Churchill County's Debt Management Policy

Updated as of June 30, 2009

Submitted to the Board of County Commissioners
On June 17, 2009

Prepared by the County Comptroller's Office

CHURCHILL COUNTY DEBT MANAGEMENT POLICY Updated as of June 30, 2009

General Policy Statement

The purpose of the Churchill County debt management policy is to manage the issuance of the County's debt obligations and maintain the County's ability to incur debt and other long-term obligations at favorable interest rates for capital improvements, facilities, and equipment beneficial to the County and necessary for essential services.

Debt Capacity Analysis

Introduction and Purpose

This portion of the debt management policy has been developed to analyze the existing debt position of Churchill County and to assess the impact of the County's future financing requirements on the County's ability to service the additional debt. The impact of future debt on various County debt ratios will be examined.

Analysis of the County's debt position is important, as growth in the County has resulted in an increased need for capital financing. This debt capacity analysis is premised on the idea that resources, as well as needs, should drive the County's debt issuance program. It will link projected long-term financing with the economic, demographic and financial resources expected to be available to pay for that debt. The primary emphasis of the analysis is the impact of the County's projected capital financing requirements on the credit quality of its debt obligations. The County wishes to ensure that as it issues further debt, its credit quality and market access will not be impaired. However, overemphasis on debt ratios should be avoided because debt ratios are but one of many factors which influence bond ratings.

Many analysts use debt ratios to analyze debt levels. Commonly used debt ratios of comparably sized counties will provide one measure against which Churchill County can assess its debt burden. The analysis is not intended to review the County's total financial position or to make projections of future expenditures other than debt service. The decision to use debt to finance capital needs should be weighed against the ability to manage debt over time to achieve the County's goals.

Decisions regarding the use of debt will be based in part on the long-term needs of the County and the amount of funds dedicated in a given fiscal year to capital outlay on a "Pay-As-You-Go" basis.

Protection of Bond Ratings

Credit ratings issued by the bond rating agencies are a major factor in determining the cost of borrowed funds in the municipal bond market. The concept of debt capacity, or affordability, recognizes that Churchill County has a finite capacity to issue debt at a given credit level. It should be recognized however that there are no predetermined debt level/credit rating formulas available from the rating agencies. Many factors are involved. Determination of a credit rating by a rating agency is based on the rating agency's assessment of the credit worthiness of an issuer with respect to a specific obligation. To arrive at a judgement regarding an issuer's credit worthiness, the rating agencies analyze the issuer in four broad, yet interrelated areas: economic base, debt burden, administrative management, and fiscal management.

Current Debt Position

Definition of Net Tax-Supported Debt - A calculation of indebtedness that is frequently used is one that takes into account all bond issues supported by tax revenues. Such debt is known as net tax-supported debt. Direct net tax-supported debt consists of debt serviced from the County's governmental funds or other funds that receive revenues from general County taxes. Such taxes include ad valorem property taxes, room taxes, sales taxes, and gasoline taxes. Self-supporting debt is debt that is revenue backed debt of enterprise fund operations such as C.C. Communications, Water and Waste Water Utilities. The revenues, charges for services, and assets of the Enterprise Funds will be used to repay the debt. In the unlikely event that there would not be sufficient resources, the general county may be required to support and payoff the outstanding debt. Indirect net tax-supported debt is overlapping debt paid by County residents to governmental agencies whose jurisdictions overlap the County's boundaries. The combination of direct and indirect debt is referred to as overall net tax-supported debt.

The County's direct net tax-supported debt position will be used in assessing the effects of future debt issuance. <u>Direct</u> net tax-supported debt will be examined because direct net tax-supported debt is that debt over which the County has control. However, to secure an accurate picture of the full debt for which the County's taxpayers are responsible, the County's overall net tax-supported debt burden should also be considered. The following table lists the tax-supported debt of the County as of June 30, 2009.

