Debt Policy

The Charlotte County Charter directs that a Debt Policy will be adopted by the Board of County Commissioners and reviewed annually by April 1. The following is the adopted Debt Policy.

Debt Policy - General Policy Statements
The objective of Charlotte County's (hereinafter "Charlotte County" or County) Debt Policy is to maintain the county's ability to incur present and future debt at the most advantageous circumstances to the county and its citizens, for purposes of financing or refinancing approved elements of its capital improvements program and other county projects.
Several guiding principles which are incorporated into the County's Debt Policy are as follows:

1. **Asset Life:** The county will consider long-term financing for the acquisition, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years. Debt will be used only to finance capital projects and equipment, except in case of emergency. County debt will generally not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

2. **Capital Financing:** The county will normally rely on specifically generated funds and/or grants and contributions from other governments to finance its capital needs on a pay- as-you-go basis. To achieve this, it may become necessary to secure short term (not exceeding five years amortization) construction funding. Such financing is anticipated and allows maximum flexibility in Capital Improvement Plan implementation. Debt of longer amortization periods (long-term debt) will be issued for capital projects when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries. Debt shall not, in general, be used for projects solely because insufficient funds are budgeted at the time of acquisition or construction.

3. **Credit Ratings:** Charlotte County seeks to maintain the highest possible credit ratings for all categories of short and long-term debt that can be achieved without compromising delivery of basic county services and achievement of adopted county policy objectives.

4. **Capital Planning:** To enhance creditworthiness and prudent financial management, Charlotte County is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning Evidence of this commitment to systematic capital planning is demonstrated through adoption and periodic adjustment of a Comprehensive Plan pursuant to Chapter 163, Florida Statutes, the Florida Growth Management Act and Rule 9 J 5, and the adoption of the six-year CIP.

5. **Debt Affordability Measures:** The county will examine the following statistical measures to determine debt capacity and compare these ratios to the standard municipal rating agency median for counties of comparable size and historical ratios to determine debt affordability:
• Debt per capita;
• Debt to personal income;
• Debt to taxable property value; and/or
• Debt service payments as a percentage of revenues.

6. **Debt Limits:** The county will keep outstanding debt within the limits prescribed by state statute at levels consistent with its creditworthiness, best practices, needs and affordable objectives.

7. **Debt Structure:** Debt will be structured to achieve the lowest possible net cost to the county given market conditions, the urgency of the capital project, and the nature and type of security provided. Moreover, to the extent possible, the county will design the repayment of its overall debt as to recapture rapidly its credit capacity for future use.

8. **Length of Debt:** Debt will be structured for the shortest amortization period consistent with a fair allocation of costs to current and future beneficiaries or users.

9. **Backloading:** The county will normally seek to structure debt with level principal and interest costs over the life of the debt. “Backloading” of costs will be considered when natural disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive, when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present, when such structuring is beneficial to the county’s overall amortization schedule, or when such structuring will allow debt service to more closely match project revenues during the early years of the project’s operation.

10. **Refundings:** The County Comptroller as chief finance officer of the county, county’s staff and advisors will undertake periodic reviews of all outstanding debt to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management. In general, advance refundings for economic savings will be undertaken when a net present value savings of at least 3% of the refunded debt can be achieved. Current refundings that produce a net present value savings of less than three 3% will be considered on a case by- case basis. Refundings with negative savings will not be considered unless there is a compelling public policy or legal objective.

11. **Credit Enhancements**: Credit enhancement, including letters of credit and bond insurance, may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancement.

