



DEBT MANAGEMENT POLICY

CROW WING COUNTY BRAINERD, MINNESOTA

**Adopted by County Board
July 9, 2013
Amended November 26, 2019**

Our Vision: Being Minnesota's favorite place.

Our Mission: Serve well. Deliver value. Drive results.

Our Values: Be responsible. Treat people right. Build a better future.

DEBT MANAGEMENT POLICY
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I. DEBT MANAGEMENT POLICY STATEMENT OF PURPOSE

The Debt Management Policy sets forth comprehensive guidelines for the financing of capital expenditures identified in the Capital Improvements Plan (CIP). It is the objective of the policy that (1) the County obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, (3) the most favorable interest rate and other related costs be obtained, and (4) when appropriate, future financial flexibility be maintained.

II. SCOPE

This policy applies to both conduit debt and debt issued directly by the County. It also provides guidelines regarding the execution of capital leases.

III. USE OF DEBT FINANCING

The primary tool used to plan for debt is the Capital Improvements Plan (CIP). Summaries of capital expenditures are prepared for each year of the CIP and matched with available funding from various sources. The CIP document will assist the County in determining the amount of spending that will be required to accommodate anticipated growth and development.

A. ACCEPTABLE PURPOSES AND CONDITIONS FOR USE OF DEBT

The County will use debt financing for one-time capital improvement projects and unusual equipment purchases, and only under the following circumstances:

- (1) when the project is included in the Capital Improvements Plan (CIP); *or*
- (2) when the project is mandated by federal or state authorities with no other viable funding option available; *or*
- (3) when the project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the County; *and*
- (4) when the project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing; *and*
- (5) when there are designated revenues sufficient to service a debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

B. PERMISSIBLE DEBT INSTRUMENTS

The County will issue debt using the following instruments:

- (1) General Obligation Bonds (Minn. Stat. § 475)
- (2) Revenue Bonds (Minn. Stat. § 475)
- (3) General Obligation Revenue Bonds (Minn. Stat. § 475)
- (4) County Capital Improvement Bonds (Minn. Stat. § 373.40)
- (5) Capital Notes (Equipment Notes) (Minn. Stat. § 373.01)
- (6) Courthouse Bonds (Minn. Stat. § 375.18)
- (7) State-Aid Road Bonds (Minn. Stat. § 162.181)
- (8) Bridge Bonds (Minn. Stat. § 165.10)
- (9) Jail Bonds (Minn. Stat. § 641.23)
- (10) Jail Lease Revenue Bonds (Minn. Stat. § 641.24)
- (11) Regional Jail Facility Bonds (Minn. Stat. § 641.264)
- (12) Healthcare (hospital) and Housing (nursing home) Bonds (Minn. Stat. § 447.45)
- (13) GO Supported Housing Development Revenue Bonds (Minn. Stat. § 469.001)

- (14) Refunding Bonds
- (15) Joint Library Bonds (Minn. Stat. § 134.41)
- (16) Solid Waste Bonds (Minn. Stat. § 400.101)
- (17) Ditch, Watershed & Drainage Bonds (Minn. Stat. §§ 103E & 429)
- (18) Lease Purchase Financing (Minn. Stat. § 465.71)
- (19) Tax Abatement (Minn. Stat. § 469.1813)
- (20) Regional Railroad Authority Bonds (Minn. Stat. § 398A.01)
- (21) Energy Improvement Bonds (Minn. Stat. § 216C.435)
- (22) Other bonds as authorized by statute

C. RESTRICTIONS ON THE USE OF DEBT

The County will not use long-term debt to finance current operating and maintenance expenditures.

The term of any bond issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

Net debt shall not be in excess of three percent of the market value of taxable property (Minn. Stat. § 475.53).

D. PAY-AS-YOU-GO FINANCING

Certain criteria will be used to evaluate pay-as-you-go financing (PAYGO) versus debt financing in funding capital improvements. The following factors favor PAYGO financing:

- (1) the project can be adequately funded from available current revenues and fund balances; or
- (2) the project can be completed in an acceptable timeframe given the available revenues; or
- (3) additional debt levels would adversely affect the County's credit rating or repayment sources; or
- (4) market conditions are unstable or suggest difficulties in marketing a debt.

IV. MAXIMUM AMOUNTS OF DEBT FINANCING

The County has self-imposed more restrictive limits on debt issuance than what is allowable by statute. The County will not engage in debt financing unless the proposed obligation, when combined with all existing bonded debts, meets the three following measures:

- (1) net direct debt per capita will not exceed \$1,000; and
- (2) direct debt as a percentage of estimated full market value of taxable property will not exceed 1.0%; and
- (3) annual debt service will not exceed 15% of budgeted governmental fund operating expenditures.

V. STRUCTURE OF DEBT

County debt will be structured to achieve the lowest possible net interest cost to the County given market conditions, the urgency of the capital project, and the nature and type of any security provided. County debt will be structured in a way that will not compromise the future flexibility to fund projects.

A. MATURITY GUIDELINES

County debts will be amortized for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users, and in keeping with other related provisions of this policy. The County normally shall issue bonds with a maximum life of 20 years or less.