DIRECT NET TAX-SUPPORTED DEBT Churchill County, Nevada

As of June 30, 2009

Original Retirement Outstanding DIRECT NET TAX SUPPORTED DEBT Date Amount Amount Date Ad Valorem Tax: Notes Pavable: None Outstanding at this time. Capital Lease Obligations None Outstanding at this time: Ad Valorem Tax (0verrides): None Outstanding at this time. Room Tax/Ad Valorem: None Outstanding at this time. Motor Veh. Priv. Tax/Ad Valorem Infrastructure Fund/Ad Valorem Sales Tax/Ad Valorem: Wild Goose Land & Water Rights Purchase March 2011 March 14, 2005 \$3,300,001 \$1,850,454 Development Rights at Wild Goose \$97,025 76,409 March 2015 Gas Tax: Road Equipment Lease/Purchase: None at this time Assessment Bonds Total Outstanding Assessment Bonds None at this time \$1,916,863 TOTAL DIRECT NET TAX SUPPORTED DEBT: \$3,397,026 Self-Supporting Direct Tax Supported Debt Enterprise Fund/Ad Valorem: The Enterprise fund of Churchill County Communications has entered into a capital lease for their customer service center located at Louie's Home Center 1775 West Williams Avenue. The term of the lease extends to 2029. The lease is paid with charges for services from the CC Communications enterprise operations. CC Communications Louie's Home Center: Capital Lease 11-2003 \$1,325,899 2029 \$1,623,575 CC Communications Debt-Totals \$1,325,899 The Utility Enterprise Operations for Water and Waste Water has obtained USDA Revenue Bonds to construct Phase I of the water and waste water facilities serving parts of Churchill County. The bonds will be defeased by developer hook-up fees, standby fees and charges for services for customers who use the system. County Water and Waste Water Bonds USDA Water Series A 2047 6-27-2007 \$1,213,000 \$1,184,347 USDA Water Series B \$1,288,618 \$1,258,181 2047 6-27-2007 USDA Waste Water \$2,042,758 \$1,971,934 2047

SOURCE: Churchill County Comptroller's Office Schedule of Indebtedness

County Water and Waste Water Debt

TOTAL DIRECT SELF-SUPPORTING:

TOTAL NET TAX SUPPORTED DEBT:

6-27-2007

\$4,414,462

\$5,740,361

\$7,657,224

Calculation of Net Tax-Supported Debt - Shown below is a record of Churchill County's tax-supported debt position.

TAX-SUPPORTED DEBT POSITION Churchill County, Nevada

Fiscal Year Ended June 30	Total Direct Debt	Direct Self Supporting Debt	Indirect Net Tax Debt	Overall Net Tax Debt
1995	\$1,386,627	\$1,386,627	\$30,485,000	\$31,871,627
1996	\$1,492,310	\$1,492,310	\$28,640,000	\$30,132,310
1997	\$1,327,770	\$1,327,770	\$28,619,585	\$29,947,355
1998	\$884,759	\$3,884,759	\$29,730,000	\$33,614,759
1999	\$570,823	\$3,340,884	\$27,335,484	\$30,676,368
2000	\$203,095	\$ 2,973,756	\$26,083,231	\$29,056,987
2001	\$427,591	\$5,348,719	\$24,760,798	\$30,537,108
2002	\$0	\$4,646,023	\$25,611,784	\$30,257,807
2003	\$405,179	\$3,904,941	\$23,795,000	\$28,105,120
2004	\$270,806	\$3,177,472	\$22,852,376	\$26,300,654
2005	\$3,425,552	\$3,996,249	\$21,140,000	\$28,561,801
2006	\$2,927,737	\$3,136,217	\$19,465,000	\$25,528,954
2007	\$2,572,985	\$6,817,059	\$20,641,000	\$30,031,044
2008	\$2,239,616	\$5,877,083	\$17,774,465	\$25,891,164
2009	\$1,916,863	\$5,740,361	\$21,225,511	\$28,882,735

SOURCE: Churchill County.

For information concerning the Indirect Net Tax Debt see the respective taxing jurisdictions (School District). Amounts obtained from School District Audit Reports.