12. **Methods of Sale:** The county will issue debt obligations either through competitive or negotiated sale or through a private placement.
a. **Competitive Sale:** A competitive sale is the common method for selecting underwriters for general obligation bonds, which are backed by the full faith and credit of the county. In a competitive bid process, the county, with the assistance of the county’s financial advisor, will structure the bond issue and publish a Notice of Sale requesting bids from underwriters. After the bids are received, the bonds are awarded to the underwriting syndicate that submitted the best bid, i.e. the lowest true interest cost to the county.

b. **Negotiated Sale:** In a negotiated sale, the county works with a single underwriting syndicate. The selection of a syndicate usually is based on factors such as past relationships, special expertise, and the size and nature of the underwriters' sales efforts. The senior manager of the syndicate will assist the county with structuring the bond issue, preparing the official statement, and obtaining a bond rating. The syndicate will engage in pre-sale marketing, and then will negotiate interest rates with the county. Negotiated sales are common with revenue bond offerings, especially when they involve complex features.

c. Private Placement: When determined to be beneficial and appropriate, the county may elect to sell its debt obligations through a private placement or limited public offering.

13. Long-Term Debt: The county will consider the issuance of long-term debt under the following conditions:
• One-time capital projects or capital improvement projects, when the project is included in the county's Capital Improvement Program and appropriated in the budget;
• An unusual equipment purchase for which it is determined to be economically beneficial for the county to purchase through financing;
• When a project is not included in the county's Capital Improvement Plan, but it is an emerging critical need whose timing was not anticipated, or it is a project mandated immediately by state or federal requirements. An analysis of the project's impact on the county's Capital Improvement Plan and future budget forecasts will be presented at the time of approval; or
• To finance the acquisition or implementation of a self-supporting proprietary or governmental program/activity.

14. **General Obligation Bonds:** When determined to be the most appropriate method of debt issuance, the county will seek approval through voter referendum to issue general obligation bonds. The full faith and credit of the county secure general obligation bonds. The county makes a pledge to levy the necessary ad valorem tax rate to meet the debt service requirements of the bonds.

15. Revenue Debt: As part of the county's financing activities, specific General Fund revenue sources may be identified to pledge for repayment of revenue debt. Before such General Fund commitments are made, specific policy goals and objectives that determine the nature and type of projects qualifying for such support and specific limitations to be placed on the maximum amount of General Fund resources pledged to such projects shall be developed. Key factors that will be considered in determining whether or not the General Fund should be used to secure a particular debt obligation will include the following:
• Demonstration of underlying self-support, thus limiting potential General Fund financial exposure
• Use of General Fund support as a transition to a fully stand-alone credit structure, where interim use of General Fund credit support reduces borrowing costs and provides a credit history for new or hard to establish credits.
• General Fund support is determined by the County Commission to be in the county's overall best interest.
The county will finance the capital needs of its revenue producing proprietary activities through the issuance of revenue-secured debt obligations. Prior to approval of such debt, the County Commission will evaluate financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners, county revenues, and other affected parties. The amount of the debt obligations issued by a county will be limited by the feasibility of the overall financing plan on the proprietary activity.
16. Leasing: When determined to be advantageous to the county, the county may lease equipment and facilities rather than purchase them outright. Leasing may be appropriate for assets that will be needed for only a short period of time, or which are subject to rapid technological obsolescence. Leasing may also be determined to be appropriate for procuring assets that are too expensive to fund with current receipts in any one year, but with useful lives to short to finance with long-term debt. The decision to lease will be supported by an analysis of lease vs. purchase.

17. Interfund Borrowing: Interfund borrowing will be considered to finance high priority needs on a case-by-case basis, only when planned expenditures in the fund making the loan would not be affected. Interfund borrowing may be used when it would reduce costs of interest, debt issuance, and/or administration. Interest charged will be at the current earnings rate of other county funds.

18. Taxable Debt: The cost of taxable debt is higher than tax-exempt debt. The issuance of taxable debt is mandated in certain circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the debt proceeds. Therefore, the county may issue taxable obligations when determined to be the best method for the intended purpose.

19. Variable Rate Debt: The county may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions. The county will limit its outstanding bonds in variable rate form to reasonable levels in relation to total debt.

20. Subordinate Debt: The county may issue subordinate debt only if it is financially beneficial to the county or consistent with creditworthiness objectives.

