City of North Port

City Commission Policy – Debt Management Policy
Policy No. 2024-01
Adopted by Resolution No. 2024-R-57
Adoption Date: November 4, 2024

I. STATEMENT OF POLICY

A. The City of North Port (city) may periodically enter into debt obligations to finance the construction or acquisition of infrastructure, buildings and other assets or to refinance existing debt and unfunded liabilities for the purpose of meeting its governmental obligations to its citizens. All debt will be issued and administered to obtain the best long term financial advantage to the city while making every effort to maintain and improve the city's credit ratings and reputation within the investment community. The Debt Management Policy will be reviewed and updated as needed, every 5-years at a minimum. Any future changes or exceptions to this Debt Management Policy require approval by City Commission.

B. ~~This policy~~ Debt of the city is subject to the Internal Revenue Code, Florida Statutes, the City Charter, City Ordinances, and City Resolutions which outline legal borrowing authority, restrictions, limits, and compliance requirements. 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 and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy.

II. PURPOSES AND USES OF DEBT

A. Debt Position: The city will maintain a conservative debt position based on the criteria outlined in this policy. Debt will be issued only if the benefits outweigh the costs of the debt.

B. Capital Financing: The city 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. Periodically, it may become necessary to secure financing that is considered interim or temporary in nature and allows maximum flexibility in Capital Improvement Program (CIP) implementation (short-term debt). Debt of longer repayment 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.

C. Asset Life: The city will consider long-term financing for the acquisition, replacement, or expansion of capital assets (including land, facilities and equipment) if it has a useful life, or average useful life of at least five years or to refinance existing debt when the conditions are favorable or in the case of an emergency and approved by the City Commission.

III. CREDITWORTHINESS

A. Legal Restrictions: The city will keep outstanding debt within the limits prescribed by State Statute and the City Charter at levels consistent with its creditworthiness, best practices, needs and affordability objectives.

B. **Debt Issuance Limitations:** The City Commission may authorize debt obligations payable from funds other than property taxes for:

1. Emergency response. During the existence of a declared local, state, or federal emergency or disaster; or

2. Safety or public health with the maximum principal amount of indebtedness or obligation of up to $15,000,000 per project. Beginning October 1, 2025 and each October 1 thereafter, this maximum amount shall be adjusted to reflect the percentage change in the Engineering News and Record (ENR) Construction Cost Index by using the most recent available information for the prior 12-month period. The Debt Evaluation Report will provide the annual index and the resulting borrowing cap based on a comparison of the most recent 12-month period to the prior 12-month period. In the event ENR CCI decreases, the cap would be the same as the prior year cap.

   a) Regulatory agency requirements;
   b) Imminent infrastructure or system failure; or
   c) Capital improvement facilities for emergency and essential services.

C. **Capital Planning:** To enhance creditworthiness and prudent financial management, the city 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, and the annual adoption of a five-year CIP.

D. **Credit Ratings:** The city 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 city services and the achievement of the adopted City Strategic Plan. For those agencies that maintain a credit rating on the city, the Finance Department will provide these organizations with all necessary budgetary and financial information as published and upon request.

E. **Debt Affordability Measures:** The city will examine the following statistical measures to determine debt capacity for non-emergency response issuances and compare these ratios to the standard municipal rating agency median for cities of comparable size and historical ratios to determine debt affordability:

1. Governmental Activities Funds:
   a) Debt per capita (~~outstanding debt divided by city population~~), with a target threshold of $2,500 or less per capita;
   b) Debt to taxable assessed value (outstanding debt divided by taxable assessed value), with a target threshold of 2.5% or less of taxable assessed value;
   c) Debt service payments as a percentage of Operating Revenues operating revenues (annual debt service payments divided by annual operating revenues), with a target threshold of 15.00% or less of annual operating

2. General Fund:

        a) ~~Operating Revenue debt~~ Debt service coverage (annual operating revenue divided by annual debt service) of at least 3.0x of operating revenues to debt service.

3. Special District or other Special Revenue Funds:
    a) Debt service coverage (annual operating revenue divided by annual debt service) of at least 2.0x of operating revenues to debt service.

4. Surtax or other Capital Projects Funds:
    a) Debt service coverage (annual operating revenue divided by annual debt service) of at least 2.0x of operating revenues to debt service.

5. Utilities or other Enterprise Funds:
    a) Days Cash on Hand of at least 150 days of available fund balance (budgeted annual operating expense divided by 365 and multiplied by 150);
    b) Net Operating Revenue debt service coverage (annual operating revenue less annual operating expense divided by annual debt service) of at least 1.20x of net operating revenues to debt service.

