

This white paper explores the necessity and benefits of authorizing North Port to issue debt to foster economic growth, support community development, and enhance public infrastructure. By exploring the benefits, challenges, and prudent practices associated with municipal debt issuance, this paper aims to provide policymakers and stakeholders with a comprehensive understanding of the role and importance of debt financing in local governance. Ultimately, empowering municipalities to responsibly utilize debt instruments can catalyze progress, address critical needs, and ensure the long-term prosperity of communities.

Introduction:

Municipalities serve as the backbone of local governance, responsible for providing essential services, maintaining infrastructure, enhancing the quality of life for their residents, and fostering economic vitality. However, fulfilling these obligations often requires substantial financial resources beyond what can be generated through taxation and other revenue streams. With limited financial resources, municipalities are often constrained in their ability to undertake critical projects and address pressing needs effectively. In this context, debt issuance emerges as a crucial tool for municipalities not only in bridging the gap between funding needs and available resources, but also in propelling the municipality towards sustainable development.

I. Economic Development:

- a. Stimulating Economic Growth:** Debt-funded projects generate employment opportunities, stimulate local businesses, and contribute to overall economic growth. Borrowing can inject money into the local economy, stimulating job creation and investment during construction. Whether through large-scale infrastructure projects or targeted investments in key sectors, municipal debt issuance can serve as a catalyst for job creation and economic development.
- b. Capital Investment:** By leveraging debt, municipalities can make significant capital investments in essential sectors like transportation, utilities, law enforcement, fire suppression, emergency medical services, parks, and recreation. These investments not only enhance the quality of life for residents but also attract businesses and promote long-term economic prosperity.

II. Infrastructural Development:

- a. Addressing Critical Infrastructure Needs:** Many Florida municipalities grapple with aging infrastructure systems that require immediate attention and substantial investments. Pay-as-you-go might struggle with financing very expensive but necessary projects. Debt enables immediate action without straining current budgets. Furthermore, debt issuance provides a means to fund infrastructure projects such as road repairs, water and sewer system upgrades, and public facility

renovations, ensuring the safety and functionality of essential services. These investments not only improve quality of life but also stimulate economic activity and attract private sector investment.

- b. Mitigating Environmental Challenges:** Climate change poses significant challenges to Florida's infrastructure, with rising sea levels, increased flooding, and more frequent extreme weather events threatening communities. Authorizing debt issuance enables municipalities to implement adaptation and resilience measures, safeguarding infrastructure and mitigating the impacts of environmental hazards.

III. **Community Development:**

- a. Enhancing Public Services:** Debt financing empowers municipalities to enhance public services, including public safety, social services, and recreation programs. By investing in these areas, municipalities can improve the overall well-being and quality of life for residents, fostering a healthier, more equitable society.
- b. Community Development:** Debt-funded projects often catalyze community development initiatives, such as affordable housing construction, environmental sustainability programs, parks and recreation enhancements, and cultural amenities. These investments contribute to the social fabric of municipalities, fostering vibrant, inclusive communities where residents can thrive.

IV. **Fiscal Benefits**

- a. Budget Flexibility:** Debt financing offers municipalities greater flexibility in managing their budgets by spreading the cost of capital investments over time. Rather than depleting limited reserves or imposing heavy tax burdens, municipalities can structure debt repayments in a manner that aligns with revenue streams and expenditure priorities. Debt allows us to distribute the project cost across generations of users, ensuring those enjoying the benefits contribute financially.
- b. Inflation Hedge:** Borrowing now locks in today's interest rates, potentially protecting against future inflation that could erode the value of saved funds.
- c. Liquidity in Emergency Response:** Financing allows the city to properly respond to post disaster repairs and improvements while waiting on insurance and FEMA reimbursements.

V. **Best Practices:**

To maximize the benefits of debt issuance while mitigating risks, municipalities should adopt the following best practices:

- a. **Safeguards and Accountability:** Any authorization for debt issuance must be accompanied by robust safeguards and mechanisms for accountability. Comprehensive financial planning, stringent budgetary oversight, and transparent reporting practices are essential to ensure responsible debt management and safeguard against fiscal irresponsibility.
- b. **Risk Mitigation Strategies:** Municipalities must employ prudent risk mitigation strategies to manage the potential risks associated with debt issuance effectively. This includes utilization of risk assessments, maintenance of adequate reserves, and implementation of contingency plans to address unforeseen circumstances.
- c. **Comprehensive Debt Management Policies:** Develop and implement clear, comprehensive debt management policies that outline borrowing objectives, risk tolerance thresholds, and debt service parameters.
- d. **Strategic Planning and Prioritization:** Prioritize capital projects based on strategic planning objectives, community needs assessments, and long-term sustainability considerations.
- e. **Robust Financial Analysis:** Conduct rigorous financial analysis, including cost-benefit evaluations, sensitivity analyses, and stress testing, to assess the feasibility and impact of debt-funded initiatives.
- f. **Transparent Communication:** Foster transparency and accountability by providing stakeholders with timely and accurate information regarding debt issuance plans, financial performance, and debt service obligations.

