LUCAS COUNTY, OHIO BOARD OF COMMISSIONERS	NUMBER: 36	PAGE 1
TITLE: DEBT MANAGEMENT POLICY	PERSONNEL ADMINISTRATIVE X	RESOLUTION NO: 09-595
EFFECTIVE DATE: MAY 19, 2009	TYPE: POLICY X PROCEDURE	SUPERSEDES: POLICY # PROCEDURE #

I. PURPOSE

To maintain a high quality debt management program, Lucas County ("the Issuer") has adopted the guidelines and policies set forth in this document titled "Debt Management Policy." (Policy) This policy establishes and codifies the objectives and practices for debt management for the Issuer.

The Policy will guide current and future decisions related to debt issued by Lucas County. Lucas County has the right to waive or modify any of the policies included herein if, in Lucas County's judgment, doing so advances Lucas County's objectives and is deemed fiscally prudent by Lucas County and its management team.

This policy has incorporated a number of sources including the existing practices and procedures, national credit rating agency guidelines, national and industry best practices employed by high performing public entities and the experience of Lucas County's financial advisor in the development and implementation of financial and debt management policies for its clients. The Policy has also been guided by the policies and practices reflected in the Issuer's financial planning, management, budget, and disclosure documents.

II. POLICY STATEMENT

In managing its debt, it is the Issuer's policy to:

- develop a strong financial foundation for this Issuer
- achieve the lowest cost of capital
- ensure high credit quality
- assure access to the capital credit markets
- preserve financial flexibility

By implementing this policy, the Issuer expects to realize financial benefits such as debt service savings and efficiencies. If codes or regulations create a variance to stated policy, that portion of the policy shall conform to codes or regulations.

III. GOALS & OBJECTIVES

Debt policies and procedures are tools that strive to ensure the Issuer's long-term planning objectives are attainable from expected financial resources. In addition, the Policy helps to insure that financings undertaken by the Issuer satisfy certain clear objective standards which allow the Issuer to protect its financial resources in order to meet its long-term capital needs. The Issuer relies on multiple partners in achieving its objectives, including its retail and wholesale customers, external consultants and legal advisors, employees, and other governments. The adoption of clear and comprehensive financial policies enhances the internal financial management of the Issuer.
The Policy establishes parameters for issuing debt and managing a debt portfolio, which considers the Issuer's specific capital improvement needs, its ability to repay financial obligations, and the existing legal, economic, financial and debt market conditions. Specifically, the policies outlined in this document are intended to assist the Issuer in the following:

- to guide the Issuer and its managers in policy and debt issuance decisions
- to maintain appropriate capital assets for present and future needs
- to promote sound financial management
- to enhance the Issuer's credit rating
- to promote cooperation and coordination with the residential and the private sector in the financing and delivery of services
- to evaluate debt issuance options
- to plan for the systematic replacement of the existing infrastructure and public utility related assets

IV. CREDIT QUALITY AND CREDIT ENHANCEMENT

The Issuer's debt management activities will be conducted to receive the highest credit ratings possible, consistent with the Issuer's financing objectives. The Issuer shall strive to maintain ratings from one or more of the major rating agencies.

The Issuer will consider the use of rating or credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. The Issuer will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements.

Bond Insurance - The Issuer may purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

The Issuer will solicit quotes for bond insurance from interested providers, or in the case of a competitive sale may submit an application for pre-qualification on insurance. In a negotiated sale, the Issuer may select a provider whose bid is most cost effective and whose terms and conditions governing the guarantee are satisfactory to the Issuer. The winning bidder in a competitive sale may determine whether or not to purchase bond insurance for the issue.

Debt Service Reserves - When required, a reserve fund equal to the "Reserve Requirement" as defined in the indenture shall be funded from cash on hand or the proceeds of each series of bonds, subject to federal tax regulations and in accordance with the requirements of credit enhancement providers and/or rating agencies. The Issuer may purchase reserve equivalents (i.e., the use of a reserve fund surety) when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash funding of reserves on a net present value basis.