INDIRECT TAX-SUPPORTED DEBT POSITION Churchill County School District Fallon, Nevada

Fiscal Year Ended June 30	Total Indirect Debt	
1996	\$28,640,000	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
1997	\$28,619,585	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
1998	\$29,730,000	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
1999	\$27,335,484	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
2000	\$26,083,231	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
2001	\$24,760,798	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
2002	\$25,611,784	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
2003	\$23,795,000	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
2004	\$22,852,376	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
2005	\$21,140,000	Various Bond Issues and Refundings: See CCSD Audited Financial Statements.
2006	\$19,465,000	Various Bond Issues and Refundings: See CCSD Audited Financial Statements
2007	\$20,641,000	Various Bond Issues and Refundings: See CCSD Audited Financial Statements
2008	\$17,774,465	Various Bond Issues and Refundings: See CCSD Audited Financial Statements
2009	\$21,225,511	Various Bond Issues and Refundings: See CCSD Audited Financial Statements

Source: Churchill County School District.

Indirect Net Tax Debt amounts obtained from School District Audit Reports.

Comparison to Other Counties - Comparing Churchill County's debt ratios to counties of similar size provides one way to measure debt burden. The table below shows the overall-tax supported debt ratios for Churchill County.

COMPARISON TO OTHER COUNTIES As of June 30, 2009

Overall Direct			Debt to	· · · · · · · · · · · · · · · · · · ·	Moody's/S&P	
County	Tax-Supported & Self Supported Debt	Debt Per Capita	Taxable Value 1/	Population	G.O. Bond Rating	
Churchill County	\$7,657,224	\$283.80	.0096:1.00	26,981	N/A	
Lyon County	\$21,345,337	\$382.40	.0129:1.00	55,820	N/A	
Pershing County	\$611,985	\$85.09	.0029:1.00	7,192	N/A	
Elko County	\$22,633,692	\$447.65	.0183:1.00	50,561	N/A	
Humboldt Count	y \$73,758	\$4.09	.0001: 1.00	18,014	N/A	
Carson City	\$141,838,140	\$2,462.47	.0776: 1.00	57,600	N/A	
Douglas County	\$30,656,281	\$588.06	.0091:1.00	52,131	N/A	

Sources:

Tax Supported Debt: Schedule of Indebtedness as of FYE 6-30-09 submitted to the Department of Taxation by the respective jurisdiction. Population: Population as certified by the Governor on the February 15, 2009 report.

In addition to showing the relative position of Churchill County, these ratios indicate the significant impact of overlapping debt (See the "INDIRECT NET TAX DEBT" table) on the County's overall debt position. As can be seen in the calculation of overlapping debt shown earlier, overlapping jurisdictions include the school district, and incorporated cities over which the County has little control. Nonetheless, the debt issuance of these governments directly impacts the overall net direct tax-supported debt position of the County.

General Obligation Bond Commission - In Nevada, governments must present their general obligation debt proposals, including short-term financing issued under NRS 354 as required by the 1993 Legislature, to a County General Obligation Bond Commission. This Commission reviews the statutory debt limit, method of repayment, and possible impact on other underlying or overlapping entities. When considering the possible impact on other entities, the Commission generally considers the property tax rate required versus others' need for a tax rate - all of which must fall below the statutory \$3.64 property tax cap. The \$3.64 is not usually a limiting factor. However, the cap will become an issue when local governments begin levying a property tax that is closer to \$3.64. Nevada's General Obligation Bond Commissions do not generally make judgements about a proposal's impact on the debt ratios of all the affected governments.

The following table illustrates a fourteen year history of Churchill County's net direct tax supported debt and its ratio to per capita and assessed value.

