

CITY OF MADEIRA BEACH DEBT MANAGEMENT POLICY

ADOPTED BY BOARD OF COMMISSIONERS AUGUST 9, 2016

I. POLICY STATEMENT

The City of Madeira Beach (the “City”) was incorporated in 1947 with a Council-Manager form of government. As a municipal corporation of the State of Florida, the City is governed by a five-member elected Board of Commissioners (the “BOC”). The BOC is responsible for the establishment and adoption of policy for the City. The execution of such policy is the responsibility of the City Manager. The BOC directs the City Manager or the Manager’s designee to implement all policy. For the purposes of this Debt Management Policy (the “Policy”), the City Manager’s designee is presumed to be the City Treasurer who functions as the fiduciary entrusted to protect and enhance the City’s financial condition.

It is the express intent of the BOC that adherence to this Policy should illuminate and promote the evaluation of trade-offs between adopted City policy statements and the current and forecast fiscal condition of the City. Furthermore, it is the BOC’s intent that this Policy be informed by and benchmarked against “Best Practices and Advisories” developed by organizations such as the Municipal Securities Rulemaking Board (“MSRB”), National Association of Bond Lawyers (“NABL”), Government Finance Officers Association (“GFOA”) and Florida Municipal Officials’ Manual (the “Manual”). It is understood, however, that the Policy must also give strong consideration to the local environment in which the City operates and its objectives and tolerances.

The GFOA recommends that all state and local governments adopt comprehensive written debt management policies. This Policy has been drafted with reference to the guidance of the GFOA as of the date of adoption. It is understood that the benchmark organizations amend and modify their guidance over time. The City Treasurer is to periodically review any such “Best Practices and Advisories” and recommend conforming modifications to this Policy, if warranted.

Whether definitively debt or otherwise labeled, this Policy will set guidelines for the amount and type of long-term borrowing to be incurred by the City, the process by which such borrowing is to be executed, and the management of such outstanding obligations (for purposes of the Policy, a long-term obligation is an obligation maturing later than twelve months after incurring said obligation). The Policy is intended to enhance the quality of decisions about the affordability, structure, and management of all long-term obligations. Through this Policy, the BOC shall oversee the process by which the City shall manage its bonds, notes, certificates of indebtedness and other long-term obligations, and lease purchase agreements within the constraints of available and forecast financial resources. The Debt Management Policy should be read in its entirety and read in conjunction with other applicable Policies adopted by the City.

Terms used within this Policy, unless specifically defined herein, have the meanings assigned to them in the *Glossary of Municipal Securities Terms*, published by the Municipal Securities Rulemaking Board.

II. POLICY PURPOSE AND SCOPE

This Policy addresses the methods, procedures, and practices that will ensure prudent management of the City’s outstanding obligations. The guidelines contained in this Policy adhere to the Florida Constitution and State Statutes and reflect the recommended practices of the MSRB, NABL, GFOA and the Manual.

Long-term obligations may take the form of general obligation bonds, ad valorem bonds, revenue bonds, improvement bonds, and refunding bonds, or certificates of indebtedness or any form of anticipation certificates maturing more than twelve months after issuance. Certificates of indebtedness may be created evidencing undivided interests in the right to payments under lease purchase agreements. Short-term obligations, payable during the same fiscal year in which they are issued (or immediately thereafter so long

as payments are made from funds included in the adopted budget for that fiscal year), may take the form of anticipation notes or loan agreements.

The issuance of debt has significant long-term implications for the City. Accordingly, consideration will be given to the principles of equity (such that those who pay for the debt are those who benefit from the assets funded by incurring such obligations), essentiality (if the debt finances an asset, the financed asset is essential to the City's core operation) and efficiency (the identified revenue source is sufficient to meet the debt service and the cost of obtaining such funds is less than other viable alternatives).

This Debt Policy is not a comprehensive policy on the management of other City liabilities.

III. LONG-TERM OBLIGATIONS

Citing the Manual, the City has the option of "financing" or utilizing "borrowed" revenue. Article VII, Section 12, Florida Constitution, authorizes municipalities to issue bonds, certificates of indebtedness or any form of tax anticipation certificates, payable from ad valorem taxation and maturing more than twelve months after issuance only:

- A. To finance or refinance capital projects authorized by law and only when approved by vote of the electors who are owners of freeholds therein not wholly exempt from taxation; or
- B. To refund outstanding bonds and interest and redemption premium thereon at a lower net average interest cost rate.