21. Short-Term Debt: Use of short-term borrowing, such as bond anticipation notes and tax-exempt commercial paper, will be undertaken only if the transaction costs plus interest on the debt are less than or equal to the cost of internal financing, or available cash is insufficient to meet working capital requirements as with the implementation of the infrastructure surtax programs.

22. State Revolving Fund Program: This program provides funds for projects involving water supply and distribution facilities, stormwater control and treatment projects, air and water pollution control, and solid waste disposal facilities. Whenever possible, this program will be utilized since the costs associated with issuing the notes are low and local agencies benefit from the strength of the State's credit.

23. Other Borrowing Facilities: The county may maintain or procure a special facility that will allow for borrowing on short notice, either in the form of short term or long-term notes, for small amounts not economical to finance through a regular bond issuance. The facility can be used as an interim financing mechanism when cost effective.

24. Derivative or Synthetic Debt Structures: The use of derivative or synthetic debt securities to finance capital projects or to refinance outstanding debt may be an appropriate method of hedging favorable interest rates or to mitigate the risks of interest rate volatility in a variable rate debt program. The value of such derivative securities is derived from the value of an underlying or reference market. Derivatives such as interest rate swaps and interest rate caps and collars are examples of securities that are used by corporations and municipal borrowers to lower and stabilize borrowing costs. The use of derivative debt securities by the county should be considered only upon the recommendation of the Finance Committee, in conjunction with the advice of knowledgeable and experienced experts.

25. Arbitrage Compliance: The Country Comptroller, as chief finance officer of the county, maintains a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. Arbitrage rebate liabilities will be calculated annually, and the liability will be reported in the county's annual financial statements.

26. Financing Proposals: Any capital financing proposal to a county department, agency, or utility involving pledge or other extension of the county's credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the county's credit, may be reviewed by members of the finance committee.

27. Conduit Bond Financing: Periodically, the county is approached with a request to provide conduit bond financing for qualified projects through the Charlotte County Housing Finance Authority or Industrial Development Bonds. Applications for such issues are processed pursuant to guidelines approved by the Charlotte County Board of County Commissioners. The county's financial advisor, bond counsel, and county attorney, in coordination with Housing Finance Authority and Industrial Development Bond Citizens Advisory Committee, will review all applications to provide a funding recommendation to the Board, and will charge a reasonable fee for costs and time, to be paid for by the applicant. In addition, the applicant will reimburse the county a reasonable fee for time spent on review of the application by county staff.

28. County Finance Committee: The county finance committee consists of the chief deputy of board services of the County Comptroller, the chairman of the Charlotte County Board of County Commissioners, as seated annually by the Commission, a second representative from the Board of County Commissioners, the county administrator or designee, the county attorney or designee, the director of Budget and Administrative Services, and the County Comptroller. Others participating in the Finance Committee's efforts to provide technical expertise and advice include representatives from the county's financial advisor, Disclosure Counsel and Bond Counsel. The county's Debt Policy is jointly reviewed by the Finance Committee and the Board of County Commissioners at least once every 5 years, and more frequently if so required.

29. Financial Disclosure: The county is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial and other relevant requirements on a timely and comprehensive basis. The County Comptroller, as chief finance office of the county, is responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies and may carry out such responsibility through the engagement of an outside dissemination agent or supervision of the process by others and will provide final approval.

30. Investment of Debt Proceeds: Debt proceeds will be invested primarily to assure the safety and liquidity of such investments, and secondarily, to maximize investment yield. The primary goal of liquidity is to ensure that proceeds will be available to fulfill the purposes of the issue on a timely basis. Debt covenants will specifically address investment guidelines for debt proceeds.

Requested by: Finance Director
Prepared by: City Clerk's Office

RESOLUTION NO. 2008-21

A RESOLUTION OF THE VENICE CITY COUNCIL ADOPTING A CAPITAL FINANCING AND DEBT MANAGEMENT POLICY AND PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City of Venice, Florida, is a municipal corporation of the State of Florida duly authorized pursuant to the Constitution of the State of Florida, Chapter 166, Part II, Florida Statutes, and other applicable provisions of law to borrow money to finance or refund obligations issued to finance capital projects; and

WHEREAS, City Council has long recognized the importance of proper long-range planning in order to meet capital improvement needs as they arise using the most appropriate financing structure for each capital project on an individual basis after examining all relevant factors and in compliance with legal requirements and limitations.