B. FIXED AND VARIABLE RATE DEBT

The County will generally issue its debt on a fixed rate basis; however, particular conditions may arise where the County would consider the use of variable interest rates.

C. PREPAYMENT PROVISIONS

Redemption provisions and call features shall be evaluated in the context of each bond sale to enhance marketability of the bonds; to ensure flexibility related to potential early redemption; to foster future refunding transactions; or in consideration of special conditions of the transaction. The potential of additional costs and higher interest rates as a result of including a call provision shall also be evaluated.

D. DEBT SERVICE SCHEDULE

At a minimum, the County will seek to amortize general obligation bonds with level principal and interest costs over the life of the issue. Pushing higher costs to future years in order to reduce short-term budget liabilities will be considered only when natural disasters or extraordinary or unanticipated external factors make the short-term cost of general obligation bonds prohibitive.

E. DEBT SERVICE FUNDS

All payment of bonds shall be from the County's Debt Service Fund. The fund balance in the Debt Service Fund shall achieve a proper matching of revenues with principal and interest payments within each bond year and will be depleted at least once each bond year (except for a reasonable amount not to exceed the greater of the earnings on the fund for the immediately preceding bond year or 1/12th of the principal and interest payment on the issue for the immediately preceding bond year), making its best efforts to comply with arbitrage requirements.

VI. DEBT ISSUANCE

A. APPROVAL OF ISSUANCE

All proposed debt financings shall be authorized by the County Board.

B. METHOD OF SALE

Generally, the County shall seek to issue its bond obligations in a competitive sale. However, in the following instances the County will consider a negotiated sale:

- (1) Consultation with the County's Municipal Advisor has deemed a negotiated sale prudent based on factors of the issuance (instrument, rate, call features, or other features); or
- (2) Bids were not received during a competitive sale; or
- (3) Bids received during a competitive sale are deemed unsatisfactory.

C. PROFESSIONAL SERVICE PROVIDERS

The County recognizes the nature of the municipal bond industry such that specialized consultants may need to be retained. In general, a competitive selection process will be

used in the retention of any consultants; however, the Finance Director may also directly engage consultants on a case-by-case basis. The following contract advisors may be maintained for the County:

- (1) Municipal advisor
- (2) Bond counsel
- (3) Underwriter
- (4) Fiscal agent

D. CREDIT RATINGS

The County Board shall be responsible for determining whether or not a rating shall be requested on a particular financing and which of the major rating agencies shall be asked to provide such a rating, based on advice received from the County's Municipal Advisor.

VII. DEBT MANAGEMENT PROCESS

A. INVESTMENT OF BOND PROCEEDS

The proceeds of the bond sales will be invested until used for the intended project in order to maximize utilization of public funds. The investments will be made to obtain the highest level of safety and will be invested in accordance with the County's Investment Policy. Proceeds will be invested in a manner that complies with arbitrage and tax provisions.

B. COMPLIANCE PRACTICES

1. ARBITRAGE

The County will fully comply with federal arbitrage and rebate regulations. The County will take steps to minimize any rebate liability through the proactive management in the structuring and oversight of its individual debt issues by Financial Services staff. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issuances.

2. COVENANT COMPLIANCE

The County will comply with all covenants stated in the bond ordinance, contract, or any other documents containing a covenant. The Finance Director or Financial Services staff is responsible for monitoring covenant compliance.

3. CONTINUING DISCLOSURE

The County will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the SEC Rule 15c2-12. The County may elect to contract this service to the County's Financial Advisor and/or Bond Counsel. If service is not contracted, Financial Services staff shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system.

C. REFUNDING BONDS

Periodic reviews of all outstanding debts will be undertaken to determine refunding opportunities. The County may determine to refund bonds in order to

- (1) take advantage of lower interest rates and achieve debt service cost savings, or
- (2) restructure debt to either lengthen the duration of debt or free up reserve funds, or
- (3) refund outstanding indebtedness when existing bond covenants or other financial structures impose on prudent and sound financial management, or
- (4) restructure debt to shorten the duration of debt, by utilization of County fund balance and/or property tax levy reallocations without causing an unacceptable spike in the property tax rate.

Generally, the County will consider a refunding only when the net economic benefit (i.e., when there is an aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds) at 3% and above for a current refunding, and 4% and above for an advance refunding. Refunding issues that produce a net present value savings of less than the targeted amounts may be considered on a case-by-case basis. Refunding issues with negative savings will not be considered unless a compelling public policy objective is served by the refunding.

D. FINANCIAL DISCLOSURE

The County is committed to full and complete primary and secondary financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The County is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.

Official statements accompanying debt issues, Comprehensive Annual Financial Reports (CAFRs), and continuous disclosure statements will meet (at a minimum) the standards articulated by the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). Financial Services staff shall be responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

VIII. DEBT MANAGEMENT POLICY ADOPTION

The County's Debt Management Policy shall be adopted by resolution of the County Board. The policy shall be reviewed on a biennial basis by the Budget Committee and any modifications made thereto must be approved by the County Board.