General provisions for municipal borrowing are codified in Chapter 166, Part III, Florida Statutes. According to s. 166.101, F.S., there are five basic forms of bonds: general obligation bonds; ad valorem bonds; revenue bonds; assessment / improvement bonds; and refunding bonds.

The following forms of bonds require a referendum:

1. Ad valorem bonds – these bonds are payable from the proceeds of ad valorem taxes levied on real and tangible personal property.
2. General obligation bonds – these are known as "full faith and credit bonds" because their repayment is unconditional and based on the general credit and taxing powers of the borrowing government. Since the power to levy and collect property taxes provides the basic security to these bonds, they require voter approval to issue them, generally carry the lowest interest rates, and are typically used to finance general-purpose public buildings, roads and public safety facilities. (For most practical purposes, a general obligation bond is an ad valorem bond.)

The following forms of debt do not require a referendum:

1. Revenue bonds – these bonds are obligations in which repayment of debt service is entirely derived from revenue sources other than ad valorem taxes; the most common municipal issues are for utilities (e.g. water, wastewater, storm drainage), parking garages, stadiums and airports.
2. Assessment / Improvement bonds – these are special obligations of the municipality which are payable solely from the proceeds of special assessments levied for a project.
3. Refunding bonds – these bonds are issued to refinance outstanding bonds of any type and the interest and redemption premium; they should be issued and payable in the same manner as the refinanced bonds but require no electorate approval.

The use of borrowed funds for municipal government needs varies radically among jurisdictions. The selection of the appropriate instrument is dependent upon the financing circumstances of the project and the specific municipality.

IV. DEBT ISSUANCE FACTORS

This Policy is consistent with the referenced best practice and advisories as it relates to new and refunding issues; such practices and advisories encourage legal advice be sought early in the issuance process to raise key legal, tax, and financial issues. The issuance of debt is subject to a set of terms that ensure oversight and fiscal prudence:

A. Debt shall comply with all applicable laws, regulations, and covenants and shall not be issued so as to jeopardize the status of outstanding debt.

B. Long-term debt shall not be incurred to fund operations.

C. Capital improvements may be financed utilizing long-term debt.

D. Principal and interest payment schedules will be structured to result in level debt service payments, except for the refinancing of liabilities, in which case debt service may reasonably reflect the structure of the liability being refinanced. In each case repayment structures may vary when circumstances warrant.

E. Debt incurred will generally be limited to current interest serial or term maturities, but may be sold in the form of capital appreciation bonds or other structures, including short-term securities if circumstances warrant.

F. The average life of debt issued to finance assets shall be no greater than the projected average life of the assets being financed. The assets funded by debt issuance shall have a life expectancy that is equal to or greater than the final maturity of the obligations incurred.

G. The City may issue refunding bonds to reduce the interest cost on its outstanding debt or other obligations for other purposes allowable under State law. It shall be the policy of the BOC to consider the advance refunding (refinancing) of any outstanding long-term debt when such refunding will achieve present value savings of at least 3% compared to the debt service on the obligations being refunded and a minimum net present value savings of \$100,000; and will generally not require extending the maturity of the bonds beyond that of the bonds being refunded. The City should consider all available options, including maintaining the status quo (preserving the opportunity to evaluate the refunding at a future point in time), when presented with a refunding opportunity.

H. Refunding savings on current (non-advance) refunding bonds may be lower than the 3% threshold, as consideration shall be given to such factors as the declining rate of savings anticipated to be available as bonds reach their maturity date.

I. The City may issue refunding bonds for the purpose of restructuring debt service obligations or to eliminate or modify the bond covenants required by the then-outstanding issue. Prudence and circumstance shall dictate the City's decision to refund for such reasons.

J. The City shall follow the "Debt Issuance Checklist" published by GFOA to ensure the contemplated financing is completed in accordance with current best practices and advisories.

V. DEBT AFFORDABILITY

The City shall conduct a Debt Affordability Study in advance of seeking BOC authorization to incur debt. The Study will be undertaken by the City Treasurer, with advisory or consultancy support as required. Such planning analyses of debt affordability will serve to make rational the assessment of the ability of the City to carry additional debt service for so long as the proposed obligation would be outstanding. A Debt Affordability Study signals to the public, to the rating agencies, and to the investment community that the City is taking seriously its fiduciary role in the oversight and management of its debt.

