Kenosha County

BOARD OF SUPERVISORS

Policy **RESOLUTION NO.** 1

Subject: Policy Resolution to Approve the Financial County of Kenosha Debt Management Policy	
Original☐ Corrected ☐	2nd Correction ☐ Resubmitted ☐
Date Submitted: July 15, 2014	Date Resubmitted:
Submitted By: Finance/Administration Committee	
Fiscal Note Attached ☐	Legal Note Attached ☐
Prepared By: David M. Geertsen, CPA Director Financial Services	Signature:

WHEREAS, Kenosha County adopted a debt management policy in Resolution 1, on May 5, 2009; and

WHEREAS, this policy was amended and updated with the adoption of Resolution 33 on July 12, 2010; and

WHEREAS, an updated debt policy is hereby submitted for your consideration.

NOW, THEREFORE, BE IT RESOLVED that the Kenosha County Board of Supervisors does hereby adopt the updated County of Kenosha Debt Management Policy which is attached herein and incorporated by reference, and that the effective date of this policy coincide with the date of enactment of this resolution.

Approved by:

FINANCE/ADMINISTRATION COMMITTEE	Aye	No	Abstain	Excused
Terry Rose, Chairman	☒	☐	☐	☐
Ronald Frederick	☒	☐	☐	☐
John O'Day	☐	☐	☐	☒
Aaron Kohlmeier	☐	☐	☐	☒
Kimberly Breunig	☒	☐	☐	☐
Jeffrey Gentz	☒	☐	☐	☐
Rick Dodge	☒	☐	☐	☐

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June 9, 2014

TO: Kenosha County Finance Committee

RE: *Debt Policy Amendments*

At the request of County Executive Kreuser and Director of Finance and Administration Geertsen, we are pleased to transmit for your consideration a proposed update to the County's Debt management Policy.

Kenosha County has a Debt Policy which was adopted by the County Board in 2008 to improve the quality of decisions and provide guidelines for the structure of debt issuance and to serve as a commitment to financial planning and management of the County's long-term obligations. The Debt Policy was amended in 2010 make to adjustments for new standards relating to arbitrage monitoring and continuing disclosure.

A good debt policy should be reviewed periodically and revised as necessary to generally ensure that debt is used wisely and to maintain future financial flexibility. The County's Policy is and will, following this amendment, continue to meet the recommendations of the Government Financing Officers Association's Best Practice for Debt Policies (2012).

The County's legal limits, benchmarks and financial guidelines were established when the policy was originally adopted in 2008 and were based upon the County's economic conditions at that time. As part of the periodic review of the Debt Policy by the County Executive and Staff, a recommended modification amendment is deemed appropriate at this time. The recommended amendments as outlined in this letter would broaden the policy to include more than just the securities associated with general obligation debt. The policy now includes reference to Other Post- Employment Benefits (OPEB), Pension and vacation/casual accrual. The recommended amendment reestablishes benchmarks that will maintain future financial flexibility based upon the County's current economic position while still maintaining levels within the strong credit rating ranges.

The following is a recap of the proposed policy amendments:

- Addition of the recognition of the Overall Long Term Obligations of Kenosha County to include OPEB Liability, Pension and Vacation/Casual accrual.

- Allow for the County Board to suspend the legal limits established in this policy in the event that tax base or population projections decline due to unusual economic conditions.

- Change of Legal Limits and Financial Limits (Guidelines) based upon historical practice and changes to Equalized property values between 2008 and 2013
    - Net adjusted direct debt burden defined as Direct Debt less the following:

Wisconsin
Offices also in Illinois and Minnesota
phone 262-785-1520
fax 262-785-1810
toll free 800-717-9742
375 Bishops Way, Suite 225
Brookfield, WI 53005-6202

    - Debt supported by other internal and external entities
    - Increases for debt issued as a result of a refunding resulting in total cost savings to the County
    - Debt issued as an investment in economic development such as the County High Impact Fund
  - Net adjusted Direct Debt Burden from .70% to .80%.
  - Direct Debt utilization of no more than 20% of statutory allowed debt capacity, removing 8% target for 2018
  - Maximum net adjusted direct debt per capital of $550 up from $530
  - Removal of reference to targets
  - Net Adjusted guideline of maximum tax rate of $1.50 up from $1.10

- Allow for Policy changes to be made administratively in consultation with the County's Financial Advisor and Bond Counsel when industry requires modifications to continuing disclosure, investment of debt proceeds, arbitrage compliance or other required debt management practices without further action by the County Board.

