LIVINGSTON COUNTY

DEBT MANAGEMENT POLICY

LIVINGSTON COUNTY, MICHIGAN

RESOLUTION #702-288 APPROVED: 7.15.02 EFFECTIVE: 7.16.02

The County recognizes the foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt, managing outstanding debt, provides guidance to decision makers 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 will recognize a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that credit quality is protected.

PURPOSE

This debt policy is intended to:

- Enhance the quality of decisions by imposing order and discipline, promotes consistency and continuity in decision making;
- Rationalize the decision-making process;
- Identify objectives for staff to implement;
- Demonstrate a commitment to long-term financial planning objectives; and,
- Maintain positive credit ratings.

Management practices are guidelines for general use, and allow for exceptions in extraordinary conditions.

DEBT MANAGEMENT COMMITTEE

The Debt Management Committee shall be composed of six (6) members and shall include three (3) Livingston County Board of Commissioner members appointed by the Livingston County Board of Commissioners, to serve along with the County Treasurer, Chief Financial Officer and the County Administrator. The three (3) appointed Commissioners shall serve terms of two (2) years.

The committee shall meet at least semi-annually to review and update this policy subject to approval of the Board of Commissioners.

DEBT CAPACITY ANALYSIS: It is the task of this committee to assess the County's ability to generate and repay short-term, as well as, long-term debt and issue an annual report defining debt capacity of the County.

INTRODUCTION AND PURPOSE: This portion of the debt management policy has been developed to properly analyze the existing debt position of Livingston County and to assess the impact of the County's future financing requirements on the County's ability to service the additional debt. The impact of future debt on various County debt ratios will be examined.

Analysis of the County's debt position is important, as growth in the County has resulted in an increased need for capital financing. This debt capacity analysis is premised on the idea that resources, as well as needs, should drive the County's debt issuance program. It will link projected long-term financings with the economic, demographic and financial resources expected to be available to pay for that debt. The primary emphasis of the analysis is the impact of the County's projected capital financing requirements on the credit quality of its debt obligations. The County will ensure that as it issues further debt, its credit quality and market access will not be impaired. Overemphasis on debt ratios should be avoided because debt ratios are but one of many factors which influence bond ratings.

Decisions regarding the use of debt will be based in part on the long-term needs of the County and the amount of funds dedicated in a given fiscal year to capital outlay on a "Pay-As-You-Go" basis.

It is recognized that Livingston County has a finite capacity to issue debt at a given credit level. Therefore, strategies shall be developed that protect and enhance the County's bond ratings. To arrive at a judgment regarding an issuer's credit worthiness, the rating agencies analyze the issuer in four broad, yet interrelated areas: economic base, debt burden, administrative management, and fiscal management.

CURRENT DEBT POSITION: Definition of Net Tax Supported Debt - A calculation of indebtedness that is frequently used is one that takes into account all bond issues supported by tax revenues. Such debt is known as net tax-supported debt. Gross direct debt consists of debt serviced from the County's governmental funds or other funds that receive revenues from general County taxes, in addition to the airport debt which is supported by non-tax airport fees. Direct net tax-supported debt ("Direct Net Debt") consists of debt serviced from the County's governmental funds or other funds that receive revenues from general County taxes (excludes the airport debt). Such taxes include ad valorem property taxes, room taxes, and sales taxes. Indirect net tax-supported debt ("Indirect Net Debt") is overlapping debt paid by County residents to governmental agencies whose jurisdictions overlap the County's boundaries. The combination of direct net debt and indirect net debt is referred to as overall net tax-supported debt ("Overall Net Debt").

The County's direct net debt position will be used in assessing the effects of future debt issuance. Direct debt will be examined because direct net debt is that debt over which the County has control. The only debt which is exempt from the County's legal debt margin is bonds which are issued without the County full faith and credit pledge. However, to secure an accurate picture of the full debt for which the County's taxpayers are responsible, the County's overall net burden should also be considered. Reference the attached Debt Statements for 2002.