IV. DEBT STRUCTURING

A. Debt Structure: Debt will be structured to achieve the lowest possible net cost to the city given various market conditions, legal covenants and the nature and type of security provided. Moreover, to the extent possible, the city will design the repayment of its overall debt to maintain sufficient borrowing capacity for future use.

B. 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. The term of city debt issues shall not exceed the useful life of the project or equipment financed.

C. Backloading (Back-end Load): The city will seek to structure debt with level principal and interest costs over the life of the debt. Back loading of costs will be considered:

1. when natural disasters or extraordinary or unanticipated external factors make it necessary, as the short-term costs of the debt are prohibitive;
2. when such structuring is beneficial to the city's overall amortization schedule;
3. when such structuring will allow the debt service to more closely match project revenues during the early years of the project's operation; or
4. when the average life of debt issued is limited to a maximum of 20-years.

D. Refunding: The city's staff and financial advisor 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, an advance refunding for economic savings will be undertaken when a net present value (NPV) savings of at least 5% of the refunded debt can be achieved. A current refunding that produces NPV savings of less than 5% will be considered on a case-by-case basis. A refunding with negative savings will not be considered unless there is a compelling public policy or legal objective.

E. Credit Enhancements: Credit enhancement, including letters of credit and bond insurance, may be used to enhance the credit rating and marketability of securities, but only when providing a net benefit where debt service on the bonds is reduced by more than the costs of the enhancement.

F. Debt Service Reserve Funds: Debt Service Reserve Funds are used to provide a ready reserve to meet current debt service payments should monies not be available from current revenues for the protection of the bondholders. The city shall utilize the methodology that best serves its needs on a case-by-case basis, following Government Finance Officers Association (GFOA) standards and relying on recommendations by the city's financial advisor.

G. Capitalized Interest: Borrowing for near-term interest costs should be limited to specific revenue generating projects or debt issued without current year debt service budgeted, and only when beneficial to the city's current residents and rate payors. All interest will be capitalized according to Generally Accepted Governmental Accounting Principles (GAAP) as promulgated by the Governmental Accounting Standards Board (GASB).

H. Fixed Interest Debt: Fixed interest debt allows the city to budget long-term costs without risk of interest rate changes. This is the city's primary loan type and will be used to mitigate interest rate risk.

I. Variable Rate Debt: The city may choose to issue securities that pay a rate of interest that varies according to a 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 limit its outstanding bonds in variable rate form to reasonable levels in relation to total debt. At no time will the city have variable debt in excess of 20% of the city's debt portfolio.

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

K. Revenue Debt: As part of the city's financing activities, specific revenue sources may be identified to pledge for repayment of revenue debt. Before such 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 resources pledged to such projects shall be developed. Key factors that will be considered in determining whether or not General Fund specific revenues should be used to secure a particular debt obligation will include the following:

1. Demonstration of underlying self-support, thus limiting potential General Fund exposure

2. 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.
3. General Fund support is determined by the City Commission to be in the city's overall best interest.

L. Taxable Debt: The cost of taxable debt is typically higher than tax-exempt debt. The issuance of taxable debt is mandated in certain circumstances upon review and analysis by the city's bond counsel and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the debt proceeds. Therefore, the city may issue taxable obligations when determined to be the best method for the intended purpose.

M. Leasing: When determined to be advantageous to the city, the city 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 too short to finance with long-term debt. The decision to lease will be supported by an analysis of lease versus purchase. Lease-purchase financing may be used which result in periodic lease payments being applied over time with a nominal purchase at the end of the lease period. This approach allows for a budgeted annual appropriation of funds for payments, using the asset as collateral instead of a dedicated revenue stream.

N. Lease-Purchase: Financing mechanism similar to a Bank Loan used to purchase assets using the asset to secure financing, as opposed to a revenue stream. This is a common financing technique used for fleet, public safety, general governmental and other equipment needed to provide required services.

O. State and Federal Loan Programs: These programs provide funds for projects such as water supply and distribution facilities, stormwater control and treatment projects, air and water pollution control, solid waste disposal facilities, infrastructure, etc. In programs like the State of Florida Revolving Loan Fund (SRF), local governments benefit from the strength of the state's credit and costs are traditionally low. Other programs, like the Water Infrastructure Finance and Innovation Act (WIFIA), provide partial funding for large water and wastewater related projects, and others, like the State Infrastructure Bank (SIB) Loan, provide funding for infrastructure type projects. Whenever possible, these types of programs shall be considered if the implementation costs are not excessive, interest costs are below prevailing open market conditions and legal terms are acceptable.