The Study, along with the City Treasurer's review, should consider the following factors:

- A. A rigorous analysis of the operating strength of the City and assessment of the contemplated financing in the context of the adopted budget the City's Budget Policy;
- B. An assessment of implications of the proposed financing for the City's credit and its credit rating having drawn upon applicable rating agency criteria and metrics for peer cities and like rated credits;
- C. An analysis of financing and funding alternatives and a summary of the true interest cost of the proposed financing; and
- D. An overview of the plan of finance in the context of other current and forecast capital needs.

VI. FORM OF DEBT

Debt issued by the City is to be executed as fixed rate obligations and may be issued with or without credit enhancements and as short- and long-term obligations. At the time of adoption of this Policy, it is not expected that the City will entertain any obligation with a derivative structure. However, prudence may dictate the consideration of derivatives in the future. Any consideration of a financing utilizing either variable rate or derivatives or both shall necessitate a comprehensive and robust discussion amongst the BOC and City Treasurer prior to committing the City to any financing featuring either a variable rate, derivative structure or both.

The ultimate form of debt shall be recommended by the City Treasurer for consideration and approval by the BOC. Consideration shall be given to a number of factors as noted within this Policy.

A. General Obligation Bonds

The issuance of General Obligation (GO) Bonds should be carefully conserved and used only for projects that clearly benefit the broad public interest. Public projects deemed to be of an essential nature and without associated revenue streams are the strongest candidates for GO financing.

General obligation debt is subject to voter approval. No general obligation debt can be created unless it has been approved by a majority of the registered electors of the City, in an election held for that purpose.

Subsequent to voter approval, the BOC has the power to issue GO Bonds. It is expected:

1. At the time of issuance, the City's general obligation debt should be within an acceptable range as determined by the nationally recognized rating agencies and/or GFOA Best Practices for cities of like size and credit quality. Ratios to be considered may consist of the following:
 - a. GO debt per capita.
 - b. GO debt to personal income.
 - c. GO debt to taxable property value.
2. General obligation debt shall be structured on a level debt service basis with a maximum maturity of 30 years, but terms may vary as conditions warrant.

- a. The City will target a combined principal pay-out rate that is within nationally recognized rating agencies guidelines for the desired credit rating level.
- b. Debt service on general obligation debt is anticipated to be payable from a separate mill levy that is deposited into a separate fund created and maintained for bond redemption.

B. Revenue Bonds

Revenue bonds may be issued without approval of the registered electors of the City and are not payable from a dedicated mill levy. Revenue bond covenants such as reserves and debt service coverage ratios will be structured to maintain or improve credit ratings.

Prior to issuance of revenue bonds, the City Treasurer shall review the financial condition of the applicable City Fund(s) and the contemplated debt to confirm that current and future revenues are sufficient to:

1. Comply with additional bonds and/or anti-dilution test(s) covenanted on existing obligations;
2. Meet the rate-maintenance covenant(s) pursuant to governing bond ordinance; and
3. Maintain or improve credit ratings.

Revenue bonds shall not be included in the calculation of outstanding obligations counted towards the City's GO debt limit.

C. Lease Financings

Lease financings may be used for vehicles, buildings, and capital equipment. Lease financings are generally used for long-lived assets that would not be affordable if funded on a lump sum or cash basis during a single fiscal year. Lease financings are subject to approval by the BOC, and are not subject to voter referendum if the annual rent payable by the City is subject to annual appropriation and does not exceed the value of the leased property, and the financing otherwise qualifies under applicable Florida case law.

Criteria used to determine the use of lease financings include: the essentiality of the assets to be funded; that annual appropriations will be available as necessary to fund annual costs; and/or there is assurance that revenue enhancements or cost savings will be realized. In addition, the following guidelines shall govern lease purchase financings:

1. Lease purchase financings will be secured by a lease payment related to the utilization by the City of the assets financed, or other available assets of the City, as well as legally available future revenues and appropriations.
2. Annual lease appropriation payments as a percentage of expenditures shall be monitored over time to set standards and metrics (e.g., criteria of nationally recognized rating agencies). In this assessment, consideration must be given to the circumstance when a lease appropriation payment replaces costs that would otherwise be incurred.
3. The term of any lease transaction shall not exceed the estimated useful life of the assets financed, and shall comply with additional restrictions governing average life and term as provided by applicable law.
4. Lease financings may be entered into directly with the owner of the leased property, a financial institution, a nonprofit corporation, or for-profit entity. The preferred lessor for new lease financings and refinancings of existing lease financings that involve the issuance of certificates of participation will be a commercial bank acting as trustee.