COMPREHENSIVE CAPITAL PLANNING

PLANNING:

GENERAL PLAN. The Livingston County Planning Commission is responsible for the preparation and adoption of a development plan for the County, which may include programming of capital improvements based on a determination of the relative urgency, together with definitive plans to the improvements to be constructed in the earlier years of the program, i.e., a comprehensive capital plan. In the preparation of the county development plan, the Planning Commission shall make careful and comprehensive studies of the existing conditions and probable growth of the territory within its jurisdiction. The plan shall be made with the purpose of guiding and accomplishing a coordinated, adjusted and harmonious development of the County which will be in accordance with present and future needs for best promoting the health, safety, and morals, order, convenience, prosperity and general welfare of the inhabitants as well as for efficiency and economy in the process of development. It shall be the duty of the County Planning Commission to: (1) make studies, investigations and surveys relative to the economic, social and physical development of the County; (2) formulate plans and make recommendations for the most effective economic, social and physical development of the County; (3) cooperate with all departments of State and federal governments and other public agencies concerned with programs directed towards the economic, social and physical development of the County, and seek the maximum coordination of the County programs of these agencies;(4) consult with representatives of adjacent counties in respect to their planning so that conflicts in over-all county plans may be avoided. (Provided by the Livingston County Planning Director as published in the "Policies, Procedures and Rules of Order of the Livingston County Planning Commission" 1986.)

CAPITAL IMPROVEMENT PLAN. In collaboration with the Livingston County Planning Commission relative to the inclusion of a Capital Improvement Plan as a component of a Development Plan; the Planning Department shall annually prepare a multi-year inventory identifying projects approved or anticipated by the various agencies which affect the County's direct as well as indirect debt burden. In addition, projects which are funded directly by the County through the annual operating budget shall be included. Projects included in the inventory shall have costs in excess of $50,000 and a useful life greater than three years. The inventory shall contain projects funded in the forthcoming County fiscal year as well as those anticipated.

FUNDING OF THE CAPITAL IMPROVEMENT PROGRAM: Whenever possible, funds available from grants or other special sources shall be first considered as part of the funding of the Capital Improvement Plan.

New capital construction with a useful life of more than ten years, and which will provide enhancements for future populations shall be financed over the useful life and against future revenue. In other words, it shall be the policy of the Livingston County Board of Commissioners that cost be apportioned against the benefitting population. In the case, bonding or inter-fund borrowing shall be acceptable sources of funds.

When the primary source of funds are insufficient, the County will use general revenues, excess surplus from prior years and bond funding. The County shall be guided by three principles in selecting a funding source for capital improvements: equity, effectiveness and efficiency.

EQUITY: Whenever appropriate, the beneficiaries of a project or service will pay for it. For example, if a project is a permitted function of county government that benefits the entire community, the project will be paid for with general tax revenues or financed with general obligation bonds. The Board of Commissioners shall determine whether to fund these bonds through an operating tax revenues or voter approved debt levy. If however, the project benefits specific users, such as water and sewer facilities, the revenues to retire the debt shall be derived through user fees or charges and targeted taxes and assessments.

EFFECTIVENESS: In selecting a source or sources for financing projects, the County will select one or more that effectively funds the total cost of the project. For example, a capital project, or the debt service on a project, with a user fee that does not provide sufficient funds to pay the total cost of the project is not an effective means of funding the project.

EFFICIENCY: If grants or current revenues are not available to fund a project, the County will select a financing technique that provides for the lowest total cost consistent with acceptable risk factors and principals of equity and effectiveness. This element may provide for the use of funds provided in part from the Federal, State and/or Local sources. It includes the use of pooled funds and may include funding for specific applications or activities.

MAINTENANCE, REPLACEMENT AND RENEWAL: The County annually shall set aside sufficient funds from current revenues to finance ongoing maintenance, minor renovation and/or replacement of all County assets. The replacement and renewal of facilities shall be consistent with its philosophy of keeping its capital facilities and infrastructure in good repair and to maximize a capital asset's useful life. It is the County's policy to include this maintenance and replacement in the Capital Improvement Plan.

DEBT AUTHORIZATION: In the absence of a major emergency or catastrophe, no Capital Project shall be authorized unless it is identified and funded in the Capital Improvement Plan.

PLANNING AND STRUCTURE OF COUNTY INDEBTEDNESS

Overview: The County plans long- and short-term debt issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions.

When benefits can be specifically attributed to users of a given facility or related service, capital improvements will be financed primarily through user fees, service charges, special assessments, revenue bonds or other self-supporting bonds.

Competitive Bidding: Debt shall be issued utilizing the competitive bidding processes, except as expressly approved by resolution of the Board of Commissioners. If it is proposed that debt be issued through the negotiated sales process, rather than by competitive bidding, the resolution shall state the specific reasons why competitive bidding is not deemed appropriate.

Negotiated sales process shall only be considered under the following circumstances:

1. The County has not established its credit rating with the rating agencies for a considerable period of time.
2. Extraordinary market circumstances in the municipal bond market.
3. A project or projects that may have very complicated or unusual financing methods.

