Sedgwick County... working for you	**Debt Management/Financing** *Adopted on: 9/25/1991*
Last Revision Date: 04/03/2024	**Policy No. 2.302**
Last Enabling Resolution: **59-2024/906-2024**	**Developer/Reviewer:** **Chief Financial Officer**

1. **Purpose**

   It is the objective of the policy that (1) Sedgwick County obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing be as efficient as possible, (3) the most favorable interest rate and other related costs be obtained, and (4) when appropriate, future financial flexibility be maintained.

   Debt financing, which includes general obligation bonds, special assessment bonds, revenue bonds, temporary notes, lease/purchase agreements, and other County obligations permitted to be issued or incurred under Kansas law, shall only be used to purchase capital assets that cannot be acquired from either available current revenues or fund balances. The useful life of the asset or project shall exceed the payout schedule of any debt the County assumes.

   To enhance creditworthiness and prudent financial management, the County is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to capital planning will be demonstrated through adoption and periodic adjustment of the County's Comprehensive Plan and the annual adoption of a Capital Improvement Plan (CIP) identifying the benefits, costs and method of funding each capital improvement planned for the succeeding five years.

2. **Scope**

   The policy applies to any and all debt instruments issued by or on behalf of Sedgwick County Government or its component units. Within the policy, reference to "County" includes Sedgwick County Government and its component units.

3. **Use of Debt Financing**

   Debt financing will not be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The County will use debt financing only for one-time capital improvement projects and unusual equipment purchases, subject to each of the following steps having been met:

   A. Step 1:
      1. The project is included in the County's five-year capital improvement program; or
      2. The project involves acquisition of equipment that cannot be purchased outright without causing an unacceptable spike in the property tax rate; or

    3. The project is the result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the County.

B. Step 2:
    1. The project's useful life, or the projected service life of the equipment, will be equal to or exceed the term of the financing; and
    2. There are designated revenues sufficient to service a debt, whether from project revenues, other specified and reserved resources, or infrastructure cost sharing revenues.

C. The following criteria will be used to evaluate pay-as-you-go versus debt financing in funding capital improvements:
    1. Factors which favor pay-as-you-go financing include circumstances where:
        a. The project can be adequately funded from available current revenues and unrestricted fund balance pursuant to statutory and other County policy limitations.
        b. The project can be completed in an acceptable timeframe given the available revenues.
        c. Additional debt levels could adversely affect the County's credit rating or repayment sources;
        d. Market conditions are unstable or suggest difficulties in marketing a debt.
    2. Factors which favor long-term debt financing include circumstances where:
        a. Revenues available for debt issues are considered sufficient and reliable so that long-term financing can be marketed with an appropriate credit rating that can be maintained.
        b. Market conditions present favorable interest rates and demand for County debt financing.
        c. A project is mandated by state or federal government and current revenues or unrestricted fund balance are insufficient to pay projected costs.
        d. A project is immediately required to meet or relieve capacity needs and existing un-programmed cash reserves are insufficient to pay project costs.
        e. The life of the project or asset is five years or longer.

4. Maximum Amounts of Debt Financing

Consideration of new debt issuance shall take into account; (1) preservation of the County's applicable credit rating and the resulting access to favorable borrowing rates, and (2) the tax burden placed on citizens and businesses within the County.

Toward these considerations, the County will not engage in debt financing unless the proposed obligation, when combined with all existing debts, will result in forecasted debt ratios throughout the life of the proposed obligation that satisfy the following benchmarks:

A. Budgetary flexibility is achieved by maintaining available unrestricted fund balance as a percentage of budgeted General Fund expenditures of at least 20%, with a target of 30%.

B. Liquidity is maintained with total government available cash of at least 120% of total governmental funds debt service and at least 20% of total governmental fund expenditures.

C. Debt levels are controlled by maintaining net direct debt at less than 60% of total governmental funds revenue and total governmental funds debt service at less than 8% of total governmental funds expenditures.

The computation of these ratios will follow the latest applicable publication from S&P Global Ratings, recognizing that – while the County intends to maintain obligation ratings from S&P, Moody's Investors Service, and Fitch – for obligations under $50 million a single rating is cost efficient and S&P will typically be used.

5. Structure and Term of Debt Financing

A. General

County debt will be structured to achieve the lowest possible net interest cost to the County given market conditions, the urgency of the capital project, and the nature and type of any security provided. County debt will be structured in ways that will not compromise the future flexibility to fund projects. Moreover, to the extent possible, the County will design the repayment of its overall debt issues so as to rapidly recapture its credit capacity for future use. As a benchmark, the County shall strive to repay at least 30% of the principal amount of its bonded debt within five years and at least 60% within ten years.