We look forward to reviewing this with you at your committee meeting scheduled for Thursday June 12, 2014. In the meantime, please feel free to contact Dave Geertsen with any questions.

Very Truly Yours

Michael C. Harrigan, CIPFA
Chairman / Sr. Financial Advisor

Dawn R. Gunderson

Dawn Gunderson, CIPFA, CPFO
Senior Financial Advisor

CC: Jim Kreuser, County Executive
Dave Geertsen, Director of Administration & Finance
Al Swartz, Assistant Finance Director

COUNTY OF KENOSHA
DEBT MANAGEMENT POLICY
AND LONG TERM OBLIGATIONS

June , 2014

1. **Statement of Policy.** The County recognizes that the foundation of any well-managed program of capital financing is a comprehensive debt management policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and 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 recognizes a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to the debt policy helps the County to maintain a sound debt position and protect its credit quality. Further advantages of a debt policy are:

   a. Enhances the quality of decisions by imposing order and discipline.

   b. Promotes consistency and continuity in decision making.

   c. Rationalizes the decision-making process.

   d. Identifies objectives for staff to implement.

   e. Demonstrates a commitment to long-term financial planning objectives.

   f. Is regarded positively by the rating services in reviewing credit quality.

2. **Recognition of Overall Long Term Obligations.** Kenosha County Considers the following components to be long term obligations that must be managed in concert with one another:
   a. General Obligation Debt
   b. Revenue Debt
   c. OPEB Protective Obligation
   d. OPEB Nonprotective Obligation
   e. Pension Obligations
   f. Vacation/Casual Accrual

   The County seeks to reduce its overall long term obligations to a sustainable level while continuing to meet its fiduciary responsibilities to maintain/replace infrastructure and meet contractual commitments. Exhibit A provides a historic depiction of the overall overall metrics considered within this policy.

   Pension and OPEB obligations are not included in the calculations of the County's debt ratios. The County paid off its share of WRS unfunded pension liability in 2003 with the issuance of Taxable General Obligation Debt which was subsequently refinanced in 2010 and will be retired in 2022. The County continues to make its required contributions to the pension plan.

Standard & Poor's examines the required annual pension payments plus annual OPEB payment as a percentage of total governmental funds expenditures.

The actuarial funded ratio of pension plan that the County participates in is over 95% funded (State of Wisconsin WRS). Standard & Poor's will require further review when the actuarial funded ratio is less than 80%.

Please refer to Exhibit "A" for a detailed overview of historical Long Term Obligations for the County.

3. **Capital Improvement Planning.** The County will develop and maintain a multi-year Capital Improvement Plan (CIP) for consideration and adoption by the County Board. The CIP will be for the coming five fiscal years and will be updated periodically. The CIP will contain the following information:

    a. A description of each project.

    b. A listing of the expected sources of funds for each project.

    c. Estimated timing for each project.

    d. An analysis of the debt financing required and the conformance of the planned financings with policy targets and the economic and fiscal resources of the County to bear such indebtedness over the next five years.

4. **Limitations on Issuance of Debt**

    a. Legal Limits.

        i. General Obligation (G.O.) Debt Limit. The total principal amount outstanding of debt obligations carrying the G.O. pledge of the County may not exceed an amount equal to five percent of the County's equalized value (including any tax increments) as determined by the Wisconsin Department of Revenue. As identified in the "Affordability Targets" section of this policy, the County has further identified the objective of maintaining its net adjusted direct debt burden at a level below 0.80% . The County also will limit debt utilization to no more than 20% of its statutorily allowed debt capacity.

