Mobile County Commission
Debt Management Policy
Adopted February 27, 2012

I. Purpose

The Mobile County Commission recognizes the foundation of any well-managed debt program is a comprehensive debt management policy. A debt management policy sets forth the parameters for issuing debt and managing the outstanding debt portfolio and provides guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that government maintains a sound debt position and that credit quality is protected.

It is the intent of the Mobile County Commission to establish a debt management policy to:

- Ensure high quality debt management decisions
- Impose order and discipline in the debt issuance process
- Promote consistency and continuity in the decision making process
- Demonstrate a commitment to long-term financial planning objectives
- Ensure that the debt management decisions are viewed positively by rating agencies, the investment community and the citizens of Mobile County.

II. Implementation

A. The Mobile County Commission's debt policy shall be implemented by the County Administrator and the Debt Management Committee as authorized by the Mobile County Commission. The Debt Management Committee shall be composed as follows:

- The County Administrator or his/her designee,
- The Director of Finance or his/her designee,
- The County Engineer or his/her designee, and
- As an ex officio member, the County Attorney or member of the County legal staff designated by the County Attorney.

B. Comprehensive debt management guidelines shall provide for the following:

1. Full and timely payment of principal and interest on all outstanding debt;
2. Debt shall be incurred only for those purposes as provided by State statutes;

3. Capital improvements should be planned, approved and financed according to authority of the Constitution and laws of the State of Alabama and the Ten-Year Capital Improvement Plan development process;

4. The payment of debt shall be secured by the full faith, credit and taxing power of the Mobile County Commission, in the case of General Obligation Warrants, and by the pledge of specified, limited revenues in the case of revenue bonds;

5. The Mobile County Commissioners shall not pledge any Mobile County Commission revenues to its conduit bond financings. Furthermore, the Mobile County Commission has no legal or moral obligation to repay bondholders of conduit financings issued under its authority;

6. Principal and interest retirement schedules shall be structured to: (1) achieve a low borrowing cost for the Mobile County Commission, (2) accommodate the debt service payments of existing debt and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace and to create additional financial flexibility in the future;

7. Debt incurred shall generally be limited to obligations with serial and term maturities but may be sold in the form of capital appreciation bonds or other structures if circumstances warrant;

8. The average life of the debt incurred should be no greater than the projected average life of the assets being financed;

9. The Mobile County Commission shall select a method of sale that shall maximize the financial benefit to the Mobile County Commission. Such sales can be competitive or negotiated, depending upon the project and market conditions. All methods of sale shall be subject to Commission approval.

10. The Mobile County Commission shall maintain good communications with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the Mobile County Commission;

11. Every financial report, warrant or bond official statement and Annual Information Statement (AIS) shall follow a policy of full, complete and accurate disclosure of financial conditions and operating results. All reports shall conform to guidelines issued by the Government Finance Officers Association (GFOA), the Government Accounting Standards Board (GASB), Securities and Exchange Commission (SEC) and the Internal Revenue Service (IRS) to meet the disclosure needs of rating agencies, underwriters, investors and citizens.

III. Debt Limits

A. Legal Limitations – All debt issuances will be accomplished in compliance with applicable federal regulations, The Constitution of the State of Alabama, applicable state statutes, Mobile County Commission resolutions, and all other applicable legal constraints.

B. Public Policy Limitations

1. The Mobile County Commission shall assess all financial alternatives for funding capital improvements prior to issuing debt. Pay-as-you-go financing should be considered before issuing any debt. Pay-as-you-go financing may include: intergovernmental grants from federal, state, and other sources; current revenues and financial balances; public/private partnerships; and lease payments. Once the Mobile County Commission has determined that "pay-as-you-go" is not a feasible financing option, the Mobile County Commission may use short-term or long-term debt to finance capital projects.

2. All capital improvements and financing for capital improvements will be made in accordance with an adopted Ten-Year Capital Improvement Plan.

3. General obligation warrants will be used to finance only those capital projects or improvements that have been determined to be essential to the maintenance or development of Mobile County. Debt may be issued to finance long-term capital improvements, economic development initiatives, other property and equipment used in the furtherance of the mission of the Mobile County Commission and for public improvements related to the quality of life of the citizens of Mobile County. The Mobile County Commission will not issue debt for the purpose of funding short-term assets with useful lives of less than three (3) years.

4. Capital projects, financed through the issuance of debt, shall be financed for a period not to exceed the expected useful life of the project.

5. Long-term debt will only be used for capital projects that cannot be financed from current revenue sources, in conjunction with the Ten-Year Capital Improvement Plan.