B. General Obligation and Public Building Commission Revenue Bonds

The County shall use an objective analytical approach to determine whether it can afford to issue new bonds for county facilities beyond what it retires each year (see Assumption of Additional Debts below). Generally, this process will compare a variety of measures of debt benchmarks outlined above, in addition to key demographic data of the County.

The decision on whether or not to assume new general obligation or Public Building Commission bonds shall, in part, be based on (a) costs and benefits, (b) the current conditions of the municipal bond market, (c) the County's ability to assume new general obligation bonds as determined by the aforementioned benchmarks; and (d) GASB 87 lease considerations and impact to overall County financials.

NOTE: The provisions of this section also apply to the issuance of any private activity bonds.

C. Revenue Bonds

The County may issue bonds secured solely by dedicated non-ad valorem revenue streams if doing so will yield clearly identifiable advantages. For the County to issue revenue bonds, a primary objective will be to minimize risk through the use of adequate coverage requirements while remaining in compliance with overall debt management policy objectives. The County will adhere and where necessary take actions to ensure compliance with all outstanding revenue bond covenants.

D. Special Assessment Bonds

It is the policy of the BOCC for the County to cautiously plan for the potential issuance of special assessment bonds for benefit district improvements. While the County's share of any benefit district project may fluctuate, the amount the County pays may not exceed the limitations stated within Charter Resolution No. 61 and Charter Resolution No. 62.

Further, it will be the responsibility of the Debt Management Committee to analyze each special assessment bond issue for indications that future special assessments will equal or exceed the annual principal and interest payments of such bonds with regard to any project's projected financial feasibility, consistency with the County's strategic and economic goals, and likelihood that the property will be used for its intended purpose for an extended period of time.

E. Assumption of Additional Debts
The County shall not assume more debt than it retires each year without conducting an objective analysis of the community's ability to assume and support additional debt service payments and of the probable impact of the additional debt on the County's bond ratings.

F. Asset Life
The County will consider debt financing for the acquisition, replacement, or expansion of physical assets (including land) only if a capital project has a useful life longer than the term of the bond issue supporting it. Debt will be used only to finance capital projects and equipment, except in case of unforeseen emergencies. Debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

G. Length of Debts
County debts will be amortized for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users, and in keeping with other related provisions of this policy.

The County normally shall issue bonds with a maximum life of 20 years or less for general obligation bonds, Public Building Commission bonds, and revenue bonds, and 15 years or less for special assessment bonds.

Unless specific and compelling reasons exist, there shall be no "balloon" bond repayment schedules, which consist of low annual payments and one large payment of the balance due at the end of the term. There shall always be at least interest paid in the first fiscal year after a bond sale and principal repayment starting no later than the second fiscal year after the bond issue.

H. Call Provisions
Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the County. Unless specific compelling reasons exist, all bonds shall be callable only at par.

I. Debt Structuring
At a minimum, the County will seek to amortize general obligation bonds with level principal and interest costs over the life of the issue. Pushing higher costs to future years in order to reduce short-term budget liabilities will be considered only when natural disasters or extraordinary or unanticipated external factors make the short-term cost of general obligation bonds prohibitive.

J. Variable Rate Debts

The County may choose to issue bonds that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with State law and covenants of pre-existing bonds, and depending on market conditions.

K. Derivatives

The County will exercise extreme caution in the issuance and sale of derivative instruments, and will consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed.

6. Debt Administration and Financing

A. Financing Proposals

Any capital financing proposal of a County department, agency, or utility involving the pledge or other extension of the County's credit through sale of bonds, execution of loans or leases, or otherwise involving directly or indirectly the lending or pledging of the County's credit, shall be referred to the Division of Finance for review before such pledge is considered by the BOCC.

B. Bond Fund

All payment of general obligation bonds and special assessment bonds shall be from the County's Bond & Interest Fund. The fund balance in the Bond & Interest Fund will be maintained at a level equal to or greater than the total principal and interest payable from that Fund for the upcoming semi-annual debt service payment. Furthermore, the fund balance will be managed to eliminate or minimize arbitrage rebate liability.

C. Bond Counsel

The County will utilize external bond counsel for all debt issues. All debts issued by the County will include a written opinion by Bond Counsel affirming that the County is authorized to issue the debt, stating that the County has met all Federal and State constitutional and statutory requirements necessary for issuance, and determining the federal income tax status of the debt.

D. Underwriter's Counsel

County payments for Underwriters Counsel will be authorized for negotiated sales by the Division of Finance on a case-by-case basis depending on the nature and complexity of the transaction and the needs expressed by the underwriters.