Letters of Credit - The Issuer may enter into a letter-of-credit (LOC) agreement when such an agreement is deemed prudent and advantageous. The Issuer will prepare and distribute a request for qualifications to qualified banks that includes terms and conditions that are acceptable to the Issuer. LOC providers should have long-term ratings equivalent to Aa; and short-term ratings equivalent to MIG-1 or SP-1+.

V. DEBT ISSUANCE GUIDELINES

The Issuer will strive to facilitate long-term access to capital while insuring that financial leveraging decisions do not negatively impact the Issuer's annual operations.

The Issuer will not allow its projected annual debt service to exceed 50% operating results.

The Issuer is committed to maintaining a strong fiscal environment, with a goal of maintaining a minimum of 12% of the general fund available revenue as an unappropriated cash reserve. This reserve is designated as a budget stabilization tool to assist in alleviating financial stress in the event of an economic downturn and promote a favorable bond rating for the county. Additionally, it is the policy of the Board of County Commissioners to allocate 8% of the general fund for capital improvement dollars annually and to maintain 8% of the general fund for a capital improvement reserve specifically designated for economic downturns.

The Issuer shall structure its borrowing plans to provide a consistent level of project funding on an annual basis.

Purpose for which debt may be issued:

1. Debt may be issued to provide funds for assets or improvements that have a useful life of at least five years.

VI. BOND STRUCTURE

The Issuer shall establish all terms and conditions relating to the issuance of bonds, and will invest all bond proceeds pursuant to the terms of the Issuer's Investment Policy. Unless otherwise authorized by the Issuer, the following shall serve as bond requirements:

1. **Term** - All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements, but in no event will the term exceed forty (40) years.

2. **Capitalized Interest** - From time to time certain financings may require the use of capitalized interest from the issuance date until the Issuer has beneficial use and/or occupancy of the financed project. Interest shall not be funded (capitalized) beyond three years or a shorter period if further restricted by statute or federal tax code. Interest earnings may, at the Issuer's discretion, be applied to extend the term of capitalized interest but in no event beyond the term statutorily authorized.

3. **Debt Service Structure** - Debt issuance shall be planned to achieve relatively level debt service or level principal while still matching debt service to the useful life of facilities. The Issuer shall avoid the use of bullet or balloon maturities except in those instances where these maturities serve to make existing overall debt service level.

4. **Call Provisions** - In general, the Issuer's securities will include a call feature, which is no later than 10 years from the date of delivery of the bonds. The Issuer will avoid the sale of non-callable bonds absent careful evaluation by the Issuer with respect to the value of the call option.

5. **Original Issue Discount** - An original issue discount will be permitted if the Issuer determines that such discount results in a lower true interest cost on the bonds and that the use of an original issue discount will not adversely affect the project funding.

6. **Derivative Structures** - The Issuer will consider the use of derivatives as a hedge against future interest rate risk when appropriate. The Issuer will avoid the use of derivative structures for speculative purposes. The Issuer will consider the use of derivative structures when it is able to gain a comparative borrowing advantage of 20 or more basis points, and is able to reasonably quantify and understand potential risks. The Issuer will follow the GFOA Guidance on Derivatives.

7. **Capital Appreciation Bonds (CABs)** - The Issuer will consider CABs when appropriate. CABs are bonds purchased at a deep discount to face value, which pays principal and interest at maturity; also known as Zero-coupon bonds.

VII. TYPES OF DEBT

When the Issuer determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

1. **Long-Term Debt** - The Issuer may issue long-term debt where it is deemed that capital improvements not be financed from current revenues. Long-term borrowing will not be used to finance current operations or normal maintenance. Long-term revenue and general obligation debt will be self-supporting and structured such that financial obligations do not exceed the expected useful life of the project. The Issuer should strive to structure debt such that at least 50% of principal and interest is paid off by half of the maximum maturity.