Use of Long-Term Debt:

> Voter-Approved Unlimited Tax General Obligation Bonds. This form of debt shall primarily be used for new construction, major renovation or land acquisition for essential services such as public safety, the courts, or mandatory county functions; i.e., or Jail, Register of Deeds, Prosecutor, County Clerk, Country Treasurer, Administration, etc.
>
> Limited Tax General Obligation Bonds. This form of debt may be used for essential services delineated above or for all other debt not excluded elsewhere in this Debt Management Policy.
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> Debt to Furnish, Refurnish, Equip or Re-Equip Facilities. Long- term debt shall be used to furnish and equip only new facilities built from the ground up. The furnishings and equipment shall be amortized over their useful life using IRS depreciation schedules in effect at that time.
>
> The re-equipping and re-furnishing of existing facilities shall be expensed from current operating budgets, grants or financed from the fund balance.
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> Furnishings and equipment only pertains to moveable objects and other loose equipment and does not include items such as flooring, fixed lighting or permanent wall coverings.

Amortization Schedules: Livingston County will utilize only level or declining debt repayment schedules. It will not utilize back loaded or ballooning repayment schedules, or variable rate debt.

If the county issues bonds for a capital project issue that includes the purchase of technology, equipment, furnishings or other items having a lesser life expectancy than the capital project (bricks and mortar portion), then the annual debt service schedule for the brick and mortar portion will not be back loaded or deferred so as to result in an overall level or declining annual debt service.

Refunding Bonds: The County shall not issue refunding bonds unless the net present value savings after refinancing costs exceeds three (3) percent of the bonds refunded. The purpose of this policy is to avoid the churning of outstanding debt issues when minor changes in municipal bond interest rates occur.

<u>YIELD BURNING</u>: The term "yield burning", which is the arbitrage manipulation of securities accomplished in the issuance of refunding and advance refunding debt issues violates SEC and Federal Securities laws and is expressly prohibited by the Livingston County Board of Commissioners.

<u>ARBITRAGE COMPLIANCE</u>. The County will comply with all arbitrage rebate requirements of the federal tax code.

<u>CONTINUING DISCLOSURE</u>. The County is committed to continuing disclosure of financial and pertinent credit information relevant to the County's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure.

<u>SPECIAL ASSESSMENT BONDS-FULL FAITH AND CREDIT</u>: In the spirit of cooperation, the county may issue its full faith and credit for debt issues pertaining to special assessments for projects such as drains, sanitary sewers and water projects constructed among the county's various local units of government.

Prior to the Board of Commissioners granting it's full faith and credit, Bond Counsel shall certify to the Board of Commissioners, in writing, definition of appropriate title, project insurable interest, ownership and/or options on any properties or real estate for future treatment plants, water towers, well locations and major easements required to assure the intended end result of the project.

<u>REVENUE BOND COVENANTS</u>: Periodically, the county may issue Limited Tax General Obligation (L.T.G.O.) revenue bonds where the revenues to make the annual debt service payments are based on competitive market conditions. Often, covenants in the bond resolutions require the issuer (the County) to automatically raise rates if annual total revenues become insufficient to meet annual debt service. If the issuer does not raise these rates, the issuer may be in technical default, with the result that the issuer may jeopardize its credit worthiness.

Therefore, it is imperative that the Financial Advisor, based on case history and current experience, make the County fully aware if revenue sources for debt service may be subject to adverse variable market conditions which would preclude the issuer from raising rates. It is important that this disclosure be done prior to the County issuing its full faith and credit.

<u>ORIGINAL ISSUE DISCOUNT OR PREMIUM</u>: The County's bonds may be sold at a discount or premium, in order to market its bonds more effectively, 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.

<u>CALL PROVISIONS</u>: The County seeks to maximize the protection from optional redemption given to bondholders, consistent with its desire to obtain the lowest possible interest rates on its bonds. The County's bonds are generally subject to optional redemption. The County seeks early calls at low or no premiums because such features have allowed it in the past to refinance debt more easily for debt service savings when interest rates dropped. The County and its financial advisor will evaluate optional redemption provisions for each issue to assure that the County does not pay unacceptably higher interest rates to obtain such advantageous calls.

<u>INTEREST RATES</u>: The County uses fixed-rate debt to finance it capital needs, except for short-term needs (such as construction costs or short-lived assets) that will be repaid or refinanced in the near term.

CREDIT RATINGS

RATING AGENCY RELATIONSHIPS: The Debt Management Committee 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.

QUALITY OF RATINGS: The County requests ratings prior to the sale of securities from one or all of the major rating agencies for municipal bond issues: Moody's Investors Service, Standard & Poor's Corporation and Fitch Investors Service. The County may provide a written and/or oral presentation to the rating agencies to help each credit analyst make an informed evaluation. The County will make every reasonable effort to maintain its high quality credit ratings and improve them when possible.

