RESOLUTION NO. 37 2012

Resolution to Adopt a Debt Management Policy

TO THE HONORABLE SUPERVISORS OF THE COUNTY BOARD OF THE COUNTY OF POLK:

Ladies and Gentlemen:

WHEREAS, relative to county government, a debt management policy is a set of written guidelines and restrictions that affect the amount and type of debt issued by a county government, the issuance process, and the management of a debt portfolio; and

WHEREAS, a debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan; and

WHEREAS, the adoption of a debt management policy and adherence to a debt management policy signals to rating agencies and the capital markets that the county government is well managed and should meet its obligations in a timely manner and, as a result, strengthens the financial rating of the county government; and

WHEREAS, in accordance with best practice recommendations of the Government Finance Officers Association (GFOA), it is in the interest of Polk County to adopt a comprehensive written debt management policy and review them at least annually and revise them as necessary.

NOW, THEREFORE, BE IT RESOLVED that the Polk County Board of Supervisors does hereby adopt the *Debt Management Policy*, attached hereto and incorporated herein.

BE IT FURTHER RESOLVED that the Polk County Board of Supervisors directs the County Clerk to assign a policy number as the County Clerk may determine to said adopted policy as a financial policy of Polk County and to cause said adopted policy to be posted to the Polk County website and distributed to each county department.

Funding Amount:	Not applicable
Funding Source:	Not Applicable
Date Finance Committee Advised:	September 5, 2012
Finance Committee Recommendation:	approval
Effective Date:	Upon Passage
Date Submitted to County Board:	September 18, 2012

Submitted and Sponsored By:

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Reviewed by County Administrator:

X Recommended
Not Recommended
Review only

____
Dana Frey, County Administrator

Reviewed by Corporation Counsel

✓ Approved as to form
✓ Recommended
Not Recommended
Reviewed only

____
Jeffrey B. Fuge, Corporation Counsel

County Board Action:

On September 18, 2012, the Polk County Board of Supervisors adopted Resolution No. 37-2012: Resolution to Adopt Debt Management Policy, by a majority vote of supervisors of _____ in favor and _____ against. by unanamous voice vote

____
William F. Johnson, IV
Chairperson

Attest: ______________________________ Dated: 9-20-12
Carole T. Wondra, County Clerk

Attachment- Debt Management Policy

Debt management policy

Section 1: Introduction

1. **Contents and scope** This policy governs the issuance and management of debt by Polk County or its agencies, subject to other relevant policies adopted by the Polk County Board of Supervisors including, but not limited to, policies on fund balance, procurement, investment, and budget preparation and execution. This policy is also subordinate to any relevant State or Federal law or regulation.
2. **Definitions.** For purposes of this policy, the following terms have the meanings given:
   a. *County* means Polk County, Wisconsin;
   b. *Debt* means a sum of money due a third party at an express future date through legal agreement or contract entered into by Polk County or its constituent agencies;
   c. *Direct debt* means debt payable from general revenues, including capital leases;
   d. *Revenue debt* means debt payable from a specific pledged revenue source;
   e. *Advance refunding* means issuing debt obligations in advance of a call date for an obligation to obtain a interest rate savings;
   f. *Conduit debt* means debt payable by third parties for which Polk County does not provide credit or security;
   g. *County Board* means the Polk County Board of Supervisors; and
   h. *GFOA* means the Government Finance Officers Association of the United States and Canada.

Section 2: Long term planning of county indebtedness

1. **Debt affordability study**
   a. *Finance manager*. The finance manager must annually prepare a debt affordability report for the County Board on all existing County debt and, prior to recommending issuance or refinancing, be revised to incorporate any new proposed County debt. This report must include an assessment of the County's ability to generate and pay debt and include a recommendation as to the ongoing affordability of that debt and of any new potential issuance. This report must include measures of debt capacity and relative debt position compared, where possible, to other counties, rating agency standards and Polk County's historical ratios to determine debt affordability.
   b. *Finance committee*. The finance committee must annually review the debt affordability report prepared by the finance manager and make a recommendation to the County Board prior to the approval of issuance of any new debt. The finance committee must also review the capital improvement plan annually as provided in the budget preparation and execution policy and make recommendations as to its modification to the County Board to maintain debt affordability.