E. Municipal Advisor

The County will retain a qualified external municipal advisor to provide advice on all debt-related matters. For each County bond sale, the County will request the municipal advisor provide the County with information on pricing and underwriting fees for comparable sales by other issuers. Any member of the Debt Management Committee may consult with the designated Municipal Advisor to receive advice on debt matters, within the defined contractual relationship.

F. Temporary Notes
Use of short-term borrowing, such as temporary notes, will be undertaken only if the transaction costs plus interest on a debt are less than the cost of internal financing, available cash or reserves are insufficient to meet both project needs and current obligations, or it is determined to be in the best interests of the County on a project-by-project basis.

G. Credit Enhancements
Credit enhancement (letters of credit, bond insurance, etc.) may be used if the costs of such enhancements will reduce the net debt service payments on the bonds or provide other significant financial benefits to the County.

H. Lease/Purchase Agreements
The use of lease/purchase agreements in the acquisition of vehicles, equipment and other capital assets shall be considered carefully relative to any other financing option or a "pay-as-you-go" basis. The lifetime cost of a lease typically will be higher than other financing options or cash purchases. Nevertheless, lease/purchase agreements may be used as funding options for capital acquisitions if operational or cash-flow considerations preclude the use of other financing techniques.

I. Competitive Sale of Debts
The County, as a matter of policy, shall seek to issue its general or revenue bond obligations in a competitive sale unless it is determined by the Chief Financial Officer that such a sale method will not produce the best results for the County. In such instances where the County, through a competitive bidding for its bonds, deems the bids received as unsatisfactory or does not receive bids, it may, at the election of the Chief Financial Officer, enter into negotiation for sale of the bonds.

J. Negotiated Sale of Debts
Where a negotiated sale process is determined to be in the best interests of the County, the County will use a competitive process to select its investment banking team.

7. Refunding of Debts

Periodic reviews of all outstanding debts will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management.

County staff and the municipal advisor shall monitor the municipal bond market for opportunities to obtain interest savings by refunding outstanding debts. As a general rule, current refundings will be undertaken only if the present value savings of a particular refunding will exceed 3% of the refunded principal. As a general rule, advance refundings will be undertaken only if the present value savings of a particular refunding will exceed 4% of the refunded principal.

Refunding issues that produce a net present value savings of less than targeted amounts may be considered on a case-by-case basis. Refunding issues with negative savings will not be considered unless a compelling public policy objective is served by the refunding.

If bond refunding occurs with Special Assessment Bonds, the economic benefit from such refunding shall inure solely to the benefit of the property owners within the applicable benefit district(s). The corresponding reductions in special assessments shall be applied equitably and, if applicable, in accordance with any agreement on file with the Register of Deeds under which the apportionment of special assessments has been established. Any reductions in special assessments shall be entered on the tax rolls in the next feasible year.

8. Conduit Financings

The County may sponsor conduit financings in the form of Revenue Bonds for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the County's overall service and policy objectives as determined by the BOCC.

All conduit financings must insulate the County completely from any credit risk or exposure and must first be approved by the Debt Management Committee and County Manager before being submitted to the BOCC for consideration.

9. Arbitrage Liability Management

It is the County's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the County will not issue obligations except for identifiable projects with very good prospects of timely initiation. Temporary notes and subsequent long-term bonds will be issued timely as project contracts are awarded so that debt issues will be spent quickly.

Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the advice of Bond Counsel and other qualified experts will be sought whenever questions about arbitrage rebate regulations arise.

10. Credit Ratings

A. The Chief Financial Officer shall be responsible for maintaining relationships with the rating agencies that currently assign ratings to the County's various debts. 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.

B. The Chief Financial Officer shall be responsible for determining whether or not a rating shall be requested on a particular financing and which of the major rating agencies shall be asked to provide such a rating.

C. The County's minimum rating requirement for its direct, long-term, debt obligations is a rating of "AA" or higher. If a given debt cannot meet this requirement based on its underlying credit strength, then credit enhancement may be sought to ensure that the minimum rating is achieved. If credit enhancement is unavailable or is determined by the Chief Financial Officer to be uneconomical, then the obligations may be issued without a rating.

D. Full disclosure of operations and open lines of communication shall be provided to rating agencies used by the County. The staff of the Division of Finance, with assistance of the County's Municipal Advisor, shall prepare the necessary materials and presentation to the rating agencies.

E. The County is committed to full and complete primary and secondary financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, County departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information. The County is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.

F. Official statements accompanying debt issues, Annual Comprehensive Financial Reports, and continuous disclosure statements will meet (at a minimum), the standards articulated by the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The Chief Financial Officer shall be responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

11. Definitions

A. **Advance Refunding** – Bonds sold to refinance outstanding bonds 90 or more days prior to their maturities and prior to call dates established in the bond indenture of the outstanding bonds.

