The Maryland-National Capital Park and Planning Commission
Debt Management Policy
Effective July 17, 2019

Introduction

The Debt Management Policy ("Policy") of the Maryland-National Capital Park and Planning Commission ("Commission") is intended to provide written guidelines and restrictions that affect the amount and type of debt permitted to be issued, the issuance process, and the management of the debt portfolio. This Policy should provide justification for the structure of the debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. This Policy is a critical aspect of our efforts to communicate to the Commissioners, County Officials, State Officials, the public, rating agencies, and capital markets that the Commission is well managed and capable of meeting financial obligations within its available resources and in a timely manner.

I. Responsibility

The Commission's Finance Department under the direction of the Secretary-Treasurer, with the advice of its Bond Counsel and Financial Advisor, will comply with this Policy and all applicable laws and regulations when carrying out its responsibility to issue and manage debt in a fiscally sound manner, and to achieve borrowing at the lowest possible reasonable cost to meet the funding needs of the Commission's capital improvement program and capital equipment lease financing program.

II. Multi-year Capital Planning

The Commission will prepare a six-year capital improvement program for the Commission's projects in each County in accordance Sections 18-112, 18-113, and 18-117 of the Land Use Article of the Annotated Code of Maryland ("Land Use Article"). The capital program will include a statement of the objectives of the programs and the relationship of these programs to the Counties' adopted long-range development plans, the capital projects and construction schedules, estimated costs and funding sources. The capital program will include all programmed land and facility acquisition; all major parkland, recreational facility, and administrative office development and improvements; and all major acquisition of equipment. The Commission's long-term fiscal operating projections will incorporate the projected operating budget impact of the capital improvement program.

III. Legal Authorization

A. The Commission has legal authority to issue Park Acquisition and Development Bonds ("Park Bonds"), Advance Land Acquisition Bonds ("ALA Bonds"), Revenue Bonds and Refunding Bonds for Park Bonds, ALA Bonds and Revenue Bonds authorized generally under Title 18, Subtitles 2 and 4 of the Land Use Article.

B. Under the Commission's general powers, it is permitted to issue Certificates of Participation and to enter into master lease agreements to finance capital equipment.

C. The Commission has the legal authority to issue tax anticipation notes in accordance with Section 18-208 of the Land Use Article.

D. The Commission has the legal authority to issue bond anticipation notes in accordance with Title 19, Subtitle II, Part III of the Local Government Article of the Annotated Code of Maryland ("Local Government Article").

E. The Commission has additional legal authority to issue Refunding Bonds in accordance with Title 19, Subtitle 2, Part II of the Local Government Article.

F. Bond and note issues are approved through the budget process in each county, and resolutions authorizing bond and note sales are adopted by the Commission.

G. The Commission determines the best form of debt and the most favorable debt structure based on the projects to be financed, market conditions and advice of the Commission's Secretary-Treasurer, in consultation with the Commission's Bond Counsel and Financial Advisor.

IV. Types of Debt

A. Long-term Debt

1. General Obligation Bonds ("GO Bonds") – Bonds that are secured by the full faith and credit of the Commission and the county in which the proceeds of the Bonds will be spent. The Commission issues two types of GO Bonds: Park Bonds and ALA Bonds.

a. Park Bonds – In accordance with Section 18-203 of the Land Use Article, the Commission may issue Park Bonds for the purpose of acquiring land or other property within the Metropolitan District for parks, parkways, forests, streets, roads, highways, boulevards, and other public ways, grounds, and spaces, and for the purposes of recreation or for the development or improvement thereof.

b. ALA Bonds – In accordance with Title 18, Subtitle 4 of the Land Use Article, the Commission may establish annual budgets and a land acquisition revolving fund for each county from which disbursements may be made for the acquisition of land in advance of the need for schools, highways, libraries, parks, and other public uses in Montgomery County and Prince George's County. Each county has specific regulations in Title 18, Subtitle 4 to determine if the acquisition qualifies for funding by the Advance Land Acquisition Fund and the process by which the acquisitions are approved by each county. The Commission may issue ALA Bonds for each county to finance the land to be acquired in each county.

If ALA Bond proceeds are still outstanding at the time an agency repays the Commission for the land acquisition, the amount representing the acquisition cost must be returned to the Bond Proceeds Fund.

