CITY OF MAITLAND, FLORIDA

DEBT MANAGEMENT POLICY

Finance Department

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CITY OF MAITLAND, FLORIDA

DEBT MANAGEMENT POLICY

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STATEMENT OF PURPOSE

By assuming debt, the City of Maitland enters into a long-term commitment requiring the timely payment of principal and interest over the life of the debt. It is the purpose of this Policy to ensure future debt service payments can be made in full and on time, without jeopardizing the provision of essential services. Additionally, the intent of this Policy is to provide an acceptable degree of flexibility while ensuring outstanding debt obligations do not threaten the long-term financial stability of the City nor place an undue burden on our community residents and businesses.

To these ends, the City of Maitland will consider the use of long-term debt an acceptable method of financing capital improvements in the following circumstances:

- The use of long-term debt as a means of financing capital improvements **shall be limited**;
- Long-term debt shall be considered **only for capital improvements** and never for operating purposes;
- A **specific capital purpose** for debt proceeds shall exist prior to incurring any long-term debt;
- The duration of long-term debt shall be consistent with the **expected economic or useful life** of the related capital improvement;
- Any debt assumed by the City of Maitland **shall not significantly diminish the City's flexibility in providing services** to its citizens and business owners;
- Specific parameters relating to the facts and circumstances of each long-term borrowing shall be used to **establish optional sinking funds** and providing flexibility in the funding and/or use of such voluntary sinking funds; and,
- Annual **debt service requirements shall be the first funding priority** in the annual budget process.

SECTION 1 – DEFINITIONS

As used throughout this Debt Management Policy, the words and terms defined in this section shall have the meanings set forth below unless the context in which they are used clearly requires a different meaning or a different definition as prescribed for a particular section or portion thereof. For words and terms not specifically defined in this section the definitions specified in Florida Statutes Chapter 166 shall apply.

1. **AD VALOREM BONDS** – Bonds payable from the proceeds of ad valorem taxes levied on real and tangible personal property.

2. **ANTICIPATION DEBT** – Any notes or other evidences of indebtedness, whether certificated or noncertificated, issued in anticipation of the issuance of bonds or other debt pursuant to this policy.

3. **BOND** – Bonds, debentures, notes, certificates of indebtedness, mortgage certificates, or other obligations or evidences of indebtedness of any type or character.

4. **CITY** – The City of Maitland, Florida and shall include the City Council, any department, board, committee, institution, agency or other establishment or official of the government of the City.

5. **DEBT SERVICE CHARGES** – Collectively, principal, including mandatory sinking fund requirements and the accretion portion of any capital appreciation bonds for retirement of obligations, interest, any redemption premium required to be paid by the City on obligations issued under this Policy and any obligation administrative fees.

6. **GENERAL OBLIGATION BONDS** – Bonds which are secured by, or provide for their payment by, the pledge, in addition to those special taxes levied for their discharge and such other sources as may be provided for their payment or pledged as security under the ordinance or resolution authorizing their issuance, of the full faith and credit and taxing power of the City and for payment of which recourse may be had against the General Fund of the City.

7. **IMPROVEMENT BONDS** – Special obligations of the City payable solely from the proceeds of the special assessments levied for an assessable project.

8. **PROJECT** – Any City undertaking approved by the City Council and includes all property rights, easements, and franchises relating thereto and deemed necessary or convenient for the construction, acquisition or operation thereof, and embraces any capital expenditure which the City Council shall deem to be made for a public purpose including the refunding of any bonded indebtedness which may be outstanding on any existing project which is to be improved by means of a new project.

9. **REFUNDING BONDS** – Bonds issued to refinance outstanding bonds of any type and the interest and redemption premium thereon. Refunding bonds shall be issuable and payable in

the same manner as the refinanced bonds, except that no approval by the electorate shall be required unless required by the State Constitution.

10. **REVENUE BONDS** – Obligations of the City payable from revenues derived from sources other than ad valorem taxes on real or tangible personal property and which do not pledge the property, credit, or general tax revenue of the City.

SECTION 2 – PURPOSES, RULES OF CONSTRUCTION, INTERPRETATION

This Policy shall be liberally construed and applied to promote its underlying purposes and policies and:

1. To establish conditions for the use of debt and to clarify the law governing the use of debt by the City.

2. To limit the authorization of debt to that which is necessary to accomplish the mission of the City in the most economical and effective manner in accordance with adopted policies and practices.

3. To maximize the City's financial resources to the fullest extent practical by creating policies and procedures that minimize the City's debt service and issuance costs, retain the highest practical credit rating, and maintain full and complete financial disclosure and reporting.