2. **Capital improvement plan.** As provided in the budget preparation and execution policy, the county administrator must annually submit a five year capital improvement plan for all departments along with the annual budget incorporating that year's capital budget. The capital improvement plan must provide information as to specific items to be purchased, their priority in accord with the priority set by the County Board, alternatives should the purchase not occur or occur at a later date, financing options, and associated performance measures. In proposing the use of debt issuance for capital improvements to be incorporated in the annual capital budget, the administrator must demonstrate why other financing sources are unavailable or inappropriate.

Section 3: Debt issuance

1. **Responsibilities.** In issuance of new debt, the following agents have the responsibilities herein provided them in addition to any other responsibility assigned by State or Federal law or regulation:
   a. *Finance manager.* The finance manager must oversee and coordinate the timing, issuance process and marketing of the County's borrowing and capital funding activities required in support of the capital improvement plan. The In recommending such an issuance, the finance manager must report on how this issuance results in stable debt service so as to allow for a consistently low average interest rate over the long term.
   b. *Financing team.* The financing team is comprised of outside financial specialists who assist it in developing a debt issuance strategy, preparing bond documents and marketing bonds to investors. The members of this team include its financial advisor, bond counsel, underwriter and County representatives (the finance manager, corporation counsel and treasurer, with the county administrator serving as an ex-officio member). Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, verification, escrow, auditing, or printing services, may be retained as required. The financing team must review the overall financing strategy of the County and make recommendations to the county administrator and County Board prior to the issuance of any debt.
   c. *County administrator.* The county administrator is responsible for overseeing the work of the finance manager in debt issuance and making a recommendation to the finance committee and County Board based on the recommendation of the financing team. The county administrator is also responsible for incorporating debt service costs in the annual budget and assuring that adequate funds will be available in future year budgets to pay debt service costs.
   d. *Finance committee.* The finance committee must review the report received from the financing team and recommendation by the county administrator prior to the issuance of any new debt. Based on this information, the finance committee must make a recommendation to the County Board as to the amount of issuance, repayment structure, purchase of insurance, and other relevant factors.
   e. *County Board.* The County Board has overall responsibility for the issuance of any debt pursuant to State and Federal law and regulations.
2. **Purposes.** The county administrator may recommend the use of debt by type for the following purposes:
   a. *Direct debt.* The use of direct debt may be proposed only to finance capital improvements with a probable useful life of at least five years and which directly benefit County government operations;
   b. *Revenue debt.* The use of revenue debt may be proposed only when the relationship between the revenue source and the debt incurred is clear and direct, when the capital improvement has a probable useful life of at least five years, when the improvement directly benefits County government operations, and when the use of this financing method can be demonstrated to

have no negative impact on the County's credit rating or interest rate to be paid on any future obligations;

c. *Conduit debt.* The approval of conduit debt may be proposed only when the debt serves a public purpose of benefit to the citizens of Polk County, has no direct or indirect negative impact on the County's credit rating or interest rate to be paid on any future obligations, and where adequate assurances can be provided as to the borrower's creditworthiness;
d. *State revolving loan funds.* Loans from the State of Wisconsin may be proposed when financing terms are more favorable than other options, including costs of issuance, and all other considerations with respect to direct debt are met; and
e. *Interfund borrowing.* Interfund borrowing may be proposed in the annual budget recommendation for purposes of short-term cash flow needs or, in the case of enterprise funds, where there is reason to believe that any budgetary shortfall may be resolved in the next two years.
f. *Construction notes.* Construction notes may be proposed as part of a comprehensive financing plan that provides for their repayment from other borrowing sources.

3. Term of debt repayment. Borrowings by the County must mature over a term that does not exceed 75 percent of the economic life of the improvements they finance and usually no longer than 20 years, unless special structuring elements require a specific maximum term to maturity. The County must finance improvements with a probable useful life less than five years using sources other than borrowing. Bonds sold for the purchase of equipment with a probable useful life exceeding five years must be repaid over a term that does not exceed such useful life.

4. Legal borrowing limitations. The County must be in compliance with all applicable State and Federal laws relating to debt issuance and management including, but not limited to laws restricting the amount of issuance, arbitrage rules, restrictions on use of bond proceeds, disclosure and filing requirements.