        The net adjusted debt burden, a base debt per capita and tax rate for debt standards set forth in section 4c.i.1.a. and d. are based upon current 2013 and projected Equalized Value and population of the County. In the event that the tax base or population projection decline due to unusual economic conditions, a suspension of the debt policy may be considered by action of the County Board. The metrics used for calculation of the net adjusted direct debt burden should be reviewed at least bi-annually and adjusted based upon updated projections as appropriate.

ii. Purpose and Authority. Debt obligations may be issued by the County under the authority of, and for the purposes defined in the following Chapters or Sections of the Wisconsin Statutes:

1. Chapter 67 – G.O. Bonds and Notes
2. Section 66.0621 – Revenue Obligations

b. Public Policy Limits.

i. Purposes of Debt Issuance. In determining whether a particular project is appropriately financed with debt obligations, the County Board will consider the following public policy objectives:

1. It is the intent of the County to cash fund projects, in whole or in part, as an alternative to debt financing when practical. It is recognized, however, that most major projects will contain some element of debt financing. This also serves to promote taxpayer equity by amortizing the costs of improvements over their useful lives, providing the County the ability to charge those benefiting from the improvements over time.

2. The County may issue debt obligations to purchase capital assets and to fund infrastructure improvements when current revenues or fund balance/retained earnings are unavailable or reserved for other purposes.

3. The County may also issue debt obligations to provide funds for the implementation of economic development projects. These types of projects will normally be undertaken in conjunction with KABA or another County Municipality.

4. The County will not issue long-term debt obligations to provide funds for operating purposes. Issuance of short-term debt obligations to finance operating expenses will only be considered in the event of a financial emergency.

ii. Use of Derivatives. Derivatives are financial contracts, or financial instruments, whose values are derived from the value of something else (known as the underlying instrument). The County will, as a general practice, not enter into contracts and financing agreements involving interest rate swaps, floating/fixed rate auction or reset securities, or other forms of debt bearing synthetically determined interest rates. The only type of derivative that will be considered for use by the County would be a State and Local Government Series (SLGS) Securities investment offered by the US Treasury or a Guaranteed Investment Contract (GIC) when used in conjunction with an advance refunding of the County's debt. The interest rate earned on time deposit SLGS securities is one basis point below the current estimated Treasury borrowing rate for a security of comparable maturity. Generally the County will always use SLGS for advance refunding escrow accounts but in the event that SLGS are not available from the US Treasury, the County would consider the use of a GIC but only after competitive proposals are taken from at least 3 vendors for same.

c. Financial Limit Guidelines.

i. G.O. Debt.

1. Affordability & Debt Profile Targets. To provide for a capital financing program that is sustainable based on the financial resources of the County, and to further maintain a credit profile that will allow the County to maintain its current rating on outstanding debt issues, the following affordability and debt profile targets are established as guidelines.

a. Net Adjusted Direct Debt Burden. The total principal amount of G.O. debt outstanding net of debt (a) supported by other internal and external entities, (b) adjusted for increases due to refunding resulting in total cost savings and (c) debt issued as an investment in economic development such as the County High Impact Fund, expressed as a percentage of the County's total equalized value, and as a total per capita. The County has established maximums of 0.80%, for net adjusted direct debt burden (as a percent of equalized value). Based upon current and projected population, $550 is the County's target for the Maximum, for net adjusted direct debt burden per capita.

b. Payout Over Ten Years. The percentage of outstanding G.O. debt principal that will be retired within ten years. The County's target is repayment of no less than 70% of all outstanding principal within ten years.

c. Percentage of Expenditures for Debt Service. The County's annual gross G.O. debt service payment expressed as a percentage of the sum of all operating and debt service fund expenditures. The County's targeted "not to exceed" maximum is 15%.

d. Tax Rate for Debt Service. The County's annual G.O. debt service payment, net of any debt service paid by other internal and external entities and revenues that may be used to reduce the levy amount needed, divided by the County's equalized value reduced by any tax increments. The County's guideline for a maximum, "not to exceed" tax rate for debt shall be $1.50/$1,000 of Equalized value.

ii. Revenue Debt. The County may finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, the County will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers. The amount of revenue-secured debt obligations will be limited by the feasibility of the overall financing plan, as well as any existing covenants related to debt obligations with a claim to the same revenue source.

iii. Short-Term Debt.

