

MUSKEGON COUNTY BOARD OF COMMISSIONERS

DEBT MANAGEMENT POLICY

POLICY #2011-192

APRIL 26, 2011

Muskegon County recognizes the foundation of any well-managed debt program is a comprehensive debt policy. In order to provide an adequate physical infrastructure, improve services, and channel growth while maintaining the County's quality of life, a balanced approach to capital funding has to be put in place. These guidelines and restrictions set forth parameters for issuing debt and managing outstanding debt. They also improve the quality of decisions and provide guidance to decision makers regarding purposes for which debt may be issued, types and amounts of permissible debt, commitment to long-term financial planning and the method of sale that may be used.

Purpose and Goals

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

1. Attainment of the highest possible credit rating for each debt issue;
2. Improvement of 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. Avoidance of 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. Consideration of all possible financial alternatives to issuing debt to take full advantage of innovative, new, and appropriate financial approaches;
5. Avoidance of any action which would adversely affect the status of any tax-exempt debt; and
6. Enhancement of 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 and having a useful life of less than one year). 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, tax collections 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) as authorized by law.

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.

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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 County 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 enterprise activities financed by the issuance of the debt.

Limited tax obligations and revenue obligations do not require voter approval, although State statutes often 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 Muskegon County, provided that the amount of the debt associated with the pledge is included in the County's total debt calculation.

Limitations on Outstanding Debt

- a.) The County will comply with the State of Michigan Constitution of 1963, Article VII, Section 11, which states "No County shall incur indebtedness which shall increase its total debt beyond 10% of its assessed valuation."
- b.) The County will comply with the provisions of the State of Michigan Public Act 34 of 2001, the Revised Municipal Finance Act, to the extent applicable to the particular issue.
- c.) Maturities of the debt will be set equal to or less than the useful life of the finances or assets.

Five-Year Capital Plan

A Five-Year Capital Plan shall be prepared annually by the Finance & Management Services Director, based on requests submitted by County departments. The departments' requests shall be reviewed by the County Administrator, and his/her recommendation shall be transmitted and discussed as part of the budget process with the County 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.

Debt Issuance Process and Maintenance

- a.) The County will employ an independent financial advisory firm and bond counsel firm on the basis of qualifications and experience with state of Michigan statutes to assist in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors.
- b.) The County shall use a competitive bidding process in the sale of debt unless market conditions or the nature of the issue warrants a negotiated sale or private placement.
- c.) The County will comply with all disclosure requirements of the Securities Exchange Commission as well as report any material events on a periodic basis.
- d.) The County will comply with State of Michigan Public Act 470 of 2002, the Agency Reporting Act.

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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.

Muskegon County has established specific procedures that govern the issuance of debt, regardless of which agency initiates the process, which include but are not limited to the following:

- a) Total County debt shall not exceed 10% of the county's equalized property value.
- b) Bonds will be paid off within a period not to exceed the useful life of the project.
- c) The Board of Commissioners shall promote projects which meet comprehensive plans and goals.
- d) The Board of Commissioners shall review the feasibility of a local unit of government's request based on plans and goals and determine if the county's full faith and credit shall be approved to support County bonds and notes.
- e) The County Administrator, or his/her designee, shall be responsible for the administration and implementation of county policies and procedures and shall work closely with those Boards, Authorities or Officials that have county responsibility in determining feasibility and in implementing such projects.
- f) The County shall hire a financial advisor and bond counsel and said consultant(s) may assist the county in reviewing a government's bond requests. The services of such advisor(s) shall only be used after it is determined that county staff cannot provide the information.

A local unit shall demonstrate its ability to retire County bonds as its schedule defines. If a feasibility study has been completed on a pay back schedule it should be included. The alternative methods of pay back include:

- a) If by revenues, what kind?
- b) If by taxes, would it be through extra taxes or within the existing tax levy?
- c) If by general appropriations, are there guarantees that the appropriations will continue to be collected?
- d) By special assessments
- e) By connection charges or other extended annual charge
- f) By any combination of the above
- g) Any other statutorily collected and distributed revenues

If growth in tax revenues as user fees is the approach to retiring bonds and notes, the local unit shall identify the projected rate of growth and how that rate was determined.

A local unit shall identify any reserve funds that will exist to assist the local government retiring the bonds or notes if the primary source of repayment is depleted.

In addition, to all other statutory requirements, any County agency issuing bonds or notes shall notify the Finance Department Head of pending issues, roles, funds, and bank accounts established and other relevant information to issuance so that the Finance Department may establish proper records and monitor the total County debt.

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 Administrator.

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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.

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 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 Muskegon 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.

Original Issue Discount or Premium

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 determination as to the maximum discounts or premiums shall be set forth in the Ordinance or Resolution authorizing the bonds through consultation with the County's Financial Advisor, subject to applicable law.

Call Provisions

The County seeks to minimize 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 shall evaluate optional redemption provisions for each issue to assure that the County does not pay unacceptably higher interest rates to obtain such advantageous calls.

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.

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Debt Form	Common Characteristics	Compatible Capital Needs
Notes/Installment Agreements	<ul style="list-style-type: none"> • Short-term (<5 yrs.) • Small amount <\$1,000,000 to \$1,500,000 • Low initial transaction costs • Few restrictions 	<ul style="list-style-type: none"> • Small projects • Short-term needs -- cash flow, financing, construction financing, bond anticipation financing
Bonds	<ul style="list-style-type: none"> • Long-term (>10 yrs.) • Larger amounts >\$1,000,000 • High transaction costs • Significant restrictions • Ongoing financial/reporting requirements • Publicly marketed 	<ul style="list-style-type: none"> • Large projects or combinations of projects • Projects with longer lives
Variable Rate	<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • Financing of projects during construction period • Where project costs or customer revenues are interest rate sensitive
Fixed Rate	<ul style="list-style-type: none"> • Interest cost stability; minimizes interest rate risk • Costly to refinance • Facilitates rate projection and stability • Reduces need for reserves to mitigate interest rate changes 	<ul style="list-style-type: none"> • Completed projects included in rate base

Refunding Policy

The County may consider refunding outstanding debt when financially advantageous, legally permissible and prudent. As a general rule, the refunding should generate a minimum of a 3% net 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 net present-value savings shall not apply.

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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.

CERTIFICATION:

Motion by I. John Snider, second by Scott Plummer, to adopt the foregoing policy at the regular meeting of the Muskegon County Board of Commissioners held April 26, 2011 at 3:30 PM.

Roll Call Vote:

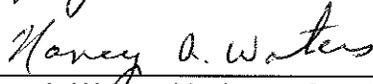
Ayes: Benjamin Cross, Marvin Engle, Alan Jager, Anthony Longmire,
Chairman Kenneth Mahoney, Scott Plummer, Bob Scolnik, Vice
Chairman I. John Snider, II, Rillastine Wilkins

Nays: None

Excused: Lew Collins, Jim Derezinski

Motion carried.

I, Nancy A. Waters, Clerk of Muskegon County, State of Michigan, do hereby certify that the above is a true and correct copy of a policy adopted by the Muskegon County Board of Commissioners at the April 26, 2011, regular meeting, in testimony whereof, I have hereunto set my hand and affixed the seal of my office this 19th day of July, 2011.



Nancy A. Waters, Muskegon County Clerk