TO:	**ALL COUNTY PERSONNEL**
FROM:	**VERDENIA C. BAKER**
PREPARED BY:	**OFFICE OF FINANCIAL MANAGEMENT & BUDGET (OFMB)**
SUBJECT:	**DEBT MANAGEMENT POLICY**
PPM#:	**CW-F-074**

ISSUE DATE	**EFFECTIVE DATE**
August 17, 2016	**August 17, 2016**

PURPOSE:

To establish parameters and guidance for the issuance, management, monitoring, assessment and evaluation of all Debt Obligations (as defined herein) issued by Palm Beach County.

UPDATES:

Future updates to this PPM will be the responsibility of the Director of OFMB.

AUTHORITY:

- Florida Statutes, Sections 125.01, 125.013, 129.06, 218.38, 218.385 and 218.386, as may be amended.
- Palm Beach County Administrative Code, Sections 101.00, 301.00 303.00, 304.00, 311.00 and 312.00, as may be amended.
- Comprehensive Plan, Capital Improvement Element, as amended annually.

OVERVIEW:

The Board of County Commissioners (BCC) periodically considers the issuance of Debt Obligations to finance the construction or acquisition of infrastructure and other assets or to refund outstanding debt.

This Policy and Procedures Memorandum provides guidance for managing the issuance of the County's Debt Obligations and for maintaining the County's ability to incur debt and other long-term obligations at favorable interest rates for capital improvements and equipment. The Debt Management Policy identifies debt management goals and standards which the BCC must consider in committing to fund capital improvements, while making every effort to maintain the County's bond rating and reputation in the investment community.

These Policies will guide the County in its evaluation of the impact of each funding decision on the County's debt capacity and credit quality.

The national credit rating agencies, Moody's Investors Service, Fitch Ratings and Standard & Poor's (the "Rating Agencies") have taken a more active role in monitoring the County's overall credit position. The County's ability to borrow at the lowest costs depends upon its credit standing as assessed by the Rating Agencies. Key aspects of the County's continued AAA, AAA/Aaa credit rating from the three rating agencies include:

1. Adherence to sound fiscal policy relative to budgeting revenues, expenditures and funding of the Capital Improvement Program (CIP) and adequate levels of fund balance;

2. Appropriate levels of public investment in the facilities and infrastructure required for steady economic growth;

3. Effective production of the revenues necessary to fund CIP projects and to support debt service generated by public borrowing;

4. Facility planning, management practices and controls for cost containment, and effective implementation of the CIP;

5. Planning and programming of capital projects to allow consistent levels of borrowing;

6. Assurances through County law and practice of an absolute commitment to timely repayment of debt related to public facilities and infrastructure.

DEFINITIONS:

Ad Valorem Tax – A direct tax based according to value of property.

County Financing Committee - The County Finance Committee (CFC) reviews all issues relating to outstanding and proposed Debt Obligations including, but not limited to, the selection and procurement of all outside professional services.

Competitive Sale – A method of submitting proposals to purchase bonds by which the bonds are awarded to the underwriter presenting the best bid according to stipulated criteria set forth in the notice of sale.

Debt Obligations – For purposes of this PPM, debt obligations will include bonds, bond anticipation notes, notes, letters and lines of credit or other securities issued by the County to fund a capital project providing a public benefit and secured by a pledge on a specific revenue source or covenant to budget and appropriate specific revenues.

Debt Service – Scheduled payments of interest and principal on debt obligations.

Fixed Rate Debt – Debt obligation issued with a predetermined interest rate.

General Obligation Debt – Debt obligations which are secured by the full faith and credit of the County and are payable by a levy of ad valorem taxes. General Obligation Bonds require approval by election prior to issuance.

Installment Debt – Any loan that is repaid by the borrower in periodic (usually monthly) installments that include principal and interest.

MSTU and Special District Debt – Debt issued to provide funding for capital projects within a portion of the County, and for which only revenues derived within the district are used to pay debt service.