MANAGEMENT PRACTICES

The County has instituted prudent financial management practices and will continue to follow practices that will reflect positively on it in the rating process. Among these are the County development of and adherence to long-term financial and capital improvement plans, management of expense growth in line with revenues and maintenance of an adequate level of operating reserves. The County will strictly adhere to all State and Federal regulations.

PROFESSIONAL CONSULTANTS: The County employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key players in the County's financing transactions include its Bond Counsel and Financial Advisor, the underwriter (on a negotiated sale) and County representatives. Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, auditing, or printing services, are retained as required.

BOND COUNSEL - The County will retain external Bond Counsel for all debt issues. All debt issued by the County will include a written opinion by Bond Counsel affirming that the County is authorized to issue the debt, stating that the County has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status.

FINANCIAL ADVISOR - The County will retain an external Financial Advisor for all debt issues. For each bond sale the Financial Advisor will analyze the feasibility of the project, provide primary and secondary market disclosure, advise the County regarding credit enhancements, provide the County with information on pricing and underwriting fees for comparable sales by other issuers.

"Roll Switching" or "Dual Role" of Bond Counsel/Financial Advisor and Financial Advisor/Underwriter is Prohibited. Consultants retained by Livingston County or it's agencies to provide advice or counsel for any issuance of debt, shall be independent. The Financial Advisor/Bond Counsel and Financial Advisor/Underwriter for any issuance of debt shall each be separate entities having no relationship with one another.

This policy, adopted to prevent a conflict of interest or the appearance of a conflict, is delineated in Livingston County Board of Commissioners Resolution No. #794-210, dated July 18, 1994 (attached).

The above mentioned resolution goes beyond the requirements of Municipal Securities Rule Making Board Rule G-23 (which permits financial advisor/underwriter relationships if such relationships are disclosed to the issuer). Note that combined bond counsel and financial advisor is not deemed a conflict under MSRB Rules or in the view of the National Association of Independent Public Finance Advisors. NAIPFA representatives agree, however, that in complex issues, two independent viewpoints from bond counsel and financial advisor may be more in the issuer's interest.

COMPETITIVE SELECTION PROCESS - Bond Counsel and the Financial Advisor will be selected for a term of up to four years through a competitive quality based selection process administered by Purchasing in compliance with the procurement policy. Upon expiration a four year contract, the County has the option, after a full competitive quality based process, of signing a new contact with its existing professional consultants. Any bond sales in process, at the time of the selection process, will be completed by the professional team which has been working on them.

BOND COUNSEL / FINANCIAL COMPLIANCE

The Bond Counsel and Financial Advisor consulting the County shall acknowledge in writing that they have read, understand and will comply with this debt management policy and any amendments prior to Livingston County retain their services.

✘ ________________________________ ✘ ________________________________

Bond Counsel — Financial Advisor

Dated: ______________ Dated: ______________

AMENDING OR WAIVING THIS POLICY

This policy may only be amended or waived by a vote of 75% of the elected members of the Livingston County Board of Commissioners. Any amendment or waiver shall be done only by resolution.

ADOPTION DATE

This policy was adopted by the Livingston County Board of Commissioners at their meeting held on July 15, 2002, by Resolution #702-288.

EFFECTIVE DATE

This policy shall become effective July 16, 2002.

RESOLUTION: #702-288	ADOPTED: JULY 15, 2002	EFFECTIVE: JULY 16, 2002

[SEE GENERAL GUIDELINES FOR DEBT MANAGEMENT COMMITTEE ATTACHED HERETO]

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GENERAL GUIDELINES FOR DEBT MANAGEMENT COMMITTEE

The use of debt financing is appropriate:

- For non-continuous capital improvements;
- When future citizen's will receive a benefit from the improvement.

The Debt Management Committee shall consider the use of debt financing only under the following circumstances before recommending debt issuance:

- When the project's useful life will exceed the term of the financing; and
- When project revenues of specific resources will be sufficient to service the long-term debt.

The County will use the following criteria to evaluate "pay-as-you go" versus long-term financing in funding capital improvements:

Factors that favor "pay-as-you-go:"

- Current revenues and adequate fund balances are available or project phasing can be accomplished.
- Existing debt levels adversely affect the County's credit rating.
- Market conditions are unstable or present difficulties in marketing.

