525 North Main Street 3rd Floor
Wichita, KS 67203

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CONSIDER RESOLUTION ADOPTING REVISED DEBT POLICY.
Presented by: Chris Chronis, Chief Financial Officer.

RECOMMENDED ACTION: Adopt the Resolution and authorize the Chairman to sign or deny the Resolution, as deemed appropriate.

The current debt policy was adopted in 2009, and replaced a policy originally adopted in 1991 and revised in 2003. The policy explicitly places responsibility and accountability for debt financing with the CFO. It establishes a Debt Management Committee that is to periodically review debt and capital improvement plans and test adherence to the policy guidelines.

The policy prohibits the use of debt to finance operations or maintenance activities, and sets criteria under which debt is to be used for capital improvements or unusual equipment purchases.

It defines county debt capacity and limits the issuance of debt in the following ways:

1. Per capita debt will not exceed $500
2. Per capita direct, overlapping, and underlying debt will not exceed $3,000
3. Direct debt as a percentage of estimated full market value will not exceed 1.5%
4. Direct, overlapping, and underlying debt as a percentage of estimated full market value will not exceed 6%
5. Annual debt service will not exceed 20% (currently) or 9% until January 1, 2019 and 8% thereafter 8% (proposed) of budgeted expenditures of the General Fund and Debt Service Fund

The policy provides that additional County debt cannot be incurred if the annual debt service ratio is exceeded, or if more than two of the first four ratios are exceeded simultaneously.

It creates an expectation of rapid repayment of debt: 30% within 5 years and 60% within 10 years.

The policy contains guidelines addressing the following considerations:

1. Structure and term of debt issues
    a. General obligation bonds
    b. Public Building Commission revenue bonds
    c. Revenue bonds
    d. Special assessment bonds
    e. Assumption of additional debts
    f. Asset life
    g. Length of debts
    h. Call provisions
    i. Variable rate debts
    j. Derivatives

2. Debt administration and financing
    a. Solicitation of financing proposals
    b. Use of Bond & Interest Fund
    c. Bond counsel
    d. Underwriter's counsel
    e. Financial advisor
    f. Use of temporary notes
    g. Use of credit enhancements
    h. Lease/purchase agreements
    i. Competitive sale of debts
    j. Negotiated sale of debts
    k. Refunding of debts
    l. Sponsorship of conduit financings
    m. Arbitrage liability management
    n. Credit ratings

The sole change to the current policy is in the measurement of debt capacity. The existing policy sets the maximum allowed annual debt service as a percent of budgeted expenditures at 20%, and prohibits the issuance of debt if any three of the five ratios are exceeded. The proposed policy changes the maximum allowed debt service to 9% of budgeted expenditures, dropping to 8% in 2019, and adds a prohibition against debt issuance if that single ratio is exceeded.

Currently, the County's annual debt service equals 9.67% of budgeted expenditures, less than half of the current allowed maximum but more than the proposed maximum. Thus, if the proposed policy is adopted the County will be prohibited from issuing new debt until debt service on existing debt falls below the 9% threshold. Based on existing debt repayment obligations, the County will fall below the 9% debt service level in 2017. The proposed policy would provide the county with an estimated debt margin (that is, an estimated amount of additional debt that could be issued without violating the policy) of $7.6-million in 2017, $37.7-million in 2018 if no new debt is issued in 2017, or $63.6-million in 2019 if no new debt is issued in 2017 or 2018.

The benchmarks used to define county debt capacity are intentionally conservative - that is, lower than levels commonly considered by credit analysts and potential investors to be acceptable. As a set of measures, they consider not only the impact of county-issued debt on the taxpayers and county budget, but also the impact of *all* tax-supported municipal debt on county taxpayers.

Since the current debt policy was adopted, the County has been upgraded to a AAA credit rating by one of the three nationally-recognized credit rating agencies, Moody's Investor Services. Sedgwick County was upgraded to AAA by Fitch Ratings and by Standard and Poor's prior to adoption of the current debt policy. Each of the credit rating agencies has cited the County's conservative debt policy and financial management practices in its explanation of the County's rating.

Alternatives:
The Commission could decline to amend the current debt policy. In this case, the County would be able to finance planned improvements to county roads and bridges, the jail, the regional forensic science center, and emergency medical service facilities with bond proceeds without violating its own established policy. In lieu of financing the projects with bond proceeds, the Commission could elect to fund them with cash generated by reducing expenditures for existing county service or by a

property tax increase, or it could elect to defer the projects, or it could elect to fund some but not all of them with available fund balances (but all of the projects could not be funded this way without violating the County's fund balance policy).

Financial Considerations:
This action will have no direct effect on the County's financial condition. The County's debt service obligations are based on market conditions, which in turn are based in part on the credit rating assigned to the County's debt by analysts. The County's present high ratings are not expected to be changed as a direct result of this policy change.

If, following adoption of this revised policy, the County issued debt in violation of the policy that action would be viewed as a credit negative. Similarly, if, because of the debt capacity limit established by this revised policy, the County sharply reduced county fund balances to pay for projects and subsequently returned to the bond market in the future, the reduction of fund balance could be viewed as a credit negative. Credit negatives could lead to a downgrade of the County's bond rating, which in turn would result in higher interest costs on any future bond issues.

Legal Considerations: N/A

Policy Considerations: N/A

Outside Attendees: N/A

Multimedia Presentation: N/A