4. To provide for increased public confidence in the use of debt.

5. To permit the continued development of debt management policies and practices.

6. To provide adequate internal safeguards for the maintenance of a prudent debt management policy and related procedures.

SECTION 3 – SUPPLEMENTARY GENERAL PRINCIPLES OF LAWS APPLICABLE

Unless specifically displaced by particular provisions of this Policy, all provisions of law as set forth in the Constitution of the State of Florida and the Florida Statutes, as they may be amended from time to time, shall control all provisions of this Policy.

SECTION 4 – REQUIREMENT OF GOOD FAITH

This Policy requires all parties involved in the issuance of debt to act in good faith. As part of any selection or award process, the City may conduct a background investigation, including a record check by the Maitland Police Department, of any person or firm involved in the issuance of debt by the City. Submission of a bid or proposal constitutes acknowledgment of this process and consent to such investigation.

SECTION 5 – APPLICATION

1. This Policy applies to debt issued by the City after the effective date of this Policy. All previous ordinances, resolutions, policies and procedures related to the issuance of debt are superseded upon adoption of this Policy.

2. Debt instruments allowed under this policy may bear interest at fixed or variable rates and may include, but are not limited to, the following:

   - Capital or operating leases;
   - Bank qualified tax-exempt financing;
   - Commercial paper;
   - Line of credit;
   - General obligation, revenue or special assessment revenue bonds;
   - Certificates of participation; or,
   - Anticipation notes.

3. This Policy does not apply to interfund transactions or borrowings.

SECTION 6 – CONSTRUCTION AGAINST IMPLICIT REPEALER

This Policy is intended to provide uniform coverage of its subject matter. No part of the Policy shall be deemed to be impliedly repealed by subsequent legislation, if such construction of the subsequent legislation can be reasonably avoided.

SECTION 7 – RESPONSIBILITY

1. The primary responsibility for developing financing recommendations rests with the Finance Committee in conjunction with the Finance Director. In developing recommendations for Finance Committee consideration, the Community Development Director, the Public Works Director and the Budget Manager shall assist the Finance Director.

2. In developing financing recommendations, the following shall be considered:

   - The specific capital purpose for which debt proceeds are to be used including the expected economic or useful life of the capital improvement and expected timing of the project benefits;
   - The amount of debt and the time debt proceeds are expected to remain on hand and the related carrying cost;
   - Options for interim financing including short-term and interfund borrowing taking into consideration federal, state, tax, grant, or other related reimbursement regulations;
   - The effect of the proposed financing on the ad valorem tax rate or user charge(s) including whether such debt shall significantly impact the financial resources available to provide services to citizens and business owners;
   - Current interest rate environment and trends; and,
   - Other factors deemed appropriate in the circumstances.

SECTION 8 – DELEGATION OF AUTHORITY

The City Council may delegate to the City Manager, Finance Director or their designees, certain administrative functions for execution within legislatively articulated parameters.

SECTION 9 – SHORT-TERM OBLIGATIONS

1. ***The use of short-term debt for operating purposes, except in the case of a natural disaster or other similar emergency as identified by the City Council, is specifically prohibited under this Policy***.

2. The use of ad valorem taxes as a pledge for short-term debt is strictly prohibited under this Policy.

3. Short-term obligations due to mature in any fiscal year shall not exceed 1% of the related fund total budgeted revenues for the same fiscal year.

SECTION 10 – ANTICIPATION DEBT

1. Anticipation Debt may be issued to finance projects or portions of projects for which the City ultimately intends to issue long-term debt. Circumstances that may indicate interim financing as a viable option include, but are not limited to, the following:

   - Long-term interest rates are expected to decline in the near future;

   - Proceeds of short-term debt can be obtained more quickly than long-term obligations;

   - When it is more economical to issue a small amount of financing in the immediate future than to issue a larger amount of long-term obligations to provide financing for both immediate and future needs when the carrying costs of issuing obligations which are not immediately needed are considered.

2. Use of anticipation debt will be undertaken only if the transaction costs plus interest on the debt are less than the cost of internal financing or if available cash is insufficient to meet working capital requirements including reasonable reserves or designations.

3. Non ad valorem or other legally available revenues or resources may be pledged for the payment of anticipation debt. A covenant to budget and appropriate shall be the preferred pledge for all short-term obligations.

4. Anticipation Debt shall be subject to the requirements and affordability targets specified in Section 11 and 12 of this Policy.