DEBT TRENDS

Fiscal Year Ended 6/30	Net Direct Tax-Supported Debt	Net Direct Tax- Supported Debt Per Capita	Net Direct Tax- Supported Debt to Taxable Value	Population
1996	\$1,492,310	\$68.96	.41:1.00	21,640
1997	\$1,327,770	\$58.80	.35:1.00	22,580
1998	\$884,759	\$37.08	.22:1.00	23,860
1999	\$570,823	\$23.76	.14:1.00	24,020
2000	\$203,095	\$8.02	.05:1.00	25,310
2001	\$427,591	\$16.89	.155:1.00	26,247
2002	\$0	\$0	0.0	24,928
2003	\$405,179	\$16.13	.0962: 1.00	25,116
2004	\$270,806	\$10.49	.063:1.00	25,808
2005	\$3,425,552	\$131.21	.7088:1.00	26,106
2006	\$2,927,737	\$110.13	.534 :1.00	26,585
2007	\$2,572,985	\$94.00	.00375 :1.00	27,371
2008	\$2,239,616	\$82.37	.0031:1.00	27,190
2009	\$1,916,863	\$71.05	.0024:1.00	26,981

SOURCE: Churchill County Comptroller's Office, Governor's Certification of Population, Red Book Assessed Values, and Audits.

Assessed Values: Obtained from the Department of Taxation as published on March 15th, 2009 budget packet.

Resources Available for Future Debt Issuance

Churchill County's ability to meet its future debt obligations will primarily depend on the financial and other economic resources available at that time. This analysis assumes a continuation of the current situation, particularly as to the County's tax structure and economic composition. As such, the County has the ability to issue debt if necessary.

- Available Revenue/Call Features The County's long-term debt is sold or obtained with a prepayment option from the lending institution. When available revenues are identified, the County Manager/Comptroller's Office should consider prepaying or defeasing portions of its outstanding debt. It is the intent to pay off the Wild Goose land and water purchase within five years.
- Debt Retirements One source from which the County can obtain debt capacity is through retirement of currently outstanding debt; that is, the scheduled repayment of existing obligations. As the County retires debt, this amount becomes available as a resource for new debt issuance without adding to the County's existing debt position. The following table illustrates the annual payments on the County's direct net tax supported debt.
- Utility Development Grants/Loans- Churchill County has obtained grant funding from AB 198, USDA and the Army Corp of Engineers for the development of the County's water and waste water system development. Interim financing was needed to bridge the project payments and the grant's reimbursement cycle. The USDA loan is a revenue loan backed by the monthly revenues and related hook-up fees of the utility enterprise operations. The USDA loan proceeds paid of the interim financing with a long-term note for the utility system.

It is the County's Utility Debt Management Policy to not acquire long term debt with maturities greater than forty years on behalf of the Utility Development in excess of 10% of the County's Allowed Debt Capacity. The limit based on the current capacity would be \$10.888.378. The current outstanding balance is \$4,414,462 well under the allowed amount.

ANNUAL DEBT SERVICE REQUIREMENTS

Churchill County, Nevada

As of July 1, 2009

The table below list the estimated principal and interest payments for the water and land acquisition of Wild Goose, LTD along with the development right payments for the farm land associated with Wild Goose. The Revenue Bond and related debt service is based on a fixed interest rate for the next five years. The original note is based on a twenty year amortization, however the County's Financial Plan established a five year payoff through the sale of EDU Will Serve Certificates. The table below reflects the current interest rate and quarterly payments over the next five years. Actual amortization will be different.

Fiscal Year	Net Direct Tax Supported Debt	Grand	
Ended June 30	Principal	Interest	<u>Total</u>
2010	\$345,469	\$70,224	\$415,693
2011	\$312,753	\$55,680	\$368,433
2012	\$357,753	\$43,421	\$401,174
2013	\$312,753	\$31,160	\$343,913
Thereafter	\$599,443	\$25,542	\$624,985

Source: Churchill County. Note: Amounts estimated as Revenue Bond is based on a variable interest rate.