Factors that favor "long-term financing:"

- Revenues available for debt service are deemed to be sufficient and reliable so that long-term finances can be marketed with investment grade credit rating.
- The project securing the financing is of the type which will support an investment grade credit rating.
- Market conditions present favorable interest rates and demand for County finances.
- The life of the project or asset to be financed is ten (10) years or longer.

FORMS OF DEBT: Because debt can take many forms, each having unique attributes, it is important that those characteristics be compatible with the capital purpose for which the debt is incurred. The following table identifies the major debt forms and their common characteristics and compatible capital needs.

DEBT FORM	COMMON CHARACTERISTICS	COMPATIBLE CAPITAL NEEDS
SHORT-TERM NOTES AND FINANCING	▪ Short-term (<5 yrs.) ▪ Small amount <$1,000,000 ▪ Low transaction costs ▪ Few restrictions ▪ Secured by generally marketable equipment or fixtures	• Small projects • Short-term needs - cash flow, financing, construction financing, bond anticipation financing
LEASE	▪ Short- to mid-term (<10 years) ▪ Small amounts <$1,000,000 ▪ Low transaction costs ▪ Higher interest costs ▪ Few restrictions ▪ Secured by generally marketable equipment or fixtures	• Small projects • Projects and equipment with short life (< 10 years) • Items that are widely marketable, equipment or fixtures (e.g., vehicles, computers)
BONDS	▪ Long-term (>10 yrs.) ▪ Larger amounts >$1,000,000 ▪ High transaction costs ▪ Significant restrictions ▪ Ongoing financial/reporting requirements ▪ Publicly marketed	• Large projects or combinations of projects • Projects with longer lives
VARIABLE RATE	▪ Increased risk of revenue shortfall due to increased interest rates ▪ Limited to 20% of total indebtedness ▪ Facilitates matching of interest expense to short-term investment returns ▪ Reduces need to issue refunding bonds ▪ Lower interest cost than fixed rates over span of most interest rate cycles	• Financing of projects during construction period • Where project costs or customer revenues are interest rate sensitive
FIXED RATE	▪ Interest cost stability; minimizes interest rate risk ▪ Costly to refinance ▪ Facilitates rate projection and stability ▪ Reduces need for reserves to mitigate interest rate changes	• Completed projects included in rate base

Markets exist for other specialized forms of debt, including deep discount bonds, zero coupon bonds, capital appreciation bonds, commercial paper and premium bonds. These forms offer opportunities to customize the debt structure to a particular need, however, the County has not used such techniques to-date. Should circumstances warrant consideration of such approaches if characteristics differ from those outlined above, the County will undertake a thorough analysis of that approach and its associated risks to assure applicability to and compatibility with other aspects of these guidelines and the County's debt objectives.

RESOLUTION **NO: 702-288**

LIVINGSTON COUNTY **DATE: July 15, 2002**

RESOLUTION TO ADOPT A DEBT MANAGEMENT POLICY TO GOVERN WHEN, HOW, FOR WHAT PURPOSES, AND TO WHAT EXTENT LIVINGSTON COUNTY SHALL ISSUE DEBT - BOARD OF COMMISSIONERS

WHEREAS, a sound debt policy will help avoid common pitfalls of debt issuance and debt management; and

WHEREAS, this policy will indicate to this community and its residents that the County is committed to sound and responsible debt management; and

WHEREAS, a sound debt management policy in combination with excellent management, can be the first line of defense against unnecessarily high borrowing costs and the need for high debt tax of our citizens; and

WHEREAS, all Full Faith and Credit General Obligation debt issuance shall be subject to this Debt Management Policy along with the provisions set forth in this policy to enable an amendment or waiver of this policy under extraordinary circumstances; and

WHEREAS, a Debt Management Committee appointed by the Livingston County Board of Commissioners will be charged with periodic review of the Debt Management Policy.

THEREFORE BE IT RESOLVED that the Livingston County Board of Commissioners hereby adopts this Debt Management Policy and recommends the continuation of good fiscal management practice to future Boards of Commissioners.

# # #

MOVED: COMMISSIONER CHRYSLER
SUPPORTED: COMMISSIONER HAMILTON
ROLL CALL: AYES: CHRYSLER, BELSER, ANDERSEN, ROGERS, HAMILTON, LA BELLE
NAYS: NONE
CARRIED: **6-0-3 absent**

CLERK'S CERTIFICATE
STATE OF MICHIGAN County of Livingston
I, Margaret M. Dunleavy, Clerk of said County and Clerk of the 44th Circuit Court, do hereby certify this copy as a correct and true record of the original document remaining on file in my office.
Dated and sealed: July 17, 2002.
Margaret M. Dunleavy, County Clerk
D. VanBlaricum, Deputy

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