SECTION 11 – LONG-TERM OBLIGATIONS

1. **Purpose** - Long-term debt shall only be used for purposes of financing capital projects or portions of capital projects. ***The use of long-term debt for operating purposes is specifically prohibited under this Policy.***

2. **Duration** – Long-term debt shall be issued for terms that provide the most efficient and economical repayment of principal and interest in light of the type of project financed, anticipated future flexibility, and statutory and other legal constraints. Call provisions shall be made as short as possible consistent with the lowest interest cost to the City and legal limitations. The City shall normally issue general obligation bonds with an average life of 10.5 years or less and 12.0 years or less for revenue bonds. ***In no instance will the maturities exceed the estimated useful or economic life of the related capital project(s).***

   When possible, all bonds shall be callable at par but at no more than 105% when necessitated by market conditions or legal requirements.

3. **Structure** – A level debt service, level principal, or balloon structure may be used for any debt obligation. Bonds may be issued in serial or term form as indicated by the type of bond and/or market conditions. The particular structure of any bond issue shall be selected based on the economic and financial conditions existing within and without (i.e. locally, nationally, and globally) the City at the time of sale, the urgency of the project, and the nature and type of security provided. ***For all long-term obligations, the first principal payment shall be made no later than one year of the original anticipated date for completion or acquisition of the related project.***

4. **Capitalized Interest** - The City may issue bonds structured to fund interest and/or principal payments during the construction/acquisition period of the related project if circumstances indicate this is the most advantageous method of funding such requirements. The preference of the City shall be to pursue funding alternatives other than Capitalized Interest for the payment of principal and/or interest during any construction period.

5. **Credit Enhancements** – Letters of credit, bond insurance, etc. may be used to improve credit quality and thereby lower interest costs. Such credit enhancements may be used when the net debt service on a specific bond issue is reduced by more than the costs of the enhancement.

SECTION 12 – AFFORDABILITY TARGETS

1. The City shall use an objective analytical approach to determine whether it can afford to assume new debt beyond what it retires each year. This process shall compare generally accepted standards of affordability to the appropriate current values for the City. Such standards shall be considered separately, as indicated in the specific circumstances, for enterprise and general long-term debt and shall include, but not be limited to the following:

   - The project provides essential City services or would advance core City policy objectives such that its value overrides the value of pay-as-you-go financing;
   - Net outstanding debt per capita is less than 15% of per capita personal income;
   - Outstanding general obligation debt is less than 1% of taxable property values;
   - Total annual debt service requirements do not exceed 10% of related current operating expenditures for general long-term debt (i.e. general obligation bonds, general government revenue bonds, special assessment debt, etc.) or 10% of pledged revenues for enterprise debt (i.e. revenue debt supported by business type activities); and,
   - Overlapping net general obligation debt of all local taxing jurisdictions.

2. The analytical process shall also examine the direct capital and operating costs and benefits of the proposed project. Such analysis shall be prepared for no less than the period of time for which the related debt is expected to be outstanding.

3. Before issuing general obligation debt, the City shall consider all other financing alternatives or funding sources. Use of general obligation debt shall be limited to projects providing community-wide benefit **and** under the following non-inclusive conditions:

   - Catastrophic or emergency conditions threatening the health, safety or welfare of the City or any of its residents or property owners;
   - If the project to be financed will generate positive net revenues within the first five years after completion and for every year the bonds are outstanding after annual debt service requirements are met;
   - The project will significantly reduce City operating costs;
   - An equal or greater amount of non-City matching funds will be lost if City funds are not applied in a timely manner; or,
   - The project provides essential City services or would advance core City policy objectives such that its value overrides the value of obtaining voter approval.

4. For revenue bonds, revenues, as defined in the authorizing ordinance or resolution, shall be a minimum of 150% of the average annual debt service (ADS) and 125% of the maximum annual debt service (MADS) for financial planning purposes. Annual adjustments to the City's rate and/or fee structures will be made as necessary to maintain coverage factors of 125% of the ADS and 125% of the MADS.

5. The decision to assume new debt shall be based on the above noted costs and benefits, current conditions of the municipal bond market, and the City's ability to support new debt as determined by the above noted standards.

6. The City shall strive to achieve/maintain these standards at a prudent level as the Government Finance Officers Association or other similar organizations may publish such benchmarks from time to time.

SECTION 13 – SALE PROCESS: LONG-TERM BONDS

1. Bonded debt may be issued by competitive sale, negotiated sale or private placement as current circumstances indicate.

2. In all publicly issued bonded debt transactions the City shall use an underwriter/underwriting syndicate, bond counsel, disclosure counsel (unless provided by the underwriter), trustee (if applicable) and paying agent. A financial advisor may be used as required under Florida law or as indicated in the circumstances. The decision to use a financial advisor shall be made by the Finance Committee concurrently with its analysis of whether the use of debt is indicated.

3. All consultants involved in the sale process shall be selected in accordance with the City's Purchasing Policy and statutory requirements.