HISTORICAL RECORD OF ASSESSED VALUATION CHURCHILL COUNTY

Fiscal Year	Assessed	Percentage
Ending June 30	Valuation	Change
1997	\$370,338,274	4.36%
1998	\$384,744,384	3.80%
1999	\$395,744,384	2.86%
2000	\$399,826,147	1.03%
2001	\$402,920,033	0.77%
2002	\$406,562,377	0.90%
2003	\$424,509,479	4.41%
2004	\$433,003,700	2.00%
2005	\$441,486,591	1.95%
2006	\$469,431,189	6.33%**
2007	\$548,532,048	16.2%**
2008	\$686,529,426	25.1%**
2009	\$725,891,895	5.73%**

^{**} Amount reflects the caps placed on by AB489 of the 2005 Legislature. Future amounts subject to property values tax caps.

Property Tax Supported Debt

The County collateralizes much of its tax-supported debt with ad valorem property taxes. The following tables illustrate the outstanding debt issues currently being supported indirectly with ad valorem property taxes and the corresponding annual debt service for those issues. The Wild Goose land and water purchase will be paid off with resources from the Water Resource Fund. These resources include proceeds from the sale of water rights, geothermal revenues, CTX and interest earnings. There are adequate reserve balances to pay at least one year of principal and interest.

PROPERTY TAX SUPPORTED DEBT Churchill County, Nevada

June 30, 2009 Date Principal Amount Issued Amount Outstanding Water Resource Fund Debt Wild Goose Land & Water Rights Purchases March 2005 \$3,300,001 \$1,850,454 Development Rights March 2005 \$97,025 \$76,409 TOTAL PROPERTY TAX SUPPORTED DEBT \$1,916,863

Source: Churchill County Comptroller's Office

DEBT SERVICE PAYMENTS FOR PROPERTY TAX SUPPORTED DEBT

Fiscal Year	Net Direct Tax Supported Debt		Grand
Ended June 30	Principal	Interest	<u>Total</u>
2010	\$345,469	\$70,224	\$415,693
2011	\$312,753	\$55,680	\$368,433
2012	\$357,753	\$43,421	\$401,174
2013	\$312,753	\$31,160	\$343,913
Thereafter	\$599,443	\$25,542	\$624,985

Source: Churchill County

CC Communications Supported Debt

CC Communications, an enterprise operation of the County, has three outstanding debt issuances. The following tables illustrate the outstanding debt issues currently being supported with charges for services by their customers and the corresponding annual debt service for those issues.

CC Communications DEBT Churchill County, Nevada

	Church	im County, Nevau	4	
June 30, 2009				
		Date	Principal	Amount
Issue		Issued	Amount	Outstanding
Capital Lease: Louie's Home Center CC COMMUNICATIONS SUPPORTED DEBT		11-2003	\$1,623,575	\$1,325,899
Source: Churchill County Comptroller's Office				
	DEBT SERV	VICE PAYMENTS	FOR	
	CC Commun	ications DEBT Pa	yments	
Fiscal Year		•	•	Grand
Ended June 30	Principal	Inter	rest	Total

Fiscal Year		•	Grand
Ended June 30	Principal	Interest	<u>Total</u>
2010	\$68,349	\$46,851	\$115,200
2011	\$70,864	\$44,336	\$115,200
2012	\$73,471	\$41,729	\$115,200
2012-2016	\$331,991	\$182,585	\$514,576
Thereafter	\$854,694	\$221,870	\$1,076,564

and Waste Water System. The following table illustrates the outstanding debt issues supported by these enterprise operations.

COUNTY WATER AND WASTE WATER DEBT Churchill County, Nevada

June 30, 2009				
	Date	Principal	Amount	
<u>Issue</u>	Issued	Amount_	Outstanding	
County Water Debt:			_	
USDA Water Series A	6-27-2007	\$1,213,000	\$1,184,347	
USDA Water Series B	6-27-2007	\$1,288,618	\$1,258,181	
County Waste Water Debt:				
USDA Waste Water	6-27-2007	\$2,042,758	\$1,971,934	
TOTAL COUNTY LITILITIES SUPPORTED DEBT			\$4.414.462	