NOW, THEREFORE, BE IT RESOLVED BY THE VENICE CITY COUNCIL, as follows:

SECTION 1. Purpose. The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the City of Venice (city), and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy.

SECTION 2. Purposes and Uses of Debt. Incurring long-term debt serves to obligate future taxpayers. Excess reliance on long-term obligations can cause debt levels to reach or exceed the government's ability to pay. Therefore, conscientious use of long-term debt will provide assurance that future residents will be able to service the debt obligations of the community.

The city will consider the use of debt financing only for one-time capital improvement projects and only under the following circumstances:

- When the project's useful life will exceed the term of the financing.
- When project revenues or specific resources will be sufficient to service the long-term debt.

SECTION 3. Capital Expenditure. Debt financing will be used for major, non-recurring items with a minimum of four years of useful life. The useful life of the asset or project shall exceed the payout schedule of any debt the city assumes.

SECTION 4. Types of Debt. General obligation debt which is supported by property tax revenues and grows in proportion to the city's assessed valuation or community acceptable property tax rates will be utilized as authorized by voters. Other types of debt (e.g., water, sewer, airport, solid waste and storm water drainage) may also be utilized when they are supported by dedicated revenue sources (e.g., fees and user charges).

SECTION 5. Refunding Bonds. Refunding of outstanding debt shall only be considered when present value savings of at least five percent of the principal amount of the refunded bonds are produced, unless a restructuring or bond covenant revisions are necessary in order to facilitate the ability to provide services or issue additional debt in accordance with established debt policy and limitations.

SECTION 6. Debt Service Limitations. In evaluating debt capacity, general-purpose annual debt service payments should generally not exceed 10 percent of general fund revenues, and in no case should they exceed 15 percent.

SECTION 7. Repayment Provisions. Bond sales shall be structured to achieve level debt service payments to the extent possible taking into consideration the costs of such financings. Scheduling larger payments during the later years (back loading of debt payments) shall be avoided.

SECTION 8. Maturity Guidelines. Financing shall not exceed the useful life of the infrastructure improvement.

SECTION 9. Insurance/Letters of Credit/Other Enhancements. Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, will usually bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall costs.

During debt issuance planning, the financial advisor will advise the city whether or not a credit enhancement is cost effective under the circumstances and what type of credit enhancement if any, should be purchased. In a negotiated sale, bids will be taken during the period prior to the pricing of the sale. In a competitive sale, bond insurance may be provided by the purchaser if the issue qualifies for bond insurance.

SECTION 10. Capitalized Interest Guidelines. All interest will be capitalized according to Generally Accepted Governmental Accounting Principals as promulgated by the Governmental Accounting Standards Board (GASB)

SECTION 11. Investment of Bond Proceeds. All general obligation and revenue bond proceeds shall be invested as part of the city's consolidated cash pool unless otherwise specified by the bond legislation or project manager and approved by the finance director. Investments will be consistent with those authorized by existing city and state law and by the city's investment policies.

Bond interest earnings will be limited to funding changes to the bond financed Capital Improvement Plan, as approved by city council, or be applied to debt service payment on the bonds issued for construction of this plan.

SECTION 12. Debt Issuance Process.

A. Sale Process. Debt obligations are generally issued through a competitive sale. The city and its financial advisor will set the terms of the sale to encourage as many bidders as possible. By maximizing bidding, the city seeks to obtain the lowest possible interest rates on its bonds.

When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the city that would not be achieved through a competitive sale, the city may elect to sell its debt obligations through a private or negotiated sale, upon approval by city council. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program.