1. Bond or Note Anticipation Note. Where their use is judged to be prudent and advantageous, the County may choose to issue Bond or Note Anticipation Notes as a source of interim construction financing. Prior to their issuance, takeout financing must be planned for and determined to be feasible.

2. Tax and Revenue Anticipation Notes. In the event of an extreme financial emergency, the County may issue Tax or Revenue Anticipation Notes to fund working cash flow needs. Before issuing such notes, cash flow projections will be prepared to ensure that funds will be available for timely repayment of the Notes.

iv. Conduit Debt. The County may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the County Board's overall service and policy objectives. All conduit financings must be non-recourse to the County.

v. Debt financing for Non-Profit Entities. The county may provide funding for 501 (c) (3) organizations on a limited basis provided that the undertaking is vetted by bond counsel for its compliance with IRS regulations. It is anticipated that the County Staff will do the diligence necessary to verify the non-profit status of the organization and that the funding will comply with all other aspects of this policy.

Debt Structuring Practices.

d. Maximum Term. The term of any debt obligations issued by the County should not exceed the economic life of the improvements that they finance. If financially feasible, the term should be shorter than the projected economic life. Ongoing budgeted capital expenditures shall be amortized over a period not longer than 10 years. For major building projects, amortization may be up to 20 years in length.

e. Interest Rates. Debt obligations issued by the County will carry a fixed interest rate. If, in consultation with its Financial Advisor, the County determines that a variable interest rate offers specific advantages, it may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities.

f. Debt Service Structure. Whenever possible, debt will be structured so that annual principal and interest payments are approximately level. If necessary, debt structures may be "wrapped" to accommodate existing debt service payments to allow for the County's affordability targets to be maintained. Notwithstanding the foregoing, the County will attempt to structure debt so that interest payments are due not later than the first fiscal year following issuance, and principal payments not later than the third fiscal year following issuance. The County will generally avoid "balloon" repayment schedules that consist of low annual principal payments and one large payment due at the end of the term.

g. Capitalized Interest. The County may elect to capitalize interest for any debt obligation, but depending on timing of issuance, it should first consider budgeting for the estimated interest expense, or appropriating the funds from other available sources.

h. Call Provisions. Call provisions for debt obligations will be made as short as possible consistent with achieving the best interest rates possible for the County. Obligations shall be callable at par.

5. Debt Issuance Practices

a. Competitive Sale. The County will issue its debt obligations through competitive sale unless it is determined by the County and its Financial Advisor that a competitive sale would not be expected to produce the best results for the County. If the County determines that bids received through a competitive sale are unsatisfactory, or in the event no bids are received, the County may enter into negotiation for sale of the obligations

b. Negotiated Sale. The County may consider negotiated sales of debt obligations in extraordinary circumstances when the complexity of the issue requires specialized expertise, when the negotiated sale would result in substantial savings in time or money, or when market conditions or County credit are unusually volatile or uncertain. If the County elects to negotiate the sale of a debt obligation, it will utilize a Financial Advisor with no interests in the underwriting of the transaction to represent it.

c. State and Federal Revolving Loan Funds and Pools. As an alternative to open market financing, the County may elect to seek a loan through State or Federal programs when this will provide advantages to the County with respect to costs, interest rates, or terms. Examples of available loan programs include State Trust Fund Loans.

d. Refunding.

   i. Advance Refunding. Federal tax law allows debt obligations to be refinanced one time prior to the obligation's earliest pre-payment date (call date). The County may issue such advance refunding bonds when legally permissible, and when net present value savings, expressed as a percentage of the par amount of the refunding bonds, equal or exceed a target of two percent.