Source: Churchill County Comptroller's Office

DEBT SERVICE PAYMENTS FOR COUNTY WATER AND WASTE WATER DEBT Payments

Fiscal Year			Grand
Ended June 30	Principal	Interest	Total
2010	\$50,238	\$182,258	\$232,496
2011	\$52,343	\$180,153	\$232,496
2012	\$54,536	\$177,960	\$232,496
2013	\$56,820	\$175,676	\$232,496
Thereafter	\$4,216,602	\$3,614,237	\$7,830,839

Possible Future County Capital Projects

While some possible financing are better defined than others, the County could be projecting approximately \$251,500,000 of capital projects that will require long-term financing over the next several years, as listed below. The water system cost is an engineer's estimate that would provide for a fifty year full build out system. There is no assurance these projects will be issued in the amounts and at the dates shown below. There exists a possibility that all or part of any project listed below will be funded through alternative revenue sources. The information below and related space needs assessment was based upon the Churchill County Commissioner's Planning Retreat. Items and projects are subject to change until approved by the Board of County Commissioners.

POSSIBLE COUNTY CAPITAL PROJECTS REQUIRING LONG-TERM FINANCING REPAYMENT SOURCES IDENTIFIED

Repayment		
Project	Amount	Sources
Ground Water Right Purchases	\$3,000,000	Medium Term Financing/Pledge of general county resources, WR dedication funds
Water System Phase II	\$3,500,000	USDA grant, loan. Hook-up fees, Connection fees and monthly user fees
Waste Water Development	\$3,500,000	USDA grant, loan, hook-up fees, connection fees and monthly user fees
Road Capital Equipment Cost	\$1,500,000	Medium Term Financing: Road Equipment Replacement Plan: Geothermal Revenues
Juvenile Justice Complex	\$4,500,000	Medium Term Financing: Geothermal Resources
County Justice Facilities	\$20,500,000	GO Bond & reserves from legislative capital improvement funds and sale of assets
County Water System	\$200,000,000	Federal and State Grants and Matching Sources, Revenue Bonds
Land Acquisition	\$1,500,000	GO Bond, Federal, State Grants and Legislative Authorize Capital Improvement Funds
Court Expansion and Renovation	\$1,500,000	Court User Fees, general resources, Building Reserve Funds
Water Rights Purchases	\$2,000,000	Water Right Dedication Fees, PILT Payments, GO Bonds, Tax Overrides
Library Expansion	\$3,500,000	GO Bond and Federal, State Grants, Private Donations, Voter Approved Override
Museum Expansion		Federal, State Grants, Voter Approved Override
Parks & Recreation		Residential Construction Tax, Pay as you go tax override, Impact Fees, Grants
Total Estimated Project Cost	\$251,500,00	

Source: Churchill County Comptroller's Office

The following table illustrates the County's general obligation statutory debt limitation as set by Nevada Revised Statutes 244A.059.

STATUTORY DEBT CAPACITY Churchill County, Nevada June 30, 2009

Statutory Debt Limitation

\$108,883,784 County Imposed Utility Debt LT Debt Limitation (10% of Statutory Debt Limit) \$10,888,378 Outstanding General Obligation Indebtedness \$ 0 Water Resource Fund: Water Right Purchases \$1,916,863 CC Communications Debt \$1,325,899 Water and Waste Water Debt \$4,414,462 Plus: Proposed Interim Warrants Plus Proposed Capital Projects Outstanding and Proposed General Obligation Indebtedness 1/ \$ 251,500,000 Additional Statutory Debt Limitation {150,273,440}

1/ See table entitled "POSSIBLE COUNTY CAPITAL PROJECTS REQUIRING LONG-TERM FINANCING REPAYMENT SOURCES IDENTIFIED"

Source: State of Nevada Department of Taxation; Churchill County

The following is the NRS 244A.059 citing as of the 2005 printing:

NRS 244A.059 County's general obligation bonds; county's debt limit.