   The Issuer may issue revenue debt or general obligation debt.

2. **Short-Term Debt** - Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates) subject to the following policies:

   a) **Bond Anticipation Notes (BANs)** may be issued instead of long-term, bonds to reduce the debt service during the construction period of a project or facility. The BANs shall not mature more than 20 years from the date of issuance; principal must be paid down after the fifth year as if the Issuer had a bond issue outstanding.

   b) **Revenue Anticipation Notes (RANs)** may be issued instead of long-term bonds to reduce the debt service during the construction period of a project or facility. The RANs shall not mature more than 20 years from the date of issuance.

   c) **Lines of Credit** shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.

   d) **Other Short-Term Debt**, including commercial paper notes, may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable. The Issuer will determine and utilize the least costly method for short-term borrowing. The Issuer may issue short-term debt when there is a defined repayment source or amortization of principal.

3. **Lease Purchase Debt** - Lease purchase debt, including certificates of participation, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation. In order to reduce the cost of lease borrowing and to improve control over leases, the Issuer may adopt a master lease program.

4. **Tax Increment Financing Debt** - Tax Increment Financing debt (TIF) financing may be issued. These are bonds whose repayment is secured by special assessments on landowners whose property stands to benefit from development or redevelopment. Other TIF criteria shall be developed or considered when the Issuer is asked to pledge its General Obligation backing to a TIF financing.

5. **Variable Rate Debt** - To maintain a predictable debt service burden, the Issuer may give preference to debt that carries a fixed interest rate. The Issuer, however, may consider variable rate debt in the following circumstances:

   a) **High Interest Rates** - Interest rates that are above historic averages.

   b) **Variable Revenue Stream** - The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability.

   c) **Adequate Safeguards Against Risk** - Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate caps and short–term cash investments in the Issuer's Operating Funds. The Issuer will follow the GFOA Guidance on Derivatives.

   d) **Financial Analysis** - An analysis from the Issuer's Financial Advisor has been provided to the county, evaluating and quantifying the risks and returns involved in the variable rate financing and recommending variable rate as the lowest cost option.

   e) **As a Component to Synthetic Fixed Rate Debt** - Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt. Prior to using synthetic fixed rate debt, the Issuer shall certify that the interest rate cost is at least 25 basis points lower than traditional fixed rate debt.

   f) **Temporary Financing during construction**

The percentage of variable rate debt outstanding (excluding debt which has been converted to synthetic fixed rate debt) shall not exceed 20% of the Issuer's total outstanding debt and will consider the amount and investment strategy of the Issuer's operating cash.

VIII. REFINANCING OUTSTANDING DEBT

The Issuer will consider the following issues when analyzing possible refunding opportunities:

Debt Service Savings - The Issuer establishes a minimum present value savings threshold of 3% of the refunded bond principal amount. The present value savings will be net of all costs related to the refinancing. If present value savings is less than 3%, the Issuer may consider the decision to take savings on an upfront or deferred basis, after being explicitly approved by the Issuer.

Restructuring - The Issuer will refund debt when it is in the best financial interest of the Issuer to do so. Such refunding will be limited to restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.

Term of Refunding Issues - The Issuer will refund bonds within the term of the originally issued debt. However, the Issuer may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible, however, never more than 40 years maximum maturity. The Issuer may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

Escrow Structuring - The Issuer shall utilize the least costly securities available in structuring refunding escrows. A certificate will be provided by a third party agent, who is not a broker-dealer stating that the securities were procured through an arms-length, competitive bid process (in the case of open market securities), that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Issuer from its own account.

Arbitrage - The Issuer shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

Verification Agent Report - A nationally recognized firm engaged in the verification of the mathematical computations in the proofs for refinancing outstanding debt will be retained for all refunding issues.

Arbitrage Agent - A firm engaged in assisting issuers or underwriters or financial advisors in properly calculating arbitrage may or may not be used in refunding issues. Qualified Bond Counsels or FA's may perform this service.

