DEBT POLICY

Board of Supervisors
Rev 5/11

The debt management policy is used to provide the general framework for planning and reviewing debt proposals. The Mono County Board of Supervisors recognizes there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the County's debt position. Debt decisions should be the result of deliberative consideration of all factors involved.

I. General Debt Policy

A. Except in extreme emergencies, long-term debt shall not be issued to finance ongoing operational costs.

B. When possible, the County shall pursue alternative sources of funding, such as pay as you go or grant funding to limit debt.

C. Whenever possible the County shall use self-supporting debt instead of General Fund obligated debt.

D. The aggregate annual debt service, including certificates of participation but excluding self-supporting debt, shall not exceed 7% of annual General Fund discretionary revenue.

E. The County shall seek to maintain and, if possible, to improve its bond rating so borrowing costs are minimized and access to credit is preserved. It is imperative that the County demonstrate to rating agencies, investment bankers, creditors, and taxpayers that County officials are following a prescribed financial plan. The County will follow a policy of full disclosure by communicating with bond rating agencies to inform them of the County's financial condition.

F. Every future bond issue proposal will be accompanied by an analysis demonstrating conformity to the debt policies adopted by County Board of Supervisors. The Finance Director will review and comment on each bond issue proposal regarding conformance with existing debt and financial policies, and specific aspects of the proposed financing package and its impact on the County' s creditworthiness.

G. The County recognizes that it is of the utmost importance that elected and appointed County officials, and all others associated with the issuance of County debt, not only avoid the reality of a conflict of interest, but the appearance thereof as well. County officials must conduct themselves in a fashion consistent with the best interests of the County and taxpayers. Elected and appointed County officials should avoid even the appearance of linkages between politics and public finance that can erode the confidence of taxpayers, ratepayers, and voters. This includes avoiding gratuities, and political contributions of more than nominal value from service providers and the disclosure of all possible conflicts of interest shall be provided in writing and filed with the County Clerk.

II. Taxpayer Equity

Mono County's property taxpayers and citizens who benefit from projects financed by bonds should be the source of the related debt service funding. This principle of taxpayer equity should be a primary consideration in determining the type of projects selected for financing through bonds. Furthermore, the principle of taxpayer equity shall be applied for setting rates in determining net revenues for bond coverage ratios.

III. Uses

A. Debt proceeds should be limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs as permitted by law. Acceptable uses of debt proceeds can be viewed as items which can be capitalized. Non-capital furnishings and supplies will not be financed from debt proceeds. Bond proceeds may be used to establish a debt service reserve. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bond proceeds.

B. Recognizing that bond issuance costs add to the total interest costs of financing; bond financing should not be used if the aggregate cost of projects to be financed by the bond issue does not exceed $1,000,000.

IV. Decision Analysis

A. Whenever the County is contemplating a possible bond issue, information will be developed concerning the following four categories commonly used by rating agencies assessing the County's creditworthiness. The subcategories are representative of the types of items that may be considered. This information will be presented by the Finance Director to the Board of Supervisors.

Debt Analysis
- Debt capacity analysis
- Purpose for which debt is issued
- Debt structure
- Debt burden
- Debt history and trends
- Adequacy of debt and capital planning
- Obsolescence of capital plant

Financial Analysis
- Stability, diversity, and growth rates of tax or other revenue sources
- Trend in assessed valuation and collections
- Current budget trends
- Appraisal of past revenue and expenditure trends

- History and long-term trends of revenues and expenditures
- Evidences of financial planning
- Adherence to generally accepted accounting principles
- Audit results
- Fund balance status and trends in operating and debt funds
- Financial monitoring systems and capabilities
- Cash flow projections

Governmental and Administrative Analysis
- Government organization structure
- Location of financial responsibilities and degree of control
- Adequacy of basic service provision
- Intergovernmental cooperation/ conflict and extent of duplication
- Overall County planning efforts

Economic Analysis
- Geographic and location advantages
- Population and demographic characteristics
- Wealth indicators
- Housing characteristics
- Level of new construction
- Types of employment, industry, and occupation
- Evidences of industrial decline
- Trend of the economy

B. The County may use the services of qualified internal staff and outside advisors to assist in the analysis, evaluation, and decision process, including bond counsel and financial advisors. Recognizing the importance and value to the County's creditworthiness and marketability of the County's bonds, this policy is intended to insure that potential debt complies with all laws and regulations, as well as sound financial principles.