B. Professional Services. The city will seek the advice of the financial advisor when necessary. The financial advisor will advise on the structuring of obligations to be issued, inform the city of various options, advise the city as to how choices will impact the marketability of city obligations and will provide other services as defined by contract approved by city council. To ensure independence, the financial advisor will not bid on nor underwrite any city debt issues. The financial advisor will inform the city manager of significant issues.

The bond counsel will issue an opinion as to the legality and tax exempt status of any obligations. The city will also seek the advice of bond counsel on all other types of financings and on any other questions involving federal tax or arbitrage law. Bond counsel is also responsible for the preparation of the ordinance authorizing issuance of obligations and all of the closing documents to complete their sale and will perform other services as defined by contract approved by city council.

C. Bond Rating Goals. The city will seek to maintain and, if possible, improve our current bond rating in order to minimize borrowing costs and preserve access to credit.

D. Disclosure. The city will follow a policy of full disclosure on every financial report and bond prospectus (official statement).

E. Rating Agency Relations. The city's goal is to maintain or improve its bond ratings. To that end, prudent financial management policies will be adhered to in all areas. Full disclosure of operations will be made to the bond rating agencies. City staff, with the assistance of the financial advisors and bond counsel, will prepare the necessary materials for and presentation to the rating agencies.

F. Intergovernmental Coordination. The city will attempt to develop coordinated communication process with all other overlapping jurisdictions with which we share a common tax base concerning our collective plans for future debt issues.

SECTION 13. Other Forms of Debt.

A. Inter-fund Borrowing. The city may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and use of these funds will not impact the fund's current operations. The prevailing interest rate, as established by the finance director, will be paid to the lending fund.

B. Variable Rate Debt. The city may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions.

The city will have no more than 15 percent of its outstanding general obligation bonds in variable rate form.

C. Short-term Debt. Short term obligations may be issued to finance projects or portions of projects for which the city ultimately intends to issue long term debt; i.e., it will be used to provide interim financing which will eventually be refunded with the proceeds of long term obligations.

Short term obligations may be backed with a tax or revenue pledge, or a pledge of other available resources.

The amount of short-term obligations due to mature in a year shall not exceed five percent of outstanding long-term debt.

Interim financing may be appropriate when long-term interest rates are expected to decline in the future. In addition, some forms of short-term obligations can be obtained quicker than long-term obligations and thus can be used in emergencies until long-term financing can be obtained. In some cases when the amount of financing required in the immediate future is relatively small, it may be cheaper for the city to issue a small amount of short-term obligations to provide for its immediate needs 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 taken into account.

D. Revenue Bonds. Utility rates will be set, as a minimum, to ensure the ratio of revenue to debt service meets our bond indenture requirement of 1.2/1. The city goal will be to maintain a minimum ratio of utility revenue to debt service of 1.6/1 to ensure debt coverage in times of revenue fluctuations attributable to weather or other causes and to ensure a balanced pay-as-you-go-capital improvement plan.

E. Lease Debt. Over the lifetime of a lease, the total cost to the city will generally be higher than purchasing the asset outright. As a result, the use of lease/purchase agreements and certificates of participation in the acquisition of vehicles, equipment and other capital assets shall generally be avoided, particularly if smaller quantities of the capital asset(s) can be purchased on a "pay-as-you-go" basis.

SECTION 14. EFFECTIVE DATE. This Resolution shall take effect immediately upon its adoption.

APPROVED AND ADOPTED AT A MEETING OF THE CITY COUNCIL HELD ON THE 22ND DAY OF JULY 2008.

Ed Martin, Mayor

ATTEST:

Lori Stelzer

Lori Stelzer, MMC, City Clerk

I, LORI STELZER, MMC, City Clerk of the City of Venice, Florida, a municipal corporation in Sarasota County, Florida, do hereby certify that the foregoing is a full and complete, true and correct copy of a Resolution duly adopted by the Venice City Council, at a meeting thereof duly convened and held on the 22nd day of July 2008, a quorum being present.

WITNESS my hand and the official seal of said City this 23rd day of July 2008.

Lori Stelzer

Lori Stelzer, MMC, City Clerk

(SEAL)