IX. METHODS OF ISSUANCE

The Issuer will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

A. **Competitive Sale** - In a competitive sale, the Issuer's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

B. **Negotiated Sale** - The Issuer recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the Issuer shall assess the following circumstances:

   1. A structure that may require a strong pre-marketing effort such as a complex transaction or a "story" bond
   2. Size of the issue, which may limit the number of potential bidders
   3. Market volatility is such that the Issuer would be better served by flexibility in timing a sale in a changing interest rate environment

C. **Private Placement** - From time to time the Issuer may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the Issuer relative to other methods of debt issuance.

X. UNDERWRITER SELECTION

Senior Manager Selection - The Issuer shall have the right to select a senior manager for a proposed negotiated sale. The criteria for that selection shall include but not be limited to the following:

- The firm's ability and experience in managing complex transactions
- Prior knowledge and experience with the Issuer
- The firm's willingness to risk capital and demonstration of such risk
- Quality and experience of personnel assigned to the Issuer's engagement
- Financing plan presented
- A legal and ethical contract that does not contain "Right of First Refusal"
- Underwriting fees

Co-Manager Selection - Co-managers will be selected on the same basis as the senior manager.

Selling Groups - The Issuer may establish selling groups in certain transactions.

Underwriter's Counsel - In any negotiated sale of Issuer debt in which legal counsel is required to represent the underwriter, the lead underwriter will make the appointment with input from the Issuer.

Underwriter's Discount - The underwriter's discount is determined through RFP process against comparable issues in the market. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

Evaluation of Underwriter Performance - The Issuer will evaluate each bond sale after its completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

The Underwriter will prepare a Pricing Memorandum in those cases where the Issuer has not hired a Financial Advisor. [The Pricing Memorandum will compare the Issuer bond issue to the comparable issues in the market during the same time period. The transaction should also be compared against nationally recognized indices such as the MMD and Delphos Scales.]

Following each sale, the Financial Advisor may provide a Pricing Memorandum report to the county on the results of the sale.

Syndicate Policies - For each negotiated transaction, the Director will prepare syndicate policies that will describe the designation policies governing the upcoming sale.

Designation Policies - To encourage the pre-marketing efforts of each member of the underwriting team, orders for the Issuer's bonds will be net designated, unless otherwise expressly stated.

XI. CONSULTANTS

The Issuer shall select its primary consultant(s) through the process used by the Lucas County Board of Commissioners.

Selection of Financing Team Members – The Issuer will utilize a review process to select financial advisors, underwriters, and Bond and Tax Counsel.

Financial Advisor - The Issuer may select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes. Selection of the Issuer's financial advisor(s) shall be based on, but not limited to, the following criteria:

1. Experience in providing consulting services to complex issuers
2. Knowledge and experience in structuring and analyzing complex issues
3. Experience and reputation of assigned personnel
4. Fees and expenses

Financial Advisory Services - Financial advisory services provided to the Issuer shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance
2. Monitoring marketing opportunities
3. Evaluation of proposals submitted to the Issuer by investment banking firms
4. Structuring and pricing
5. Preparation of request for proposals for other financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.)
6. Advice, assistance and preparation for presentations with rating agencies, insurance companies and major investors

Conflicts of Interest - The Issuer also expects that its consultants and advisors will provide the Issuer with objective advice and analysis, maintain the confidentiality of Issuer financial plans, and be free from any conflicts of interest.

Bond Counsel - Issuer debt will include a written opinion by legal counsel affirming that the Issuer is authorized to issue the proposed debt, that the Issuer has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The counsel will be selected by the Issuer.

Disclosure by Financing Team Members - All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the Issuer's best interests or which could reasonably be perceived as a conflict of interest.

Underwriter's Counsel - The Issuer shall have the right to review the credentials of counsel selected by underwriters in a negotiated sale. They may also make suggestions on underwriter's counsel.

APPROVED BY: [signature] **DATE:** 5/28/09