V. Debt Planning

A. General Obligation bond borrowing should be planned, and the details of the plan must be incorporated in the Mono County Capital Improvement Plan.

B. General Obligation bond issues should be included in at least two annual Capital Improvement Plans preceding the year of the bond sale. The first inclusion should contain a general description of the project, its timing, and financial limits; subsequent inclusions should become increasingly specific.

VI. Communication and Disclosure

A. Significant financial reports affecting or commenting on the County will be forwarded to the rating agencies. Each bond prospectus will follow the disclosure guidelines of the Government Finance Officers Association of the U. S. & Canada.

B. The County should attempt to develop coordinated communication processes with all other jurisdictions with which it shares a common property tax base concerning collective plans for future debt issues. Reciprocally, shared information on debt plans including amounts, purposes, timing, and types of debt would aid each jurisdiction in its debt planning decisions.

C. The Finance Director shall insure that all continuing disclosure required for a debt issue is filed in a timely manner. The Finance Director shall insure compliance with SEC Rule 15c2-12 by filing a notice of material events within 10 days of their occurrence. These include principal and interest payment delinquencies; material non-payment related defaults; unscheduled draws on debt service reserves or credit enhancements reflecting financial difficulty; substitution of credit or liquidity providers or their failure to perform; adverse tax opinions or material notices of determination with respect to the tax status of a security; material modifications to the rights of security holders; material bond calls and tender offers; defeasances; release, substitution or sale of secured property; rating changes; bankruptcy, insolvency, receivership, or similar event of the obligated party; merger, consolidation, or acquisition involving an obligated party or sale of substantially all of the assets of an obligated party; appointment of a successor or additional trustee; and failure to provide annual financial information by the date specified in the continuing disclosure agreement.

VII. General Obligation Bonds

A. Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.

B. Generally, bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The County will attempt to keep the average maturity of general obligation bonds at or below 12.5 years.

C. Whenever possible, the County will finance capital projects by using self-supporting revenue bonds. Revenue bonds assure the greatest degree of equity because those who benefit from a project and those who pay for a project are most closely matched.

VIII. Revenue Bonded Debt

A. It will be a long-term goal that any utility or enterprise will ensure future capital financing needs are met by using a combination of current operating revenues and revenue bond financing. Therefore a goal is established that 15% of total project costs should come from operating funds of the utility or enterprise.

B. It is County policy that each utility or enterprise should provide adequate debt service coverage. A specific factor is established by County Board of Supervisors that projected operating revenues in excess of operating expenses less capital expenditures, depreciation and amortization in the operating fund should be at least 1.25 times the annual debt service costs. An example of the debt coverage calculation is shown below:

Debt Coverage Example:

Operating Revenues	$ 3,903,000
Operating Investment Income	80,000
Total Operating Revenue	$ 3,983,000
Operating Expenses	$ 3,540,000
Depreciation and Amortization	310,000
Net Expenses	$ 3,850,000
Net Revenue Available for Debt Service	$ 133,000 (1*)
Principal	$ 75,000
Interest	37,500
Total Debt Service	$ 112,500 (2*)
Debt Coverage Ratio (1* divided by 2*)	1.18

IX. Short Term Financing/Capital Lease Debt

A. Short-term financing or capital lease debt will be considered to finance certain equipment and rolling stock purchases when the aggregate cost of equipment to be purchased exceeds $25,000. Adequate funds for the repayment of principal and interest must be included in the requesting department's approved budget.

B. The term of short-term financing will be limited to the usual useful life period of the vehicle or equipment, but in no case will exceed ten years.

C. Departments requesting capital financing must have a budget appropriation approved by the Board of Supervisors. Departments shall submit documentation for approved purchases to the Finance Department each year within ten days after the annual budget is adopted. The Finance Department will consolidate all requests and may solicit competitive or negotiated proposals for capital financing to insure the lowest possible interest costs.

X. Annual Review

The County Finance Officer will schedule the Debt Policy for review and updating by the Board of Supervisors annually.