Mecklenburg County

Board of County Commissioners

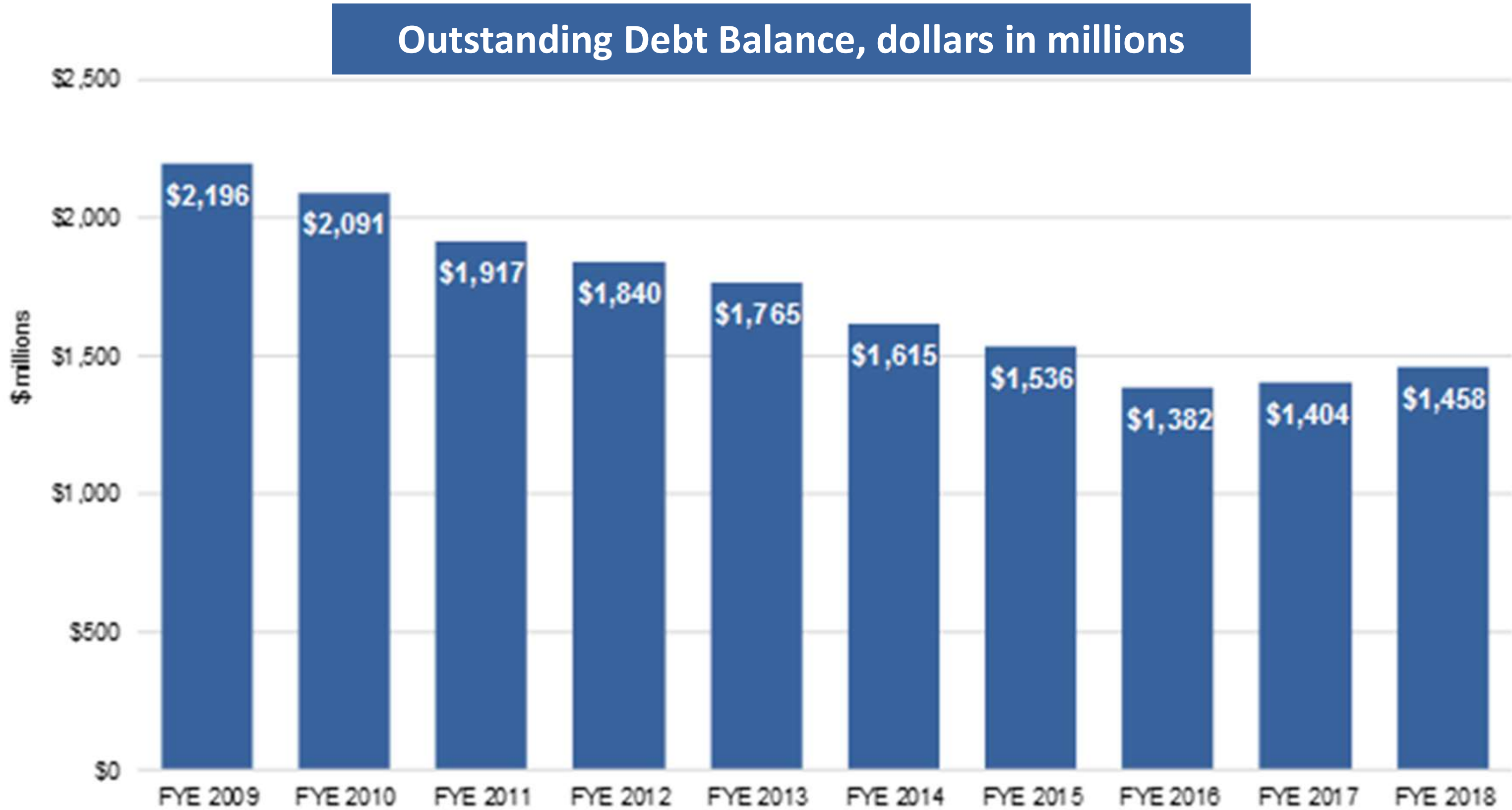
Debt Policy

County Debt Update

- Last month, the credit rating agencies confirmed the County's AAA credit rating
- The AAA rating is critical to keeping the County's interest costs low in a rising interest rate environment
- Total interest costs on our new $150 million issue are 3.098%— just 0.36% higher than last year even with four Federal Reserve rate hikes totaling 1.00%