   ii. Current Refunding. Current refunding bonds may be issued to refinance existing debt obligations no earlier than sixty days prior to the obligation's earliest pre-payment date (call date). There is presently no limit to the number of times that an issue may be current refunded. The County may issue current refunding bonds when legally permissible, and whenever doing so is expected to result in a net total cost benefit to the County.

   iii. Restructuring of Debt. Independent of potential savings, the County may choose to refund debt obligations when necessary to provide for an alternative debt structure. Refunding may also be undertaken as a means to replace and modernize bond covenants essential to management and operations.

e. Credit Rating.

   i. Rating Service Relationships. The County Finance Director is responsible for maintaining relationships with any rating service that currently assign ratings to the County's debt obligations. This effort shall include providing periodic updates on the County's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance. The County's Financial Advisor will assist in this effort.

   ii. Use of Rating Services. The County Finance Director, in consultation with the County's Financial Advisor, is responsible for determining whether or not a rating shall be requested on a particular financing, and which rating service(s) will be asked to provide a rating.

   iii. Minimum Long-Term Rating Requirements. The County's minimum rating requirement for its long-term G.O. debt is "A" or higher. If a debt obligation cannot meet this requirement based on its underlying credit strength, then credit enhancement may be sought to achieve the minimum rating. If credit enhancement is unavailable or is determined by the County Finance Director and the County's Financial Advisor to be uneconomical, the obligations may be issued without a rating.

6. **Debt Management Practices.** Requirements for Continuing Disclosure and Arbitrage Compliance change periodically due to evolutions within the Municipal Bond Market. Future updates to these sections of the County's Policy based upon recommendations from the County's Financial Advisor and/or Bond Attorney to keep current with the industry requirements can be incorporated by the Administration without further action by the County Board.

   a. Continuing Disclosure. The County is committed to continuing disclosure of financial and credit information relevant to its outstanding debt obligations and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. The County Clerk is responsible for providing ongoing disclosure information and may be assisted by the County's Financial Advisor in the execution of this task.

   b. Investment of Debt Proceeds. The County will temporarily invest the proceeds of debt obligations in accordance with its investment policy. Interest earnings realized within construction accounts will be applied first towards payment of project costs, then for payment of debt service associated with the obligations.

   c. Arbitrage Compliance. The County Finance Director and County Treasurer will establish and maintain a system of record keeping and reporting to meet arbitrage rebate yield restriction and compliance requirements of the federal tax code. This effort will include tracking investment earnings on proceeds of debt obligations, calculating yield restriction and rebate payments in accordance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status or subsidies in connection with the County's outstanding debt obligations. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with. The County's Financial Advisor may assist in the execution of these tasks.

      The County Finance Director and County Treasurer shall assemble all relevant documentation, records and activities required to ensure post-issuance debt compliance. At a minimum, the Post-Issuance Debt Compliance Procedures for debt obligations subject to federal arbitrage regulations will address the following:

      1. General Post-Issuance Compliance;
      2. Proper and timely use of bond proceeds and bond-financed property;
      3. Arbitrage yield restrictions and rebate;
      4. Timely filings and other general requirements;
      5. Additional undertakings or activities that support points 1 through 4 above;
      6. Other requirements that become necessary in the future.

The County Finance Director and County Treasurer shall apply the Post-Issuance Debt Compliance Procedures to each debt obligation subject to the federal arbitrage regulations and maintain a record of the results.

Kenosha County may in the future issue debt obligations subject to the federal arbitrage regulations for beneficiaries such as 501(c) (3) non-profit organizations or Industrial Revenue Bonds. This policy applies to all debt obligations subject to the federal arbitrage regulations. In order to ensure future compliance with this Policy, Kenosha County shall consider issuing debt obligations subject to the federal arbitrage regulations for beneficiaries such as 501(c) (3) non-profit organizations and other qualified private activity uses only when the organization has retained a Trustee for the term of the debt obligation and this Policy has been incorporated into the Trust Indenture.

7. **Review.** It is the intent of the County Executive that this Debt Management Policy be reviewed periodically and revised as necessary.