P. Pooled Financing: If it is financially or strategically beneficial, the city may participate in debt pools with other entities and low-interest loans from state agencies or organizations on either a long-term or short-term basis.

Q. 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 market interest rates.

R. Bank Loans: The city may use bank loans where financially feasible and appropriate.

S. Line of Credit: The city may establish a line of credit with a financial institution or other provider.

T. Conduit Bond Financing: The city may provide conduit financings for those activities that have general public purpose and are in the best interest of the city. All conduit financings must isolate the city completely from any credit risk or exposure.

U. Other Debt Types: The city may consider the use of Tax Anticipation Notes, Bond Anticipation Notes, Revenue Anticipation Notes, Commercial Paper Notes or other such structured borrowings if it is in the best financial interests of the city to do so.

V. EXTERNAL FINANCING TEAM

A. Independent Financial Advisor: The city shall engage a registered independent financial advisor to assist the city in the analysis, structure, issuance and management of debt. The financial advisor has a fiduciary duty to the city and will provide advice on determining the best type of financing for the city, selecting other finance professionals, planning the bond sale, recommending the best method of sale and structure for the debt issue, and successfully selling and closing the financing. Financial advisors are required to have comprehensive municipal debt experience, including diverse financial structuring and pricing of municipal securities. The city requires that its financial advisor complies with the Municipal Securities Rulemaking Board (MSRB) Rule G-42 or similar standards of conduct for municipal advisors engaging in municipal advisory activities. An independent financial advisor can also provide assistance with the selection of other financial professionals.

B. Bond Counsel: The city shall engage an external bond counsel for all debt issues deemed necessary. The bond counsel ensures compliance with Federal laws and regulations related to the issuance of tax-exempt debt. The bond counsel prepares the legal documents related to the financing and oversees the closing process for the bonds.

C. Disclosure Counsel: The city shall engage external disclosure counsel for all public offerings. Disclosure counsel renders an opinion to the city (and a reliance letter to the underwriters if requested) in connection with each such offering to the effect that, with certain conditions, nothing came to their attention to indicate the offering document contains any untrue statement of material fact or omits to state any material fact necessary to make the statements in the offering document, in light of the circumstances under which they were made, not misleading. Disclosure counsel shall provide legal advice to the city to assist it in meeting its secondary market disclosure obligations. Disclosure counsel is engaged in the same manner as bond counsel.

D. Underwriter: The underwriter purchases the bonds of the local government and usually on a percentage fee basis of the issue, markets the bonds to the ultimate bond purchaser. The underwriter may be chosen through a competitive Request For Proposal (RFP) process for a negotiated sale, or public bid through a competitive sale process.

E. **Credit Rating Agencies**: Various independent bond rating agencies assess the credit quality of the borrowing entity and debt offerings. Superior ratings by these organizations command favorable borrowing rates resulting in lower overall cost of funds.

VI. DEBT ISSUANCE PROCESS

A. **Debt Approval:** All proposed borrowings require the City Commission's final approval, which includes the adoption of appropriate Resolutions with two readings drafted by bond counsel. Before the sale of bonds or notes the Finance Department will identify the source and use of bond proceeds, identify account coding for deposit of all bond proceeds and payment of debt service. The preparation of an appropriate budget amendment may also be required.

B. **Competitive Sale:** In general, city debt is issued through a competitive bidding process. In a competitive bid process, the city, with the assistance of the city's financial advisor, will structure the bond issue and publish a Notice of Sale requesting bids from underwriters. Bids are awarded on a True Interest Cost basis (TIC), provided other bidding requirements are satisfied. The Finance Department shall work with the external financing team to develop parameters that are included in the approving resolution. The parameters must be met by the winning bidder for the Finance Department to have authorization to award the competitive sale, based on terms included in the bid documents previously approved by City Commission

C. **Negotiated Sale:** A negotiated sale of debt may be considered when the complexity of the issue requires specialized expertise; or when the negotiated sale would result in substantial savings in time or money; or when market conditions are unusually volatile; or when a negotiated sale is otherwise in the best interest of the city. In a negotiated sale, the city works with a single underwriter or underwriting syndicate. In a negotiated sale, the underwriter will be selected through the Request For Proposal (RFP) process. The criteria used to select an underwriter in a negotiated sale should include, but not be limited to the following: overall experience, marketing philosophy, capability, previous experience, past relationships, special expertise, the size and nature of the underwriter's sales efforts, underwriter's discount, and expenses. The underwriter will work with the finance team to optimize structuring of the bond issue, preparing the official statement, and obtaining a bond rating or ratings. The underwriter will engage in pre-sale marketing, and then will negotiate interest rates with the city.