VII. DEBT STRUCTURING PRACTICES

The following terms will govern the City in its debt structuring practices:

- A. Interest may be capitalized for revenue bonds, assessment bonds, and lease financings if warranted as determined by the City Treasurer:
 - 1. to fund interest during construction and prior to financed assets being placed in service; or
 - 2. to allow for the funding of interest costs during the budget year in which a transaction is completed, or when budgeted resources may not be available.

- B. Debt issued by the City may contain optional redemption features. The City Treasurer shall determine the best course of action by selecting appropriate dates and prices, taking into account such items as the cost of funds and future financial flexibility.

- C. In the structure of a debt offering, original issue premiums and discounts will be used as deemed to be in the City's financial interest considering current investor demand, future cash flows and expected interest rate savings.

- D. Capital appreciation bonds and zero coupon bonds shall only be used if deemed to be in the City's financial interest considering current investor demand, future cash flows and expected interest rate savings.

- E. When judged advantageous to the City, agreements providing credit enhancements with municipal bond insurance companies, commercial banks, or other financial entities for the purposes of acquiring letters of credit or bond insurance policies may be obtained.
 - 1. The projected net present value of the estimated debt service savings from the use of credit enhancement must be greater than the fees and/or premium paid by the City to obtain such credit support.
 - 2. If possible, a competitive process shall be used to procure credit enhancement providers.

- F. When economically beneficial, the City shall seek to avail itself of options other than cash funding a debt service reserve fund.

VIII. METHODS OF SALE

It is the interest of the City to issue debt using the method of sale or placement of obligations that is expected to achieve the best sales results, at the least cost, taking into account both short-range and long-range implications.

- A. Conditions which inform the decision about the use of a *competitive sale* process include:
 - 1. the market is familiar and comfortable with the project being financed, the structure of the financing, and the revenues to be used to pay debt service;
 - 2. the issue is appropriately sized to attract investors without a concerted effort; and
 - 3. interest rates are stable and market demand is strong.

- B. Conditions which inform the decision about the use of a *negotiated sale* process include:
 - 1. the transaction is of significant size for the market;
 - 2. market timing will be a critical factor in garnering the lowest possible interest rate;
 - 3. the financing requires a complex or innovative structure;
 - 4. the market has concerns about the credit quality of the debt; and

5. the market is unfamiliar with the project, the structure of the financing, or the revenues to be used to pay debt service.

C. Conditions which inform the decision about the use of a *private placement* include:

1. small transaction size;
2. term of the debt;
3. time to market for transactions where time is of the essence; and
4. transactions that have particular characteristics suited to one or a small number of interested buyers.

The City shall engage in a competitive, formal request for proposals (RFP) process to identify the appropriate institution to complete a contemplated financing. The City shall document and make publicly available the criteria and process for lender selection. The City shall require selected institutions to make disclosures pursuant to MSRB Rule G-17 and disclose any conflicts of interest that may exist, as well as the name(s) of any person or firm compensated to promote the selection of the institution; any existing or planned arrangements between outside professionals to share tasks, responsibilities and fees; the name(s) of any person or firm with whom the sharing is proposed; and the method used to calculate the fees to be earned.

The City shall require the preparation of a post-sale summary and analysis that documents the pricing of the debt relative to other similar transactions priced at or near the time of issuance, and record the true interest cost of the sale and the date and hour of the verbal award.

IX. CREDIT RATINGS

Criteria used by nationally recognized rating agencies in assessing an entity's credit quality indicate the existence of and adherence to formalized debt planning and debt policies. Ratings provide bondholders with reassurances that debt burdens and operational debt costs will be kept at manageable levels while ongoing capital needs continue to be met. Furthermore, the rating agencies suggest debt policies typically specify both target debt burden levels and maximum allowable debt burden levels.