6. Current operations will not be funded from the proceeds of borrowed funds.

7. In general, the Mobile County Commission will limit the term of its tax-supported debt to twenty (20) years, arranging for the repayment of long-term debt on a level-payment basis, unless special circumstances dictate otherwise, in which case the special circumstances will be disclosed in the associated financing plans, and as otherwise specified herein.

C. Financial Limitations

1. The Mobile County Commission will strive to maintain the highest debt service coverage ratios possible consistent with its long-term financial objectives.

2. The Mobile County Commission will closely monitor the absolute amounts and year-to-year trends of key financial ratios. The Commission recognizes that specific ratios, in and of themselves, may or may not depict an accurate assessment of its financial health and may be affected temporarily by national or local economic conditions. It also recognizes, however, that negative trends for an extended period over multiple years are signals that must not be overlooked and will become a part of the annual reporting process of the Finance Department to the Mobile County Commissioners. Ratios to be included are as follows:

    a) G.O. Debt as a percent of Actual Market Value of Property

    b) Debt per capita

    c) Debt service as a percent of general governmental expenditures

    d) Percent of total debt to be retired after ten years

    e) Unreserved and Undesignated General Fund Balance as a percent of General Fund Revenue

3. Revenue Debt levels will be monitored periodically and evaluated in terms of other debt service coverage ratios, trends in those ratios, and compliance with covenants contained within the financing documents.

4. The Mobile County Commission will take steps to limit the ability of any conduit issuers established by the Mobile County Commission to issue debt without the consent of the Mobile County Commission. In general, it is the intent of the Mobile County Commission to require minimum standards of credit worthiness and/or a minimum credit rating, and to approve the purpose of the borrowing issue. The Mobile County Commission recognizes the potential negative impact that poorly conceived and structured debt issuance by conduit issuers can have on the reputation of the Mobile County Commission and the marketability of its direct debt.

5. Short-term debt issued by the Mobile County Commission will describe its specific purpose, the circumstances under which it is being issued, and the term and size limitations of the proposed debt.

IV. Use of Derivatives

A. Interest rate swaps can be appropriate interest rate management tools. Properly used, swaps can increase the Mobile County Commission's financial flexibility and provide opportunities for interest rate savings, enhanced investment yields, or reduced risks. Swaps should be integrated into the Mobile County Commission's overall debt and investment management policy.

Swaps will not be used for speculation. For policy purposes, speculation means taking additional risks, unrelated to the Mobile County Commission's business, in an effort to increase returns. The Mobile County Commission will follow rules similar to those that would apply with respect to any significant investment.

Swaps may be used when they achieve a specific objective consistent with the Mobile County Commission's overall financial policy. Swaps may be used, for example, to lock-in a current market fixed rate or create additional variable rate exposure. Swaps may be used to produce interest rate savings or alter the pattern of debt service payments. Swaps may be used to cap, limit, or hedge variable rate payments.

Reasons to use Interest Rate Swaps and Swaptions include, but are not limited to:

- Reducing interest expense;
- Hedging and actively managing interest rate, tax, basis, and other risks;
- Optimizing capital structure (e.g., achieve targeted debt allocation);
- Achieving appropriate asset/liability match; and
- Enhancing investment returns

B. The Mobile County Commission does not plan to use Interest Rate Swaps or Swaptions. Prior to any decision to use these instruments a Master SWAP Policy that reflects the general philosophy related to the use of derivatives outlined above will be adopted.

V. Debt Structuring Practices

A. Capital projects, financed through the issuance of debt, shall be financed for a period not to exceed the expected useful life of the projects. In general, the Mobile County Commission will limit the term of its tax-supported debt to twenty (20) years, arranging for the repayment of long-term debt on a level-payment basis, unless special circumstances dictate otherwise, in which case the special circumstances will be disclosed in the associated financing plans, and as otherwise specified herein.

B. Revenue debt, or supporting debt, will likewise not exceed the useful life of the assets being financed but may be structured for a longer term than its tax-supported debt.

C. The Mobile County Commission will design the repayments of the debt so as to recapture as rapidly as possible its credit capacity for future use.

D. The Mobile County Commission may choose to structure debt repayment so as to wrap-around existing obligations or to achieve other financial policy goals.

E. Redemption features of the debt (mandatory, special and optional) shall be incorporated into the debt issue of the Mobile County Commission based on the specific needs of the Commission and that take into account current market conditions.

F. In general, the Mobile County Commission will issue fixed-rate debt and will not utilize variable rate debt or derivatives such as swaps or swaptions as financing vehicles. Provided, however, the Mobile County Commission may use variable rate debt for specific projects that would benefit from a variable rate structure or that may require optional redemption provisions that are not available through a traditional fixed rate financing.