2. Revenue Bonds – In accordance with Section 18-206 of the Land Use Article, the Commission may issue Revenue Bonds to finance the development or improvement of revenue producing facilities. The principal and interest on the Revenue Bonds are payable solely from the revenues of the Commission available from the use of any such facilities, including those other than the facilities being financed. If revenues are not sufficient to pay debt service, the Commission may include in its proposed budget support from the Montgomery County Park Fund or the Prince George's County Park or Recreation Funds. Revenue Bonds are not general obligations of the Commission or the County in which the facility is located.

3. Refunding Bonds –In accordance with Section 18-207 of the Land Use Article, and Title 19, Subtitle 2, Part II of the Local Government Article, the Commission may issue Park Refunding Bonds, ALA Refunding Bonds, and Revenue Refunding Bonds to refinance outstanding Park Bonds, ALA Bonds and Revenue Bonds. Park Bonds may be issued to refinance Revenue Bonds if so authorized by the Commission and the respective county. Refunding Park and ALA Bonds are GO Bonds. Refunding Revenue Bonds are not GO bonds and are secured by the facility revenues per the bond documents.

Refunding Bonds may be issued by the Commission for the following purposes:

a. To reduce the interest rate and debt service cost on the issues refunded.
b. To enable a change from tax exempt to taxable or vice versa due to a change in use of the projects financed by the bonds.
c. For other purposes deemed to be in the best interest of the Commission upon advice of the Secretary-Treasurer, in consultation with the Commission's Bond Counsel and Financial Advisor.
d. Refunding Bonds will maintain a maturity schedule similar to that of the bonds being refunded. Differences in maturity structure may be made to enable increased debt service savings without significantly increasing debt service costs in any future year.

4. Certificates of Participation ("COPs)" – Based on the Commission's general powers, it may issue COPs to finance capital needs, such as office buildings and capital equipment. The financing provides certificate holders the right to installment payments pursuant to a lease or conditional purchase agreement. The Commission must certify that the project for which the COPs are issued is essential and must commit to including the COPs' debt service payments in its annual proposed budgets. COPs are not guaranteed by the full faith and credit of the Commission or the County in which the proceeds are spent, and the installment payments are subject to annual appropriation. This form of lease financing may result in slightly higher interest costs than GO Bonds. COPs may be used when the purpose for which the debt is to be issued cannot be funded by GO Bonds or when it is determined to be in the best interest of the Commission upon advice of the Secretary-Treasurer, upon consultation with the Commission's Bond Counsel and Financial Advisor.

5. Revenue Conduit Obligations – Debt or other financing instruments may be issued on behalf of the Commission by other governmental entities as permitted by law. The Commission may be required to certify that the project for which the Revenue Conduit Obligations are issued are essential and must commit to including the lease or loan payments in the annual proposed budgets. Revenue Conduit Obligations are not general obligations of the Commission or the

County in which the proceeds are spent. The lease or loan payments support the issuer's debt service and are subject to annual appropriation.

6. Master Leases – The Commission is authorized, through its general powers, to enter into Master Leases to finance equipment, software system projects and other assets with an estimated useful life at least as long as the term of the lease to support its operations. Lease payments are not general obligations of the Commission or either County and are subject to annual appropriation. The Secretary-Treasurer must certify that essential use and commit to including the lease payments in the annual proposed budgets.

B. Short-Term Debt

1. Tax Anticipation Notes ("TANs") – The Commission may issue TANS in accordance with Section 18-208 of the Land Use Article to meet operating cash flow needs resulting from the timing of property tax collections. The total amount borrowed and outstanding in any fiscal year may not exceed 75% of the total proceeds received by the Commission from taxes levied and collected during the preceding fiscal year.

2. Bond Anticipation Notes ("BANs") – The Commission may issue BANs in advance of an authorized GO Bond issuance in accordance with Title 19, Subtitle 2, Part III of the Local Government Article to provide flexibility with regard to the timing of the permanent funding for the capital program such as in times of market volatility. The BANs are to be refunded through the issuance of long-term GO Bonds when the reason for deferring the GO Bond issuance no longer exists.

