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Legislation Text

File #: 17-292, **Version:** 1

CONSIDER RESOLUTION ADOPTING REVISED DEBT POLICY.
Presented by: Lindsay Poe Rousseau, 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 2016, and replaced a policy originally adopted in 1991 and revised in 2003 and 2009. 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.

The current policy defines county debt capacity and limits the issuance of debt through the following benchmarks/ratios:

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%

Additionally, the policy states that the County will not engage in debt financing prior to January 1, 2019 if the proposed obligation, when combined with all existing debts, will result in annual debt service obligations exceeding 9% of budgeted expenditures, or in debt financing after January 1, 2019, if the proposed obligation, when combined with all existing debts, will result in annual debt service obligations exceeding 8% of budgeted expenditures.

The current 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.

The proposed action today would amend the limit on debt service as a percent of budget to 10%. Currently, the County's annual debt service equals 8.22% of budgeted expenditures, less than the 9% threshold. Based on existing debt repayment obligations, the County will fall below the 8% debt service level in 2018. 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 $22.6 million in 2017, $34.0-million in 2018 if no new debt is issued in 2017, or $12.7 million in 2019 if no new debt is issued in 2017 or 2018.

Further, the proposed resolution would amend the definition of "debt service" as included in the final ratio. Language in policy provision IV(e) would be amended to read, "Annual debt service is defined as the total anticipated debt service in the year in question, including current principal and interest payments due on direct debt, payments made to refinance or redeem existing debt, and the estimated maximum annual principal and interest payment on proposed long term obligations."

Alternatives: The Commission could decline to amend the current debt policy. The Commission could elect to continue to fund capital improvement projects with cash generated by reducing expenditures for existing County services 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 within 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. 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