Policy/Procedure Statement

- POLICY NO. 10001
- ORIGINAL ISSUE DATE September 4, 1996
- REVISED ISSUE DATE May 26, 2006
- ORIGINATOR Office of the Chief Financial Officer

DEPARTMENT OF MANAGEMENT AND BUDGET

SUBJECT: DEBT MANAGEMENT POLICY

Purpose and Goals

The purpose of this policy is to provide a functional tool for debt management and capital planning. In following this policy, the County shall pursue the following goals:

1. Attain the highest possible credit rating for each debt issue;

2. Improve the reception for County debt obligations by the national credit markets in order to reduce the County's relative transaction costs and interest expense for its borrowings;

3. Avoid any financial decision that will negatively impact credit ratings on existing or future debt issues or which could adversely affect the rights of holders of outstanding County debt;

4. Consider all possible financial alternatives to issuing debt to take full advantage of innovative, new, and appropriate financial approaches;

5. Avoid any action which would adversely affect the status of any tax-exempt debt; and

6. Enhance the financial capability of the County to facilitate improvement of the overall well-being of the citizens, and to maintain or improve essential County services.

Type of Debt Issued

It is the policy of the County to maintain cash balances at a sufficient level for general operating costs (those items normally funded in the County's annual operating budget). Short-term securities may be issued only in cases where the County's normal cash flow has been impaired by either: (1) the effects of a severe natural disaster; or (2) the unexpected and significant delay of receipt of revenue from the State or other inter-governmental funds.

The County may issue long-term debt, which may include, but is not limited to, general obligation bonds and revenue bonds. The County may also enter into long-term leases for public facilities, property, and equipment, provided, however, that such long-term leases may or may not be characterized as "debt," depending on whether the leases are "true" leases or financing leases. In order to effectuate the lowest cost of financing, the County may utilize, to the extent allowable, certificates of participation (ACOPs) and other acceptable market instruments.

Debt may be issued on a fixed-rate or variable-rate basis, to the extent permitted by law, so as to best enable the County to establish maximum debt management flexibility and relatively lower borrowing costs.

Authority for the Issuance of Debt

The primary source of authority for the issuance of debt by the County, the limitations on such authority, and the procedures required to issue such debt, is found in State law. The County has no inherent power to borrow money and issue debt obligations. The power to borrow money and issue obligations must be found in an express authorization in law. No debt shall be issued, however, until an authorizing resolution or ordinance has been adopted by the Wayne County Commission (the Commission).

Types of County Debt

Debt may be issued which pledges for repayment generally one of three sources: (1) the County's faith and credit and taxing power within the County's existing tax rate limits (limited tax obligations); (2) the County's faith and credit and taxing power beyond its existing tax rate limits if approved by the voters (unlimited tax obligations); or (3) revenues derived from the facility financed by the issuance of the debt.

Limited tax obligations and revenue obligations do not require voter approval, although State statutes sometimes require prior publication of a notice of the County's intent to issue the obligations and allow taxpayers and electors to call a referendum on the issuance of the obligations. Unlimited tax obligations may not be issued without prior voter approval as required by Michigan Constitution Article IX, Section 31.

The County may provide credit support as a secondary pledge for development projects physically located within Wayne County, provided that the amount of the debt associated with the pledge is included in the County's total debt calculation.

Relationship with Rating Agencies

The County will endeavor to maintain effective relations with the rating agencies. The Chief Financial Officer, with the County's financial advisors, will meet with, make presentations to, or otherwise communicate with the rating agencies on a consistent and regular basis in order to keep the agencies informed concerning the County's capital plans, debt issuance program, and other appropriate financial information.

Assessed Value Debt Limits

The State Constitution provides that the County may not incur any indebtedness, which shall increase its total debt beyond 10 percent of its assessed valuation. For purposes of this limitation, "indebtedness" means generally any indebtedness pledging the faith and credit of the County for its repayment. Indebtedness supported solely by specific revenues pledged for such purpose (as in the case of revenue bonds) is not included for purposes of this limitation.

Five-Year Capital Plan

A Five-Year Capital Plan shall be prepared annually by the Department of Management and Budget, based on requests submitted by County departments. Each department's request shall be reviewed by the Chief Executive Officer, and his recommendation shall be transmitted and discussed as part of the budget process with the Commission. Funding for the first year of the adopted five-year plan shall be reflected in that fiscal year's budget. The approved five-year plan shall be used as a basis for determining the need for capital debt issuance.

Annual Debt Service Requirements

The debt service statement of the County's annual budget document shall include certification by the Chief Executive Officer of the level of appropriations required to meet all debt service requirements of the County for the next fiscal year. The level of appropriations shall be approved by the County Commission at least thirty days before the next fiscal year, as part of their adoption of an appropriation ordinance. Annual debt and related debt service shall be limited as follows:

1. Full faith and credit - where the General Fund is the primary obligor, debt service shall be limited to 10 percent of General Fund revenues and other proceeds.

