

Sample Debt Management Policy

Date Last Updated: May 2014

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Purpose

The purpose for this Debt Management Policy for the **[Entity]** is to assist in the prudent administration of any debt which might be required. In addition, the adoption of this policy will provide for a common understanding between elected officials and staff regarding debt financing. Another benefit of following this Debt Management Policy will be the establishment and maintenance of a credit rating beneficial to the **[Entity]**. Finally, the Debt Management Policy will help to facilitate sound Capital Budgeting and Capital Expenditure procedures.

Debt Limits

General Obligation Debt - There are two types of general obligation debt, limited tax general obligation debt and unlimited tax general obligation debt. Limited tax general obligation debt pledges the full faith and credit of the taxing power of **[Entity]** within the existing tax rate limits. Unlimited tax general obligation debt pledges the full faith and credit of the taxing power of **[Entity]** beyond the existing tax rate limits provided the voters have given their approval. General obligation debt is normally limited to ten percent of State Equalized Value.

[See the State Constitution, the Revised Municipal Finance Act \(Act 34 of 2001; MCLA 141.2101 to 141.2821\) and the Revenue Bond Act \(Act 94 of 1933; MCLA 141.101 to 141.140\).](#)

Revenue Bonds - Revenue Bonds will be considered when there is a definable revenue source which could be used to pay the debt. Revenue Bonds normally must meet certain bond covenants stipulated by the lender. Certain debt ratios such as pledged revenues to debt service may also be required to be reported.

[See the Revenue Bond Act \(Act 94 of 1933; MCLA 141.101 to 141.140\).](#)

Short Term Borrowings - Short term borrowings such as tax anticipation notes must normally be authorized by State Statute. These notes are limited to not more than one year in duration.

[See the Revised Municipal Finance Act \(Act 34 of 2001; MCLA 141.2101 to 141.2821\).](#)

The **[Entity]** shall limit total debt payments (principal and interest) as follows:

[Elected officials may want to set a maximum amount of debt service, for instance: total debt service to be funded from the General Fund shall not exceed **\[X\]** percent of overall general fund revenues; or total debt service shall not exceed a certain amount per capita, taxable value, etc.](#)

Debt Issuance Practices

Bonds will be sold on a competitive basis unless it is in the best interest of the **[Entity]** to conduct a negotiated sale or private placement. Competitive sales will be the preferred method. Negotiated sales and private placements may occur when selling bonds for a defeasance of existing debt, for current or advanced refunding of debt, to save on issuance costs of a smaller debt issue, or for other appropriate reasons.

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The **[Entity]** will engage a financial advisor and bond council to assist in the issuance of debt. The financial advisor and bond council will be selected through a competitive quality based selection process for a period of **[X]** years.

The **[Entity]** will obtain a rating from at least one nationally recognized rating agency.

Debt Issued to Fund Capital Projects – The maximum term of the debt issued to fund capital projects shall not exceed the useful life of the asset.

Debt Issued to Refund Existing Debt - In order to refund a bond issue, the **[Entity]** shall obtain a minimum savings level of _____ percent of the bonds to be refunded. (or, _____ percent of the bonds to be refunded, but at least \$_____)

Debt Issued to Finance Development – The **[Entity]** may consider issuing debt to finance development. When the source of funds to repay this debt is tax and assessment revenue or connection fees derived from that development, the **[Entity]** will require the following:

1. The pledged assessments for debt service will not represent more than _____ percent of the properties unencumbered value, as certified by an assessor or appraiser.
2. Future water and sewer connection fee revenues can only be planned to pay _____ percent of the debt service.
3. Developers must fund _____ percent of the project.
4. One property owner will not represent more than _____ percent of the revenue required for debt service repayment.

Debt Management Practices

The **[Entity]** will invest debt proceeds separately from other **[Entity]** funds.

The **[Entity]** shall comply with all continuing disclosure requirements. The **[Job Position]** shall be responsible for completing the continuing disclosure requirement.

The continuing disclosure requirements are often documented in Bond Official Statements and are required by Rule 15c2-12 promulgated by the SEC pursuant to the Securities Exchange Act of 1934, as amended. The continuing disclosure requirements are of both a financial and operational nature and are provided to the Municipal Securities Rulemaking Board (MSRB) through the Electronic Municipal Market Access District (EMMA). The deadline for filing the continuing disclosure requirement is on or before the 6th month after the end of the fiscal year. However, certain significant negative events may cause the entity to have to provide information to the MSRB within 10 days of the event.

The **[Entity Name]** shall report to the Michigan Department of Treasury within 15 business days of completing the issuance of any security. The **[Job Position]** shall be responsible for completing the report.

Required by Public Act 470 of 2002.

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The **[Entity]** shall monitor its non-arbitrage and tax compliance. The **[Job Position]** shall be responsible for reviewing its non-arbitrage and tax compliance.

There are restrictions on how bond proceeds can be used and invested. These restrictions are examined by the entity's bond council at issuance and must be reexamined if changes occur in the timing, scope, or use of the bond proceeds. Some changes that must be considered are delays in the spending of bond proceeds, rising interest rates, and repurposing of the assets purchased or constructed with the bond proceeds.