arbitrage calculations in compliance with the Purchasing Ordinance. The arbitrage reports are based on the anniversary of the bonds while construction funds are available. After the proceeds are spent, the arbitrage reports are calculated every fifth-year (on the anniversary of the bonds).

In order to better manage the Arbitrage Rebate Liability for financial statement reporting purposes, the calculations would be done on an annual basis; however, the calculation the payment of any liabilities would be based on the five-year anniversary calculations.

- a. Rating Agency Relationship – The County is committed to providing periodic updates on the County's general financial condition to the rating agencies. In addition, the County will coordinate discussions and/or presentations in conjunction with any debt-related transaction.

### Quality Control and Quality Assurance:

It is the responsibility of the Finance Director or their designee to ensure the presence of procedures to provide sufficient guidance to affected County personnel to fulfill the intent of this policy. For the Post Issuance Compliance Policy and the Continuing Disclosure Policy and Procedures, the Finance Director or their designee may delegate responsibility to employees and outside agents for developing records, maintaining records, and checklists. The County will provide educational opportunities (opportunities to attend educational programs/seminars on the topic) for the parties identified in this policy with responsibilities for post-issuance compliance in order to facilitate their performance of these obligations.

These policies will be reviewed at least annually and updated on an as-needed basis.

### Metrics:

The County will use an objective, analytical approach to determine the amount of debt to be considered prior to authorization and issuance. This process involves the comparison of current County values against the medians of counties of similar size and creditworthiness and further guidance from all representative rating agencies as published.

# DeKalb County, Georgia

## Finance Department – Treasury

### Debt Management Policy

Version 7.17.18

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#### **Authority:**

The CEO and the Board of Commissioners are responsible for legislation, policy formulation, and overall direction setting of the government. This includes the approval of financial policies which establish and direct the operations of the County, and as such, approval of debt issuance. The Chief Executive Officer is responsible for carrying out the policy directives of the Board of Commissioners and managing the day-to-day operations of the executive departments, including the Department of Finance. This policy shall be administered on behalf of the County Chief Executive Officer, the County Executive Assistant, and Finance Director.

#### **Records:**

Each area within the Department of Finance will be responsible for annually retaining records which relate to the bonds. The Post Issuance Compliance and Continuing Disclosure Policies and Procedures, identifies specific responsibilities in more detail.

#### **Change Requirements**

Any changes, addition and/or deletion to this Policy shall be recommended, adopted and approved by the DeKalb County Governing Authority.