KENOSHA COUNTY
FINANCIAL MANAGEMENT POLICY STATEMENT

Fund Balance Reserve Policy

Purpose: To maintain the fund balance of the General Fund at levels sufficient to protect the County's creditworthiness as well as its financial positions from unforeseeable emergencies. To ensure sufficient liquidity to provide for County obligations as they become due. To maintain the proper balance between maintaining a prudent level of reserves that are neither too low nor too high. Reserves shall be considered to be too low if the level of reserve would negatively impact upon County creditworthiness and liquidity, or impair the County's ability to fund emergencies or contingencies. Reserves are too high if the level of reserve exceeds funds needed to maintain its creditworthiness and liquidity, or if reserves exceed the amount needed to properly fund emergencies and contingencies. For purposes of this policy, General Fund Unassigned Fund Balance in the General Fund is referred to as "reserves".

General Fund Unassigned Fund Balance

It shall be the County policy to maintain reserves at a minimum of seventeen percent of audited General Fund operating expenditures. With the objective of obtaining a AAA bond rating, the County shall have a target unassigned fund balance of 25% (not mandatory).

Planned Use of Reserves as part of the Adopted Budget

As part of the annual adoption of the budget, reserves in excess of seventeen percent of general fund operating expenditures per the audit may be used only for the following purposes: annually reoccurring costs provided that the aggregate total of such costs used to balance an annual budget does not exceed $300,000, expenditures that will not reoccur annually, temporary increases in personnel expenditures incurred for the purpose of succession planning, not to exceed $250,000 cumulatively (this provision to sunset at year-end 2018 to be permissible for the 2018 budget), High Impact Fund (KABA) expenditures not to exceed $250,000 per annum, a cushion for increases in tax delinquencies that would occur as a result of an economic downturn, or capital purchases. Any such use of reserves shall be as approved by the County Board. As a general practice, after confirmation of available funds per the audit, reserves exceeding seventeen percent of general fund operating expenditures may be applied in the budget year two years following the audit year, as determined by the County Board. For example, audited reserves per the 2014 audit may be used as part of the 2016 budget. Any known events that are anticipated to materially reduce reserves shall be considered prior to such use of reserves.

Extenuating Circumstances: In the event of extenuating circumstances, reserves may be used to balance a budget if so approved by the County Board. Extenuating circumstances shall be defined as an unplanned event that requires a significantly higher amount of tax levy than what was known during budget development or at the time the County Board is considering the budget.

Examples of extenuating circumstances are: The health insurance budget issue from 2001, major reductions in State aid that directly offset levy such as shared revenue, and significant reduction of federal inmates by the Federal Government. In the event that reserves are used because of extenuating circumstances, a plan shall be developed to eliminate the use of reserves as soon as practicable.

Emergencies

Use of the General Fund in the case of emergencies shall be allowed. In the event of a declared emergency, there shall be no restriction placed upon the use of the General Fund. Emergency shall be defined in accord with GP-1.05-1 (10) of the Kenosha County Policy and Rules manual.

Use of Fund Balance to Modify the Adopted Budget In Lieu of a Contingency Fund

This policy does hereby define a contingency to be a budgetary event (such as an emergency) that is of possible but uncertain occurrence. It is a common practice for Governments to establish contingencies in the adopted budget to fund modifications of the adopted budget. However, it has been the practice of Kenosha County to not fund a contingency as an expenditure in the budget. It has been the practice of the County to use reserves when necessary to fund modifications of the current year budget in lieu of establishing a contingency. This policy does hereby authorize the use of reserves for modifications of the adopted budget if so approved by the County Board. In accord with State Law, such a budget modification shall require a two-thirds majority approval of the County Board. The Financial Services Division shall review budget modifications done under the authority granted herein to verify that transfers done are necessary as a result of events that were beyond the control of the County.

General Fund Unassigned Fund Balance Replenishment

In the event that unassigned fund balance declines below 17% as defined herein, the County shall implement steps to be within policy 3 years following the first positive quarter of United States Gross Domestic Product (GDP) the year following the audited year in which the County was not within policy.