D. **Private Placement**: When determined to be beneficial and appropriate, the city may elect to sell its debt obligations through a private placement with a bank or other financial institution. The financing institution will be selected through the Request for Proposal (RFP) process, directed and lead by the city's financial advisor.

E. **Investment of Proceeds:** All proceeds of debt incurred by the city will be invested as part of the city's consolidated cash pool unless otherwise specified by the bond covenants. Debt proceeds will be invested primarily to assure the safety and liquidity of such investments, and secondarily, to maximize investment yield. The city will develop detailed draw schedules for each project funded with borrowed monies. The city will invest the proceeds of all borrowings consistent with those authorized by the city's investment policy, and in a manner that will ensure the availability of funds as described in the draw schedules. Debt covenants will specifically address investment guidelines for debt proceeds, along with rebate calculations and other compliance requirements.

F. Use of Bond Proceeds: All proceeds will be used as described in the resolution authorizing the issuance, or as approved by the City Commission. In the event funds are determined, by the city, to not be needed for the purpose they were issued, such funds shall be transferred to the debt service fund to be applied to payment or prepayment of the bond or note unless otherwise authorized in the issuance resolution.

G. Costs and Fees: All costs and fees related to the issuance of bonds are paid out of bond proceeds or by the related department budget.

VII. DEBT ADMINISTRATION AND MANAGEMENT

A. Debt Management Advisory Committee: As directed by City Ordinance, the city will establish and maintain a committee to serve in an advisory capacity to the City Commission. This committee will meet annually, or more often as needed, and be responsible for making recommendations on financings and providing reports to the Commission. In the event the committee is unable to provide a recommendation to the City Commission, city staff and financial advisor will present a recommended plan of finance for consideration. The committee will perform a Debt Management Policy review every 5-years at a minimum, and suggested updates will be presented to the City Commission prior to adopting changes to the policy.

Members of the committee will include the following:

1. Five (or more) citizens appointed by the Commission (voting)
2. City Manager or designee (non-voting)
3. City Finance Director or designee (non-voting)
4. City's Financial Advisor (non-voting)

B. Debt Evaluation Report: The Debt Management Advisory Committee will review a report prepared by city staff and financial advisor and present the report to the City Commission relating to current and future debt options and challenges, as needed but no less than once per year. Such a report will be presented at a public meeting, and may include the following elements:

1. Calculations of the appropriate ratios and measurements necessary to evaluate the city's financial strength;
2. Information related to any significant events affecting outstanding debt, including conduit debt obligations;
3. An evaluation of savings related to any potential refunding;
4. A summary of any changes in Federal or State laws affecting the city's debt program; and
5. A summary statement as to the overall status of the city's debt obligations and debt management activities.

C. Report to Bondholders: The Finance Department shall prepare and release to all interested parties the Annual Comprehensive Financial Report (ACFR), which will act as the ongoing disclosure document required under the Continuing Disclosure Rules promulgated by the Securities Exchange Commission (SEC). This report shall contain general and demographic information on city, and a discussion of the general government, the solid waste system, the water and wastewater utility system, the storm water utility system, and any additional systems that may subsequently be established by the city. The information presented on the general government and on the enterprise system shall comply with the disclosure obligations set forth in the Continuing Disclosure Certificates issued in connection with its debt obligations, and may include information on the following: service areas; rates and charges; financial statement excerpts; outstanding and proposed debt; material events; a summary of certain bond resolution provisions; a management discussion of operations; and other such information that the city may deem to be important. The report shall also include Notes to the Financial Statements, and to the extent available, information on conduit debt obligations issued by the city on behalf of another entity.

D. Tax-Exempt Debt Compliance: The city will comply with all applicable Federal tax rules related to its tax-exempt debt issuances. This includes compliance with all applicable Federal tax documentation and filing requirements, yield restriction limitations, arbitrage rebate requirements, use of proceeds and financed projects' limitations and recordkeeping requirements.

E. Arbitrage Compliance: The Finance Department 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 or otherwise as directed by a calculation agent, and the liability will be reported in the city's annual financial statements.

F. Financial Disclosure: The city is committed to full and complete financial disclosure and to cooperating copiously with rating agencies, institutional and individual investors, other levels of government, and the public to share clear, comprehensible, and accurate financial and other relevant information. The city is committed to meeting secondary disclosure requirements on a timely and broad basis. The Finance Department is responsible for ongoing disclosures 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.

VIII. USE OF DERIVATIVES –

A. Derivative or Synthetic Debt Structures: The use of derivative instruments in general is not recommended, and consideration by City Commission requires a presentation by the city staff and financial advisor to outline the risks and benefit associated with the structure being recommended.