VI. Challenges and Mitigation Strategies:

While the benefits of municipal debt issuance are evident, prudent management and risk mitigation are essential to safeguarding fiscal sustainability. Key challenges include:

- a. **Debt Service Burden:** Excessive debt levels can strain municipal budgets and lead to financial instability. To mitigate this risk, municipalities should adhere to debt affordability guidelines, conduct rigorous cost-benefit analyses, and maintain transparent communication with stakeholders.
- b. **Market Volatility:** Fluctuations in interest rates and market conditions can impact the cost of borrowing and debt refinancing options. To mitigate exposure to market risk, municipalities should consider employing hedging strategies, diversifying debt portfolios, and monitoring market trends proactively.

- c. **Creditworthiness Concerns:** Weak fiscal management practices or economic downturns may undermine a municipality's creditworthiness, making it more challenging to access affordable financing. To enhance creditworthiness, municipalities should prioritize sound financial management, maintain strong governance structures, and demonstrate commitment to debt repayment.
- d. **Political and Regulatory Constraints:** Political factors and regulatory constraints may influence the decision-making process regarding debt issuance. To navigate these challenges, municipalities should engage in comprehensive stakeholder consultation, adhere to legal and regulatory requirements, and demonstrate accountability and transparency in debt management practices.

VII. Process of Issuing Debt:

In Florida, municipalities have the authority to issue both general obligation (GO) bonds and revenue bonds to finance various projects and initiatives. The process for issuing each type of bond differs slightly:

- a. **General Obligation Bonds (GO Bonds):**
 - i. **Assessment of Need:** The municipality assesses its capital project needs, such as infrastructure improvements or public facilities.
 - ii. **Authorization:** The municipality's governing body approves a resolution or ordinance authorizing the issuance of GO bonds.
 - iii. **Public Vote:** Florida law requires a public vote for the issuance of GO bonds.
 - iv. **Debt Limitation Compliance:** The municipality ensures compliance with Florida's statutory debt limitations and requirements, as well as Charter requirements.
 - v. **Bond Sale:** The municipality issues the GO bonds to investors through a competitive bidding process or negotiation with underwriters.
 - vi. **Use of Proceeds:** The proceeds from the bond sale are used to fund the specified capital projects outlined in the authorization resolution.
- b. **Revenue Bonds:**
 - i. **Project Feasibility Study:** The municipality conducts a feasibility study to assess the revenue-generating potential of the project to be financed.
 - ii. **Authorization:** Like GO bonds, the governing body authorizes the issuance of revenue bonds through a resolution or ordinance.
 - iii. **Revenue Pledge:** Revenue bonds are secured by the anticipated revenues generated by the project being financed, such as user fees, or lease payments.

- iv. **Credit Assessment:** The municipality's creditworthiness and the feasibility of the revenue stream are evaluated by credit rating agencies.
- v. **Bond Sale:** The municipality issues the revenue bonds to investors, with the repayment of principal and interest primarily dependent on the project's revenue stream.
- vi. **Use of Proceeds:** The proceeds from the bond sale are used to finance the construction, improvement, or expansion of the revenue-generating project.

Throughout both processes, transparency and public involvement are crucial, often involving public hearings or meetings to inform residents and stakeholders about the proposed bond issuance and its potential impact on the community's finances. Additionally, municipalities must adhere to all relevant state and federal regulations governing the issuance of municipal bonds to ensure compliance and maintain fiscal responsibility.

North Port contracts with nationally renowned third-party experts who serve as our bond counsel and financial advisors. These seasoned professionals boast extensive expertise in Florida law and the intricacies of Florida's debt markets. Both firms are involved in every aspect of any potential debt issuance, ensuring meticulous attention to detail, compliance with laws and rules, as well as the lowest cost of capital for North Port's citizens.

Conclusion:

Empowering North Port to issue debt is essential for promoting economic growth, supporting community development, and enhancing public infrastructure. By embracing prudent debt management practices, North Port can harness the benefits of debt financing while safeguarding fiscal sustainability and serving the needs of the community. With debt as a tool for responsible investment, North Port can address critical needs, stimulate prosperity, and build a resilient community for current and future generations. As policymakers consider asking the voters for authorization to issue debt without referendum, it is imperative to recognize the critical role that debt plays in advancing local governance and ensuring long-term prosperity. Through careful planning, transparent governance, and prudent financial management, North Port can unlock its full potential for progress and prosperity.