- 1. Subject to the provisions of chapter 350 of NRS, any board, upon behalf of the county and in its name, may issue the county's general obligation bonds to acquire, improve and equip, or any combination thereof, any project herein authorized, or any part thereof, and thereby to defray the cost of the project wholly or in part.
- 2. A county shall not become indebted by the issuance of bonds or other securities constituting an indebtedness, whether the bonds are issued hereunder or under a special or local law, to an amount in the aggregate, including existing indebtedness of the county, but excluding any outstanding revenue bonds, any outstanding special assessment bonds, or any other outstanding special obligation securities, any short-term securities issued in anticipation of and payable from general ad valorem taxes levied for the current fiscal year, any general obligation indebtedness of the county issued to pay the cost of any lending project, and any indebtedness not evidenced by notes, bonds or other securities, exceeding 10 percent of the total last assessed valuation of the taxable property of the county.
- 3. A county shall not become indebted by the issuance of general obligation indebtedness to fund the cost of lending projects in an amount exceeding 15 percent of the total last assessed valuation of the taxable property of the county

Preliminary Summary and Conclusion

The amount of County direct net tax-supported debt has remained within a relative range during the period 1990-2004. During the most recent three fiscal years with the issuance of debt related to the development of the County's Water and Waste Water utilities, the total outstanding debt and related debt ratios changed dramatically. The County has been able to take advantage of Federal and State grants and loans to forge forward with the initial phase of the Utility Operations. Churchill County has reached the point where it must evaluate how much tax-supported debt is prudent, (i.e. What can the tax base support? What can the taxpayers afford? How fast is the County going to grow? Are there other ways to finance the proposed projects?). Churchill County's tax-supported debt levels could escalate significantly in the ensuing fiscal years based upon proposed debt-funded projects. Given the current interest rate environment, the County should consider the fiscal impact of debt. Debt costs remain at historic low levels. The County may want to consider moving forward with projects if the need is justifiable. However, if the County's tax-supported debt extends significantly beyond those levels and those of our peer counties, it is likely that credit analysts might begin to question their current view of the County's debt position.

It is important, therefore, to match capital needs with economic resources on an annual basis to ensure that the proposed level of debt issuance does not place a constraint on maintenance of the County's excellent credit worthiness or future credit rating improvements. In this regard, it is recommended that the County include in its capital budgeting process a complete and detailed description of the anticipated sources of funds for future capital projects, as well as the resulting impact of long-term financing on the County's debt position. Periodic monitoring of issuances should be done to ensure that erosion of the County's credit quality does not occur.

It should be recognized that changing circumstances require flexibility and revision. Anticipating every future contingency is unrealistic. When adjustments to debt plans become necessary, the reasons need to be well documented to demonstrate that the County's commitment to sound debt management remains unchanged.

Summary of Debt Capacity Analysis Policies:

The County's Direct Net Tax-Supported Debt shall be maintained at a level considered manageable by the rating agencies based upon current

economic conditions, including among others, County's financial position include fund balances, population, per capita income, growth in taxable sales and assessed valuation.

- The Comptroller's Office shall structure all long-term debt with prepayment options except when alternative structures are more advantageous to the County. The County will consider prepaying or defeasing portions of outstanding debt when available resources are identified.
- For bonds being repaid solely with property taxes, the Comptroller's Office will strive for a debt service fund balance in an amount not less than the succeeding year's principal and interest requirements. The reserve fund requirements for other bond issues will be set forth in their respective bond covenants.
- The Comptroller's Department shall update the County's Debt Capacity Analysis annually and when an issue is brought before the General Obligation Bond Commission.
- CC Communications shall manage its debt with the same guidelines contained in this Debt Management Policy.
- The Board of County Commissioners should weigh the possible impacts of future debt incurred by CC Communications to its overall operations in a highly competitive dynamic business environment.

Final Analysis

The total of Direct Net Tax Supported Debt is \$1,916,863 for the Wild Goose land and water purchase, Water and Waste Water Utility Development Debt: \$4,414,462 and CC Communications outstanding capital lease at \$1,325,899. The financial health of the County continues to be strong and viewed favorable by the credit markets as demonstrated by our most recent revenue bond debt offering.