G. Other structuring practices:

1. Capitalized interest will not be utilized for general obligation, non-supported debt. Capitalized interest may be used on a limited basis with revenue/self-supported debt during the construction process and for that period of time when revenues for the financed project are developing.

2. Principal deferrals may be utilized on a limited basis during the construction of the project for a revenue/self-supported project or during an initial period of time during which revenues, such as from the establishment of a Tax Increment Finance District, are realized. Otherwise, other than in connection with creating a "wrap-around" debt structure, principal deferrals will be discouraged.

3. The Mobile County Commission shall use such other practices as it deems necessary and appropriate to obtain the lowest overall financing costs for the Commission over the term of the financing. For example, credit enhancement vehicles may be utilized, such as bond insurance or letters of credit from rated banks provided that a present value benefit is produced when compared to issuing the debt without any credit enhancement. In the event credit enhancement is not cost effective, the Mobile County Commission may still utilize credit enhancement subject to a finding by the Debt Management Committee that it meets the Commission's financing goals and objectives.

VI. Debt Issuance Practices

A. Method of Sale

The Mobile County Commission may elect to sell its debt obligations through a negotiated sale, through a competitive sale, or through a private placement after a Request for Proposal (RFP) process. The method selected by the Mobile County

Commission for the sale of its obligations will depend on various factors including, but not limited to, the size and complexity of the transaction along with current market conditions. The method of sale may be determined on an issue by issue basis, for a series of issues, or for a part of a specific financing program.

B. Refunding Criteria

1. The Mobile County Commission may advance refund outstanding obligations when advantageous, legally permissible, and when net present value savings equal or exceed the greater of $200,000 or 4%. Exceptions may be made only upon the recommendation of the Debt Management Committee and the County's Financial Advisor and the approval of the Commission.

2. The Mobile County Commission may issue current refunding bonds when advantageous, legally permissible, and net present value savings equal or exceed the greater of $200,000 or 3%. Exceptions may be made only upon the recommendation of the Debt Management Committee and the County's Financial Advisor and the formal approval by the Mobile County Commission.

3. Restructuring of Debt

   The Mobile County Commission may choose to refund debt, on either an advance or current basis, without regard to the net present value test, when the existing financial structure or bond covenants impinge on prudent and sound financial management. In such a case, the restructuring is subject to a finding by the Debt Management Committee and the County's Financial Advisor that the restructuring is in the overall best interests of the Mobile County Commission.

4. The principal maturity schedule of refinancing debt will be structured as to generally conform to the schedule of the refinanced debt, unless special circumstances dictate otherwise, in which case the special circumstances will be disclosed in the associated refinancing plan. Savings the Mobile County Commission may realize in such refinancing may be realized in the form of a front-loaded refunding debt structure or through a reduction in debt service payments, or a combination of both, based on the Mobile County Commission's best interest and requirements.

C. Selection and Use of Financial Providers

The Mobile County Commission's Debt Management Committee shall issue requests for proposals and make recommendations to the Commission for securing professional services that are required to develop, monitor, and implement the Mobile County Commission's debt management program. Consultants providing advice or counsel to the Debt Management Committee and to the Mobile County Commissioners shall be independent. The financial advisor, bond counsel, and underwriter for any issuance of debt shall be separate entities having no relationship with one another.

1. The Debt Management Committee will request the recommendation of the Mobile County Commission Attorney in selecting Bond Counsel which will also be approved by the Mobile County Commission. Bond Counsel will be from a nationally recognized firm with significant experience in tax matters and legal requirements associated with the sale of governmental debt.

2. The Financial Advisor will be selected based upon the recommendation of the Debt Management Committee to the Mobile County Commission. The Financial Advisor will be from a regionally or nationally recognized firm with experience in the capital planning, structuring and sale of governmental debt. Any financial advisor utilized by the Mobile County Commission also capable of providing underwriting services shall be prohibited from participating in the underwriting of any debt for the Mobile County Commission for a period of two years from the date of termination of its contract for financial advisory services.

3. Underwriters will be selected based upon the recommendation of the Debt Management Committee to the Mobile County Commission. The underwriters shall be regionally or nationally recognized with demonstrated experience in the underwriting of governmental debt.

4. Other services providers, such as Paying Agents, escrow agents, verification agents, and trustees will also be selected based upon the recommendation of the Debt Management Committee to the Mobile County Commission.

VII. Debt Management Practices

Debt Management policies are addressed in the following policy:

A. Mobile County Alabama Policies and Procedures for Compliance with Tax and Securities Requirements for Tax-Exempt Bonds. (Approved 04/28/2009)