2. Limited tax general obligation debt – where the General Fund is indirectly liable, debt service shall be limited to 15 percent of General Fund revenues and other proceeds.

3. Internal financing and other debt (e.g. delinquent tax notes) – debt service shall be limited to 25 percent of General Fund revenues and other proceeds.

Structure of Debt Issues

State law and Federal tax law generally prohibit the issuance of debt for a term exceeding the economic life of the improvement or asset being financed with the debt. The County shall design the financing schedule and repayment of debt so as to take advantage of market conditions and, as practical, to recapture debt capacity for future use. The County shall repay its long-term general obligation debt within these time frames: 25% within 5 years and 50% within 10 years. Periodically, the Chief Financial Officer may analyze each outstanding variable-rate issue to determine if the issue should be converted to a fixed rate.

Method of Sale: Competitive vs. Negotiated Sale

The County shall establish competitive elements, as appropriate, in its bond sales. These features may, as authorized by law and as appropriate, include debt issues sold competitively into the state and local government debt market, the use of requests for proposals, solicitations for services, and related approaches. The determination of the appropriate and legally permissible approach to be employed resides with the County's Chief Financial Officer.

All competitively sold issues shall be awarded based upon the lowest offered True Interest Cost ("TIC"). Methodology used to calculate TIC shall be reviewed and approved by the Chief Financial Officer periodically. The Chief Financial Officer shall contact prospective bidders and take other actions to maximize interest in the debt issues and participation by the investor community.

The County may determine to offer obligations on a negotiated basis, to the extent permitted by law, if a negotiated sale appears to be the most advantageous to the County. When a negotiated method of sale is employed, the County should adhere to the following practices before entering into the negotiated sale and throughout the negotiated sale process:

1. Utilize a competitive underwriter selection process through a Request for Proposals, a Request For Qualifications, or another form of solicitation that ensures that multiple proposals are considered;

2. Remain actively involved in each step of the negotiation and sale processes to uphold the public trust;

3. Request a professional other than the issue underwriter, such as an independent financial advisor, who is familiar with and abreast of the condition of the municipal market, to assist in structuring the issue, pricing, and monitoring sales activities;

4. Provide sufficient disclosure and other means to avoid conflicts of interest by underwriters and other professional participants;

5. Request that financial professionals disclose the name or names of any person or firm, including attorneys, lobbyists and public relations professionals, compensated to promote the selection of the particular financial entities;

6. Prohibit joint proposals or joint accounts or any fee-splitting arrangements in connection with a bond issue and fully disclose to the Chief Financial Officer any plan or arrangements to share tasks, responsibilities, and fees earned between firms and/or financing professionals with whom the sharing is proposed, the method used to calculate the fees to be earned, and any changes thereto; and

7. Review the Agreement Among Underwriters and insure that it is filed with the Chief Financial Officer and that it governs all transactions during the underwriting period.

Market for County Obligations

The County shall take, for each of its sales, such actions as are necessary to make certain that its securities are sold to Michigan and local investors. The purchase of County debt obligations by these investors is cost-effective to the County and provides more public participation in the County's capital financing and debt management affairs.

Credit Enhancements

The County may enter into agreements with commercial banks or other financial entities for the purpose of acquiring letters of credit, municipal bond insurance, or other credit enhancements that will provide the County with access to credit and lines under terms and conditions as specified in such agreements when their use provide lower cost of capital and other advantages to the County and is adjudged prudent and advantageous, to the extent authorized by law.

Official Statement

The County's official statement is the principal information source for investors and the financial community about Wayne County. This County document will be prepared in a manner that achieves full and complete disclosure about all matters bearing on the County's repayment and related capabilities. The document will be prepared in the most professional and effective manner so that the County's credibility in the marketplace will be assured.

Credit Implications

The Department of Management and Budget will compute and monitor key financial indicators and year-to-year trends of important financial ratios. In issuing new debt, the County shall neither cause a major deterioration in these key financial trends nor exceed credit industry benchmarks where applicable. The Department of Management and Budget will periodically review the criteria for credit implications, and will revise such criteria as deemed appropriate, based on County financial needs and the perspectives of the rating agencies and other market participants. In general, the following factors will be considered in developing debt issuance plans:

1. Ratio of Overall Net Debt to Estimated Actual Value

   The formula for this computation is: Overall net debt (which is the total outstanding tax supported debt), divided by the estimated actual value of all County taxable property.

2. Overall Net Debt Per Capita

   The formula for this computation is: Overall net debt divided by the population of the County, as determined by the last census.

3. Ratio of Debt Per Capita to Per Capita Personal Income

   The formula for this computation is: Debt per capita, as described above, divided by per capita personal income as reported by the U.S. Department of Commerce.