5. Debt features.

a. *Original issue discount or premium.* The County's bonds may be sold at a discount or premium, in order to achieve effective marketing, achieve interest cost savings or meet other financing objectives. The maximum permitted discount is stated in the Notice of Sale accompanying the County's preliminary official statement on the Bond Purchase Agreement, as applicable.
b. *Debt service structure and level debt service.* The County must primarily finance its long-lived municipal improvements over a 20-year term or less, on a level debt service basis, to minimize the impact on the annual budget.
c. *Call provisions.* In preparation for the issuance of new debt, the finance manager must evaluate the cost of early calls and include such documentation in the report prepared for consideration by the finance committee and County Board, with an accompanying recommendation by the county administrator. Such options must take into account any premium for an early call, the overall ability of the County to refinance new and existing obligations should interest rates fall or for other reasons should it become advantageous for the County to restructure, defease, or pay off obligations.
d. *Interest rates.* The County must first consider the use of fixed-rate debt to finance it capital needs, except for short-term needs (such as short-lived assets) that will be repaid or refinanced in the near term; and may consider variable rate debt under favorable conditions.

5. Method of sale. The county administrator must recommend a method of sale that is the most appropriate in light of financial, market, transaction-specific and County-related conditions, and explain the rationale for this recommendation to the finance committee and County Board.

a. *Competitive sales.* The recommendation by the county administrator must be based on a competitive sale unless explicit reasons for not so doing are provided. The recommendation must incorporate terms of sale that encourage as many bidders as practical and that would assist in obtaining the lowest possible interest rates on its bonds.
b. *Negotiated sales.* When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the County that would not be achieved through a competitive sale, the county administrator may recommend that the debt obligations be sold through a private placement or negotiated sale. Such determination must be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. Such sales must also be accompanied by full disclosure of all financial aspects including clear demonstration of cost savings through using this method.

Section 4: Refinancing of outstanding debt.

1. **Conditions.** The county administrator may recommend refinancing of outstanding debt under the following circumstances:
   a. *Debt service savings.* The county administrator may recommend the refinancing of outstanding long-term debt when such refinancing allows the County to realize ~~significant~~ debt service savings of at least two percent of the remaining obligation without lengthening the term of refinanced debt and without increasing debt service in any subsequent fiscal year. The county administrator may also recommend debt refinancing when a primary objective would be the elimination of restrictive covenants that limit County operations;.
   b. *Defeasance.* The County may refinance outstanding debt, either by advance refunding to the first call or by defeasance to maturity, when the public policy benefits of replacing such debt outweigh the costs associated with new issuance as well as any increase in annual debt service.
2. **Advance refunding.** The county administrator may propose advance refunding of any obligation when overall savings, including the cost of issuance and other costs, results in ~~significant~~ debt service savings of at least three percent of the remaining obligation, the length of the term of refinanced debt does not exceed the overall term, and any extension of call date does not interfere with the ability to manage County debt service.

Section 5. Management practices

1. **Credit rating agency relationships.** The finance manager is responsible for maintaining relationships with the rating agencies that assign ratings to the County's various debt obligations. This effort includes providing periodic updates on the County's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance. The finance manger must request ratings prior to the sale of securities from at least one of the major rating agencies for municipal bond public issues. Currently these agencies are Moody's Investors Service and Standard & Poor's Corporation. The finance manager or county administrator must provide a written and/or oral presentation to the rating agency(ies) to assist in their evaluations. The finance manager must make every reasonable effort to maintain or improve the County's general obligation bond credit ratings and demonstrate such in his/her report to the county administrator for incorporation into the report to the finance committee and County Board.
2. **Formal fiscal policies.** The county administrator must annually review the County's formal fiscal policies including the Investment Policy, General Fund Reserve Policy, Budget Policy, Purchasing Policy, and this Debt Management Policy.

3. **Rebate reporting and covenant compliance**. The finance manager is responsible for maintaining a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code and/or contracting for such service. This effort includes tracking investment earnings on debt proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues. Additionally, the finance manager must monitor general financial reporting and certification requirements embodied in bond covenants to ensure that all covenants are complied with.
4. **Reporting Practices.** The county administrator must ensure that the County is in compliance with the standards of the Government Finance Officers Association for financial reporting and budget presentation and the disclosure requirements of the Securities and Exchange Commission.

Section 6. Severability.

If any portion of this policy is found to be in violation of State or Federal law, that portion is to be considered null and void.

STATE OF WISCONSIN)
) SS
C OUNTY OF POLK)

I, Carole T. Wondra, Clerk for Polk County, do hereby certify that the attached is a true and correct copy of Resolution No. 37-12 that was adopted by the Polk County Board of Supervisors on September 18, 2012.

Carole T. Wondra 9-20-12

Carole T. Wondra Date

Polk County Clerk