C. Variable Rate Debt

Historically, variable rate debt has provided financing at interest rates on average below fixed rate debt. However, variable rate debt exposes the issuer to interest rate, liquidity, remarketing, and credit risks. In the event of a failed remarketing, potentially higher than anticipated interest rates and accelerated principal repayment may be required.

Although variable rate debt may hedge against interest rate movements affecting the Commission's earnings on its investment portfolio and may provide flexibility to call debt if required due to a change in use, in order to manage risk exposure and to meet rating agency guidelines, the amount variable rate debt outstanding will be limited to 15% of the outstanding debt of the Commission for each county. The Commission may issue variable rate debt upon advice of the Secretary-Treasurer in consultation with the Commission's Bond Counsel and Financial Advisor when market conditions or other conditions exist which indicate that the structure will benefit the Commission.

1. Variable Rate Demand Obligations ("VRDOs") – VRDOs are a form of variable rate debt which provide the holders the option to put the bonds back to the issuer in accordance with set terms. The interest rate resets at an agreed upon frequency usually daily or weekly through efforts of a remarketing agent. Typically, liquidity facility is required to fund the purchase of bonds put back to the issuer and not remarketed. In the event of a failed remarketing, the liquidity facility provider will become the holder of the VRDOs and receive interest at a rate specified in the liquidity facility agreement that is normally higher than that for remarketed VRDOs.

V. Debt Limits

A. Legal Debt Limits – The Commission's legal debt limits are set forth in the Land Use Article for Park Bonds and ALA Bonds. The debt limits are inclusive of any Refunding Park or Refunding ALA Bonds.

1. Park Bonds - The Commission shall not issue Park Bonds for either Montgomery or Prince George's County in excess of the debt limits per Section 18-203 (d) of the Land Use Article.

For Montgomery County, the total debt service for outstanding Park Bonds shall not exceed the revenues generated by the mandatory 3.6 cents tax on each $100 assessed valuation of real property and the mandatory 9.0 cents tax on each $100 assessed valuation of personal property in the Montgomery County portion of the Metropolitan District.

For Prince George's County, the total debt service for outstanding Park Bonds shall not exceed the revenues generated by the mandatory 4.0 cents tax on each $100 assessed valuation of real property and the mandatory 10.0 cents tax on each $100 assessed valuation of personal property in the Prince George's County portion of the Metropolitan District.

2. ALA Bonds – The Commission shall not issue ALA Bonds for either County in excess of the debt limits set forth in Section 18-401 (j) of the Land Use Article.

For Montgomery County and Prince George's County, the total debt service for outstanding Advance Land Bonds for each County shall not exceed taxes estimated to be generated by 1.2 cents tax on each $100 of assessed valuation of real property and 3.0 cents tax on each $100 of assessed valuation of personal property.

When calculating the legal debt limits, the Commission may assume continued future levy of the taxes, 100% collection of the taxes in each fiscal year and the assessed value of property at the time the bonds are issued will remain constant.

B. Debt Limit Targets – The Commission has established the following additional debt limit targets to determine the affordable level of debt for each county. These targets should be used in conjunction with the long-term financial projections for the relevant funds supporting the debt to monitor the capability of the Commission to meet current and future debt obligations based on the six-year capital improvement programs for each county.

If at any time the planned debt levels of the approved capital budget is projected to be unaffordable based on conservative financial assumptions, the Commission will slow down the implementation of the capital plan to a level that meets the affordability standards of this policy.

1. Debt Service as a Percentage of General Fund Expenditures (Montgomery County) - Annual debt service including non GO Bond debt, lease and other obligation payments should not exceed 10% of the Commission's Administration and Park Fund expenditures for its Montgomery County operations.

2. Debt Service as a Percentage of General Fund Expenditures (Prince George's County) – Annual debt service including non GO Bond debt, lease and other obligation payments should not exceed 10% of the Commission's Administration Fund, Park Fund and Recreation Fund expenditures for its Prince George's County operations.

Financing a major project critical to Commission business that will cause the debt service expense ratio to exceed the 10% target, may be permitted as a special exception by a vote of the Commission that specifically grants the exception; however, the debt ratio will be brought back into conformance with the target within the six-year period.

3. Debt Payout Ratio – The debt payout ratio represents the percentage of principal to be paid over the next ten years. The ratio should remain between 60% and 70% of the outstanding debt.