4. Coverage Ratios

   The County is required by law to maintain adequate debt service coverage ratios for its revenue bonds in each fiscal year. Applicable coverage ratios are found in bond authorizing ordinances and resolutions and in Official Statements and other disclosure materials pertaining to the bonds issues. Maintenance of the coverage ratios consistent with the relevant requirements is imperative to assure the credit quality of each respective issue, to preserve, if not enhance, the County's credit ratings, and to protect the County from potential liability to bondholders. On-going cost of service studies to determine compliance with these requirements shall be conducted at least annually.

Review of Financing Proposals

All capital financing proposals involving a pledge or other extension of the County's credit through the sale of securities, execution of loans or lease agreements, or otherwise involving directly the lending or pledging of the County's credit shall be referred to the Chief Financial Officer, who shall determine the financial feasibility and appropriations of the proposal.

Administration of the County's Debt Management Activities

The Chief Financial Officer shall administer and coordinate the County's debt issuance program and activities, including timing of issuance, method of sale, structuring the issue, and marketing strategies. The Chief Financial Officer, along with the County's financial advisors, shall meet, as appropriate, with the Chief Executive Officer and the Commission regarding the status of the current year's and succeeding years' borrowing and debt management program and to make specific recommendations with respect to the implementation of the program.

Relationship with the Financial Community

The County should maintain a positive relationship with the investment community. The Chief Financial Officer and the County's financial advisors shall, as necessary, prepare reports, make presentations to, and other forms of communications for the financial community regarding the County's indebtedness and other County credit matters, as well as its future financing plans. This policy includes information presented to the press and other media.

Refunding Policy

The County may consider refunding outstanding debt when financially advantageous, legally permissible and prudent. Refunding obligations may not be issued without the prior approval of the Michigan Department of Treasury. As a general rule, the refunding should generate a minimum of a 3% present-value savings to the County, unless there are other structural and operational benefits to the County from a refunding, in which case the percentage of present-value savings shall not apply.

Financial Disclosures

The County is required to satisfy the continuing disclosure requirements of SEC Rule 15c2-12 (the A Rule) for all issues of $1,000,000 or more issued after July 3, 1995.

In accordance with the requirements of the Rule, the County will agree, as part of the issuance of each series of obligations that are subject to the Rule, to provide the following:

1. To each nationally recognized municipal securities information repository ("NRMSIR") and to the Municipal Advisory Council of Michigan as state information depository ("SID") for the State of Michigan, in each case as designated by the SEC in accordance with the Rule: certain annual information, in a form generally consistent with the information contained in the Official Statement on or prior to the 180th day following the end of each fiscal year, commencing with the fiscal year ending November 30, 1996 including (a) the audited financial statements of the County for each fiscal year commencing with the fiscal year ending November 30, 1996, unless such audited financial statements shall not then be available in which case the unaudited financial statements shall be provided and an audited financial statement shall be delivered to each NRMSIR and to the SID within 30 days after it becomes available and in no event later than 360 days after the end of each fiscal year.

2. To each NRMSIR or the Municipal Securities Rulemaking Board ("MSRB") and to the SID, notice of the occurrence of any of the following events with respect to the obligations if material, will be made within ninety (90 days) of such occurrence:

    a. Principal and interest payment delinquencies;
    b. Non-payment related defaults;
    c. Unscheduled draws on debt service reserves reflecting financial difficulties;
    d. Unscheduled draws on credit enhancements reflecting financial difficulties;
    e. Substitution of credit or liquidity providers, or their failure to perform;
    f. Adverse tax opinions or events affecting the tax-exempt status of the security;
    g. Modifications to rights of security holders;
    h. Bond calls;
    i. Defeasances;
    j. Release, substitution, or sale of property securing repayment of the securities; or
    k. Rating changes.

    The County may provide notice of occurrence of certain other events, in addition to those listed above, if it determines that any such other event is material, but the County does not undertake to commit to provide any such notice of the occurrence of any material event except those events listed above.

3. To each NRMSIR or the MSRB and to the SID, notice of a failure of the County to provide the required annual financial information on or before the date specified in its written continuing disclosure undertaking, will be made within ninety (90) days of such occurrence.

The County shall not undertake to give notice of the occurrence of any event other than described in (1), (2) and (3) above.

Federal Arbitrage Rebate Requirement

The County shall take all steps necessary to preserve the tax-exempt status of obligations issued on a tax-exempt basis. Such steps shall include, but not be limited to, maintaining appropriate systems to monitor disbursements and to calculate and account for investment earnings on construction funds, debt service retirement funds, funds deemed to be "sinking funds" for federal tax purposes, and any other funds which are deemed subject to the requirements of the Internal Revenue Code of 1986, as amended, and the regulations propounded thereunder (the "Code"). Such systems shall be designed to enable compliance with Code requirements, including in particular the arbitrage and rebate requirements applicable to tax-exempt obligations.

Pay-As-You-Go Financing

In order to minimize debt issuance, the County shall endeavor to allocate a minimum of $5 million in General Fund revenues each year for the financing of capital improvements.

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