4. Competitive bidding shall be used in the sale of bonded debt unless the nature of the issue warrants a negotiated sale or private placement. Award of a competitive sale shall be made on a true interest cost (TIC) basis as indicated in the individual circumstances and as agreed to by the financial advisor. In instances where the City in a competitive bidding deems the bids received unsatisfactory, at the election of the City Council, the City may enter into negotiation for the sale of the bonds.

5. A sale may be negotiated in the following non inclusive circumstances:

   - Complexity of the issue requires specialized expertise;
   - A negotiated sale would result in substantial savings in time or money;
   - Market conditions or the City's credit position are unusually volatile or uncertain; or,
   - Other non-routine situations requiring more flexibility than a competitive bid allows.

6. A private placement sale or limited public offering may be used to tailor a debt issue to the specific needs of a particular investor or sector or for issues with a complex structure or

unusual circumstances. The financial advisor, if any, shall concur in writing with the decision to sell bonds in a private placement.

7. For all negotiated sales or private placements, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance.

8. All costs and fees related to the issuance of bonds will be paid from the related bond proceeds or from revenues budgeted for such costs.

SECTION 14 - REFUNDINGS

1. Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Current or advance refundings will be considered within federal tax law constraints and in the following circumstances:

   - There is a net economic benefit as described below;

   - Refunding is essential in order to modernize covenants essential to operations and management; or,

   - Refunding discharges one or more revenue sources from the pledged revenues.

2. Advance refundings for economic savings will be undertaken when a net present value savings of at least 5% of the refunded par can be achieved.

3. Current refundings producing a net present value savings of less than 5% will be considered on a case-by-case basis by the Finance Committee.

4. Refundings with negative savings will not be considered unless there is a compelling public policy objective.

SECTION 15 - DISCLOSURE REQUIREMENTS

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments, other levels of government and the general public to share clear, comprehensible, and accurate financial information. Additionally, the City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.

The Finance Department shall be responsible for initial and ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

SECTION 16 – ARBITRAGE

It is the City's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with federal and state law. Because of its complex nature, the advice of bond counsel or other qualified experts will be sought whenever questions regarding arbitrage rebate and/or yield restriction arise. The Finance Department shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the Internal Revenue Code.

SECTION 17 – LEASING

1. Leasing shall be considered as an option for the acquisition of equipment or vehicles with an individual cost of $25,000 or more or a package of equipment or vehicles with a total cost of $50,000 or more. Leasing may also be considered as an option for any transactions of a lesser amount.

2. Leasing shall not be considered when funds are on hand for the acquisition unless the interest expense associated with the lease is less than the interest that can be earned by investing the funds on hand OR when other factors such a budget constraints or vendor responsiveness override the economic consideration.

3. All stated interest rates shall be tax-exempt rates and at least three competitive proposals shall be obtained for any major lease financing. The net present value of competitive bids shall be compared taking into account whether payments are in advance or in arrears and the frequency of payments. The purchase price of the equipment or vehicles shall be determined using the City's Purchasing Policy.

4. Outstanding capital lease obligations shall not exceed 10% of the related fund operating budget and the term shall not extend beyond the estimated useful or economic life of the related equipment or vehicle.

5. The lease agreement shall permit the City to refinance the lease or prepay the lease at no more than reasonable cost and at the City's option. Leases that can be called at will are preferable to those that can merely be accelerated.

6. Security for any lease shall be no more than a covenant to budget and appropriate annual lease payments.

7. The Finance Director shall review all leases prior to execution to determine the potential impact of the lease on the City's overall debt position for arbitrage purposes.

SECTION 18 – CONDUIT FINANCINGS

The City is specifically prohibited from sponsoring conduit financings for any purpose or for any benefit of any entity. However, the provisions of this section shall not preclude the City from issuing debt through a community redevelopment agency.

SECTION 19 – VOLUNTARY SINKING FUNDS

Upon analysis, the Finance Committee may recommend the City Council establish a voluntary sinking fund to set aside financial resources for the early repayment in general or for a specific long-term obligation. Such amounts shall constitute designations of fund equity and as such may be used for any lawful purpose upon decision by the City Council.

SECTION 20 – OTHER TYPES OF FINANCING

From time to time other types of financing may become available (i.e. government loan pools). Such alternatives shall be analyzed by the Finance Director for consideration by the Finance Committee.

SECTION 21 – POLICY ADMINISTRATION

The Finance Director, in conjunction with the Finance Committee shall proscribe, and the City Council shall approve, such procedures as considered necessary and cost effective to administer the provisions of this Policy. Annually, prior to the start of a new fiscal year, the Finance Director shall adjust all specific dollar amounts specified in this Policy for the change in the Consumer Price Index (All Urban Consumers (CPI-U) 1982-84=100) and submit this Policy to City Council for ratification.