C. County Debt Limits - In addition to the above debt limits and targets, the Montgomery County Council provides spending affordability limits for the Commission's Montgomery County Park and ALA Bonds. The Prince George's County Spending Affordability Committee recommends spending levels inclusive of debt service on the Commission's Prince George's County Park and ALA Bonds to the Prince George's County Executive and County Council.

VI. Debt Issuance Policies

A. **Projects to be financed -** Long-term debt will be issued only for acquiring, constructing, or renovating capital assets and not to finance current operations or normal maintenance needs. Capital projects and capital equipment financed by debt will have an expected useful life equal to the term of the debt. **Capital assets will be financed only if the Commission's long-term projections based upon conservative financial and economic assumptions indicate the ability to support their operations and maintenance.**

B. **Pay-as-you-go -** The Commission will strive to maintain and/or incorporate pay-as-you-go funding as a source of financing a portion of its capital program. In times of fiscal constraint, the amount will provide budgetary flexibility.

C. **Sale Method** – The Commission uses the competitive bidding process when issuing debt unless it is in the best interest of the Commission to conduct a negotiated sale. A negotiated or private placement process may be utilized due to unusual or complex financing issues as advised by the Secretary-Treasurer after consultation with the Commission's Bond Counsel and Financial Advisor. The Commission will generally issue a request for proposals for its capital lease financings.

D. **Investment of Bond Proceeds** – The Commission utilizes outside investment management services to invest its bond proceeds in accordance with investment agreements which comply with the Commission's Investment Policy.

E. Refunding - Outstanding debt will be monitored to take advantage of refunding opportunities. Refunding will be considered economically favorable when the net present value savings is projected to be at least three percent of the amount of the bonds to be refunded. When advance refunding, State and Local Government Securities (SLGS) will be purchased to fund the escrow. In cases when SLGS are not available, the escrow may be funded by competitively bid US Treasury securities upon advice of the Secretary-Treasurer in consultation with the Commission's Bond Counsel and Financial Advisor.

F. BANs - The Commission will not issue BANs unless formal authorization for the permanent bond issue has been approved by the Commission and market conditions exist which upon advice of the Secretary-Treasurer, Bond Counsel and Financial Advisor warrant their issuance.

G. Derivatives - Currently, the Commission has no derivative contracts outstanding (including interest rate swap agreements). Prior to entering into any such agreement, a policy addressing how derivatives fit within the overall debt program; the conditions under which derivatives can be utilized; the types of derivatives allowed; approaches for managing derivative risk; and the methods for procuring derivatives shall be developed by the Secretary-Treasurer in consultation with the Commission's Bond Counsel and Financial Advisor for incorporation into this Policy. No derivative contracts will be used for the purpose of interest rate speculation.

H. Professional Services – The Commission will select and utilize professionals to assist in the debt issuance process. When selecting firms, the Commission will comply with Practice 4-10 Purchasing. The Commission will take into account the benefit of maintaining continuity with regard to professional services such as Bond Counsel services.

I. Other Services – The Secretary-Treasurer shall procure other services required to complete debt issuances such as escrow agents, verification agents, paying agents, and printers. These services may also be acquired through the efforts of the Commission's Bond Counsel or Financial Advisor.

J. Bond Rating Services – The Secretary-Treasurer and the Chairman of the Commission will continue to communicate regularly with the rating agencies to keep them informed of the financial position of the Commission. The communication may be in the form of meetings and/or conference calls depending on the financial issues to be discussed. The Commission will generally seek three ratings for GO Bond issues and will consider the advice of the Commission's Financial Advisor as to the number of ratings if any required for other forms of debt to assure good market access and competitive interest rates.

K. Measuring Results – The Commission will utilize market indices and/or results from similar financings as a benchmark for negotiated transactions as well as to evaluate final bond pricing results.

VII. Debt Structure

The Commission will structure its debt based on advice of its Secretary-Treasurer upon consultation with its Bond Counsel and Financial Advisor to enable issuance at the lowest possible cost considering benefits and risks associated with the recommended structure and compliance with the pay-out ratio target.

A. **Maximum Term** – Generally, the Commission will issue debt with a maximum term of 20 years; however, a term of up to 50 years is permitted by law if the useful life of the assets financed equals or exceeds that term.