The City recognizes the importance of maintaining good relations with bond rating agencies in order to increase the financial market's understanding of the credit, which may affect the City's cost of borrowing. The City expects to seek a rating on all public offerings. Exceptions to this requirement are permissible, such as when privately placing a transaction with an accredited investor or lending institution. As a matter of general policy:

- A. The City shall seek to maintain if not improve its credit quality;
- B. The City shall obtain an underlying rating on debt which is credit enhanced; and
- C. The City shall comply with all legal obligations regarding regular and ongoing disclosure of financial and other information, and will proactively provide annual reports and other regularly available financial information to those agencies which rate City obligations.

X. DEBT MANAGEMENT

The City Treasurer shall be responsible for ongoing debt management of the City. As a matter of policy, the City shall undertake the following as part of its ongoing debt management program.

A. The City Treasurer shall undertake periodic debt management performance reviews, which will include regular review of the City's outstanding debt issues, and include an analysis of interest expense. The BOC shall receive periodic reports summarizing the debt outstanding, amortization schedules, and key debt ratios.

B. To the extent that there are one or more resolutions of the BOC that would allow for staff to execute financing transactions within defined parameters, the City Treasurer shall inform the BOC when any such authorized transaction is commenced. In the event that any such authorized financing is not pursued when market conditions contemplated by such resolution(s) are available, the BOC shall be informed.

C. The City shall comply with the applicable arbitrage regulations and should regularly employ an arbitrage rebate consultant.

D. The City recognizes the importance of ongoing, proactive and transparent dissemination of information to the investment community. For the benefit of its investors, the City will post its most recent financial reports, official statements, policies and other fiscal information relating to the City's debt portfolio to the appropriate website(s).

E. The City shall invest bond proceeds according to all applicable covenants associated with the borrowing and the City's Investment Policy. Bond proceeds shall be invested in a manner such that the arbitrage liability of the City is mitigated.

XI. POST-ISSUANCE TAX COMPLIANCE POLICY FOR TAX-EXEMPT BONDS

The City recognizes that compliance with applicable provisions of the Internal Revenue Code of 1986, regulations promulgated thereunder is an ongoing process, necessary during the entire term of the City's tax-exempt obligations or tax-advantaged obligations and/or publicly offered bonds, and is an integral component of the City's debt management. Accordingly, the analysis of those facts and implementation of this Policy will require ongoing monitoring and consultation with bond and disclosure counsel.

For monitoring post-issuance compliance, the City Treasurer shall:

- A. Be responsible for monitoring post-issuance compliance issues.
- B. Coordinate procedures for record retention and review of such records with the City Clerk.
- C. Cause for all documents and other records relating to debt incurred by the City to be maintained in a manner evidencing awareness of and compliance with applicable Internal Revenue Service requirements, such as those contained in Revenue Procedure 97-22.
- D. As warranted, exercise voluntary corrections for failure to comply with post-issuance compliance requirements (such as remedial actions under Section 1.141-12 of the Regulations and Treasury's Tax-Exempt Bonds Voluntary Closing Agreement Program) and further take such corrective action when necessary and appropriate to bring the City's post-issuance circumstance and practices into compliance.
- E. Otherwise adhere to the City's *POST-ISSUANCE TAX-COMPLIANCE POLICY FOR TAX-EXEMPT BONDS* (attached hereto).

XII. LEGAL REVIEW

Prior to the issuance of any debt, the General Counsel of the City, in consultation with the City Treasurer shall secure an opinion that the proposed debt is structured and issued in a manner which complies with all applicable laws and regulations of the state and federal governments. Bond and Disclosure Counsel shall be retained to render opinions and prepare documents related to the issuance of debt. Such Bond and Disclosure Counsel shall have extensive experience in public finance, securities regulation and tax issues.

XIII. ADVISORS, CONSULTANTS AND FINANCIAL SERVICES

The City Treasurer may retain finance or other consulting professionals when such expertise is required. Such professionals may include, but not be limited to municipal advisors, bond trustees, registrar and paying agents, escrow agents, underwriters, tender/remarketing agents, credit and liquidity facility providers, arbitrage rebate consultants, verification agents, and other professional services associated with debt financings. The selection and retention of finance professionals shall conform to the City's policies/practices that govern the procurement of professional services contracts.

XIV. POLICY REVIEW AND REVISION

This Policy shall be reviewed periodically and no less than every three years by the City Treasurer, and may be amended by the Board of Commissioners as conditions warrant.