B. **Arbitrage** – Refers to the rebate or penalty amount due to the Internal Revenue Service where funds received from the issuance of tax-exempt debt have been invested and excess interest earnings have occurred, or where tax-exempt bond proceeds are not spent for their intended purposes within the times permitted by federal regulation. As used in this policy, 'excess interest earnings' means interest earned at a rate in excess of the arbitrage permitted yield on any individual bond issue.

C. **Current Refunding** – Bonds sold to refinance outstanding bonds prior to their maturities but after or shortly before call dates established in the bond indenture of the outstanding bonds. A current refunding can take place no earlier than three months before the 'call' and any time after the call. Payment of the outstanding bonds must occur within 90 days of selling the current refunding bonds.

D. **Derivatives** – Securities the value of which depends on or is derived from one or more separate indices of asset values. Derivative products issued by local governments may include floaters / inverse floaters, collateralized mortgage obligations (CMOs), forwards, futures, and options.

E. **General Obligation Bonds** – Bonds backed by the full faith and credit of the County. Bondholders have the power to compel the County to levy property taxes to repay the bonds if necessary.

F. **Lease/Purchase Agreements** – The County enters into a lease agreement with another party (typically a third-party vendor) to lease an asset over a defined period of time at a prearranged annual payment. Lease payments are made primarily from operating fund revenues. The legislative body appropriates annual lease payments unless it chooses not to appropriate under the Kansas cash basis law. If lease payments are not appropriated, ownership of the leased property reverts to the lessor. At the conclusion of the lease term, the County receives unencumbered ownership of the property.

G**. Public Building Commission Bonds** – Bonds issued by the Sedgwick County Public Building Commission that are secured by lease revenues paid to the PBC by the governmental entity for which the bonds were issued. The PBC is authorized to finance, build and/or operate facilities that serve a public purpose when asked to do so by the County or another governmental entity. The requesting government enters into a lease agreement with PBC for the right to occupy the facility, and the lease payments are equal to the annual debt service and operating costs of the PBC. PBC bonds are revenue bonds because they are secured solely by the lease agreement. PBC leases executed by the County are general obligations of the County because they are backed by the full faith and credit of the County.

H**. Revenue Bonds** – Bonds secured by revenues generated by the facility from dedicated user fees, or by one or more non-advalorem revenue sources. Planning for such issues generally is more complex because future costs and revenues directly affect each other. Credit enhancements (e.g., insurance or letter of credit) may be needed because of the limited source of debt service payments that may be available in outlying years.

I. **Special Assessment Bonds** – Bonds issued to develop facilities and basic infrastructure for the benefit of properties within the assessment district. Assessments are levied on properties benefited by the project. The issuer's recourse for nonpayment is foreclosure and the remaining debt becomes the County's direct obligation, repaid from property taxes.

J. **Temporary Notes** – Notes are issued to provide temporary financing, to be repaid by long-term financing. This type of bridge financing has a maximum maturity of four years under Kansas law.

12. Procedures

A. The primary responsibility for developing debt financing recommendations rests with the Chief Financial Officer. In developing such recommendations, the CFO shall be assisted by the Deputy CFO, the Budget Director, the Accounting Director, the Budget Analyst for the Capital Improvement Program, and the Principal Accountant whose job responsibilities include debt payment, the six of whom shall comprise the Debt Management Committee.

B. The responsibilities of the Debt Management Committee shall be to:
   1. Meet at least semi-annually to consider the need for debt financing and assess progress on the current Capital Improvement Program and any other program/improvement deemed necessary by the County Manager
   2. Meet at least semi-annually to test adherence to this policy statement and to review applicable benchmarks.

3. Review changes in federal and state legislation that affect the County's ability to issue debt and report such findings to the County Manager and Board of County Commissioners (BOCC) as appropriate.
4. Review annually the provisions of resolutions authorizing issuance of general obligation bonds of the County.
5. Review semi-annually the opportunities for refinancing current debts.
6. Review annually the services provided by the County's municipal advisor, bond counsel, paying agents and other debt financing service providers.

C. Prior to each meeting, the Committee shall review the Capital Improvement Plan in the most recent County quarterly financial report.

D. In developing financing recommendations, the Debt Management Committee shall consider:
   1. The length of time proceeds of obligations are expected to remain on hand and their related carrying costs.
   2. The options for interim financing including short term and inter-fund borrowing, taking into consideration federal and state reimbursements.
   3. The effect of proposed actions on the tax rate and user charges.
   4. Current and historical trends in bond markets.
   5. Current and historical trends in interest rates.
   6. Any other factors deemed appropriate.