Debt Balance History

- The County has made a concerted effort to lower its total outstanding debt over the past few years—reducing outstanding debt from $2.2 billion to less than $1.5 billion in the last 10 years



County Debt Update

- The County's adherence to robust debt management, healthy reserves, and sound fiscal policies are fundamental to the County's AAA rating
- These policies, including our debt policy, serve as the framework for the County's strong fiscal stewardship
- Collectively, these policies and fiscal discipline demonstrate the County's commitment to long-term financial and capital planning, and strong financial management

Debt Policy Update

- Mecklenburg County's debt policy and ratios support a strong, AAA credit rating
- Since the last update in 2014, changes include new tax laws, economic shifts, and updates to best practices
- Finance working with advisors performed a comprehensive review:
  - Compared policy against Government Finance Officer Association (GFOA) Best practices
  - Compared performance against similar counties
  - Considered the economic landscape, including 2018 tax law
  - Consulted with the North Carolina Local Government Commission

Key Takeaways

- Mecklenburg County has a strong debt policy and fiscal management
- Overall, policies and practice align with best practices
- County performance is in line or better than NC peers
- Recommended changes
  - Update policy to explicitly tie to best practices
  - Refine targets to ensure fiscal discipline while allowing moderate flexibility to address current and projected capital needs

GFOA Best Practices

- Currently, the County follows some best practices not explicitly mentioned.
- Recommended new policy will specifically reference these practices:
  - Call Features
  - Credit Enhancements
  - Relationships with Credit Raters
  - Private Placements
  - Premium Structures
  - Contract Evaluation and Terms
  - Investor Relations

GFOA Best Practices			Mecklenburg Count Debt Policy
Debt Limits	Purpose for which debt may be issued	Restrictions on Use	XX
		Sources of Repayment	XX
		Useful Life, Matching Asset Life	XX
		Pay Go, Integration with Capital Plan	XX
	Legal Debt Limits, Local Limits	Legal/Statutory Limits/Local	XX
		Fiscal Condition, Ratios	XX
		Debt Service Capacity	XX
	Type of Debt Permitted	Short and Long Term	XX
		Fixed and Variable	XX
		Other Financing	XX
Debt Structuring	Structural Features	Call Features	
		Maturity	XX
		Credit Enhancement	
		Derivative Products	XX
Debt Issuance	Credit objectives	Ratings	XX
		Relationships with Credit Raters	
	Method of sale	Competitive vs. Negotiated	XX
		Direct Loans	XX
		Private Placements	
		Premium Structures	
	Selection of external financial professional	Request for Proposals (RFP)	XX
		Contract Evaluation and Terms	
	Refunding of debt	Reason for Refunding	XX
Debt Management	Disclosure (primary and secondary market)	15c2-12 Requirements	XX
		Initial and Continuing	XX
		Investor Relations	
		Obligated Person to Communicate	XX
	Investment of Bond Proceeds	Compliance with Federal Tax Law	XX
		Arbitrage Requirements	XX
		Investment of Proceeds	XX

Proposed Debt Policy Metrics

- Goal: Adjust metrics in line with continued fiscal discipline, while maintaining moderate flexibility

- Proposed changes highlighted below:

Debt Ratio	FY 2018 Est.	Old Policy Target	New Policy Target
Overall Debt as % of Assessed Value	1.7%	**4%**	4%
Overall Debt per Capita	$1,975	**$4,000**	$4,000
Direct Debt as % of Assessed Value	1.10%	**2.00%**	1.75%
Direct Debt per Capita	$1,327	**$2,200**	$2,000
Ten Year Payout ratio	72.8%	**64.0%**	64.0%
Debt Service % of Operational Expenditures	14.4%	**18.0%**	17.0%
Variable Rate Debt as % of Outstanding Debt	0.0%	**20.0%**	15.0%

*Overall debt measures include County and City of Charlotte debt—used for tracking overall health.

Summary

- Mecklenburg County has a strong financial position
- Proposed changes to the county debt policy would further support AAA credit rating
  - Updating the policy to explicitly reference all best practices increases transparency of existing practices, and show alignment with GFOA Best practices
  - Tightening debt metrics demonstrates commitment to maintaining that strong financial position, and capacity to weather any unexpected downturns
- Staff recommends the Board adopt the proposed changes

Questions