B. **Principal Repayment** – Debt may be structured with level principal, equal payments or other amortization schedule which best meets the Commission's financial plan and complies with the targeted pay-out ratio.

C. **Interest Rates** – The Commission will generally issue fixed-rate debt; however, depending on market conditions and other factors, variable-rate debt may be issued. The par amount of outstanding variable-rate debt may not exceed 15% of the total outstanding debt issued for each County to limit interest rate risk.

D. **Deferred Principal and Capitalized Interest** – The Commission may capitalize interest and defer principal payments while an asset is under construction and for one year subsequent to completion to better match the debt service expense with utilization. Deferred principal payments and interest capitalization will not be utilized with GO Bonds.

E. **Original Issue Premium** – The Commission's GO Bonds may be sold at a premium in accordance with conditions stated in the Notice of Sale. Revenue bonds may be sold at a premium or discount.

F. **Call Provisions** – The Commission will consider the advice of its Financial Advisor in structuring call provisions recognizing the need to balance the desire for shorter call periods to enable earlier refinancing against current market conditions to achieve low interest rates.

G. **Bond Insurance** – Prior to the time of debt issuance, the Commission will determine whether bond insurance would provide a financial benefit based on the net present value of the premiums and the projected debt service savings. Also, to be considered are other market factors which impact the bond insurer's financial position. Decisions on bond insurance will be made based on the advice of the Commission's Secretary-Treasurer in consultation with the Commission's Bond Counsel and Financial Advisor.

H. **Taxable Debt** – It is the Commission's general policy to issue tax-exempt debt to enable debt issuance at the lowest possible cost. However, in the event that the purpose of the debt issuance may involve private use or to take advantage of government programs which may be of benefit, taxable debt may be issued upon the advice of the Commission's Secretary-Treasurer in consultation with the Commission's Bond Counsel and Financial Advisor.

VIII. Debt Management Practices

A. Investment Proceeds – Bond and other debt proceeds will be invested in accordance with the Commission's Investment Policy and the IRS Section 148 Tax Certificate. Records will be maintained to enable compliance with IRS regulations related to tax-exempt debt. If proceeds remain outstanding three years after issuance, they will be yield restricted as required the Tax Certificate.

B. Continuing Disclosure – The Secretary-Treasurer and Finance staff will comply with the continuing disclosure commitments by the Commission in connection with Rule 15(c) 2-12 under the Securities and Exchange Act of 1934 by filing an annual report with the Municipal Securities Rulemaking Board's EMMA system as the nationally recognized municipal securities information repository disclosing certain financial information.

C. Arbitrage Regulations – The Commission will comply with all federal tax regulations including the tracking of investment earnings on bond proceeds and use of bond proceeds, calculating rebate payments and rebating positive arbitrage earnings to the IRS in a timely manner to protect the tax-exempt status of the related outstanding debt.

D. Intention to Reimburse – The Commission issues debt depending on the cash flow needs to support its capital improvement program and capital equipment purchases. In accordance with Commission Resolution No. 92-03, the Secretary-Treasurer will execute Intent to Reimburse Certificate for each form of debt at the beginning of each fiscal year to document the intentions to reimburse expenditures prior to debt issuance as is required by IRS regulations.

E. Bond/Debt Proceeds Accounts – The Secretary-Treasurer or designee will direct disbursements from bond/debt accounts including construction/project accounts, debt service reserve accounts, cost of issuance accounts and other accounts which may be required. Investment earnings on the accounts will be disbursed in accordance with the IRS Section 148 Tax Certificate to the Commission bank accounts per direction in the investment management agreements. Investment earnings must be utilized on project expenditures or for debt service.

F. Other Covenants – The Secretary-Treasurer or designee will be responsible for complying with all debt covenants. Schedules shall be maintained to monitor compliance.

G. Document Retention – All documents related to debt issuance including official statements, CAFRs, bond transcripts, and rebate calculations shall be retained until five years after the final maturity of the debt.

H. Revisions to the Debt Management Policy – The Secretary-Treasurer will review this policy every three years to ascertain that is it current with municipal market practices, and any revisions will be approved by the Commission and sent to the State Treasurer.