Negotiated Sale – the sale of bonds by an issuer directly to an underwriter or underwriting syndicate selected by the issuer.

Non-Self Supporting Debt – Debt secured by covenant to budget and appropriate from legally available non-ad valorem revenues. Debt service expenditures for this debt are in direct competition with other General Fund expenditures.

Present Value – The amount that a future sum of money is worth today given a specified rate of return.

Rating – Evaluations of credit quality that are issued by Moody's Investor Service, Fitch Ratings, and Standard & Poor's Corporation. Ratings are intended to measure the probability of the timely repayment of principal and interest on bonds.

Variable Rate Debt – Debt obligations entered into that use a variable, auction reset, adjustable, convertible, or other similar rate, which is not fixed in percentage at the date of issue.

POLICY:

It is the policy of the County that Debt Obligations will be issued and administered in such a manner as to ensure and sustain the long-term financial integrity of the County and to achieve the highest possible credit rating.

In carrying out this policy the County has established parameters and guidelines governing the issuance, management, continuing evaluation and reporting on all Debt Obligations issued by the County. When evaluating the appropriateness of a new bond issue, the County will not approve the issue until after a consideration of the following criteria:

1. The County will not issue Debt Obligations or use debt proceeds to finance current operations.

2. The County will utilize Debt Obligations only for capital improvement projects that cannot be funded from current revenue sources.

3. The County will only issue debt in such cases where it is more equitable to the users of the project to finance the project over its useful life than to fund it out of current year revenues.

4. The County will evaluate the impact of the debt service requirements of outstanding and proposed Debt Obligations over various maturities up to statutory limitations. This evaluation will consider debt service maturities and payments as well as the County's projections for pay-as-you-go capital funding requirements.

5. Bonds are normally issued in a 20-year series, amortized with level debt service payments, however longer or shorter maturities will be considered as appropriate.

Debt issuance will only be deemed to be appropriate when the following conditions exist:

1. When the project to be funded is non-routine in nature (i.e. not regular, ongoing capitalized maintenance projects).

2. When it can be determined that current and/or future citizens will receive a benefit from the improvement in future years.

   When Palm Beach County utilizes long-term debt financing, it will ensure that the debt is soundly financed by:

3. Conservatively projecting the revenue sources that will be utilized to pay the debt.

4. Financing the improvement over a period not greater than the useful life of the improvement.

   Additionally, the County has established the following policies in relation to debt financing:

5. When the population benefiting from the Capital Improvement is less than County-wide, the County will use special assessments, District, MSTU or self-supporting bonds instead of non self-supporting County-wide revenue bonds or County-wide general obligation bonds.

6. Annual debt service payments on net debt, exclusive of self-supporting debt will be no more than 10% of actual general government expenditures.

7. Overall outstanding Ad Valorem and Non-Ad Valorem debt shall not exceed $1,250 per capita.

General Obligation Debt

The County will issue general obligation bonds only upon approval of the electorate after a general election as required by the Florida Constitution. The County shall not initiate a general obligation bond referendum if as a result of the proposed bond issue, general obligation bond debt service would exceed $.50 per thousand dollars of taxable value (.5 mills). In addition, total general obligation bond debt outstanding shall not exceed 5% of taxable property value in the County.

Non-Self-Supporting Debt

The County may issue non-self-supporting debt to the extent that pledged non-ad valorem revenues are at least twice the annual amount of debt service on the non-self-supporting debt. The County may also consider private activity debt provided that the intended use meets the public purpose needs of the County. Refer to PPM CW-F-077 (private use facilities financed with tax-exempt bonds).

The County shall pledge all legally available non-ad valorem revenues for non self-supporting bond issues.

Self-Supporting Debt

The County may issue self-supporting debt for proprietary fund activities based on an analysis of revenues and expenses to be incurred as a result of the project or projects to be funded by the debt, and current revenues and expenses of the enterprise fund.

Refunding Outstanding Debt

Under certain circumstances, refunding bonds may be issued in order to: 1) achieve interest rate savings, 2) remove or change burdensome bond covenants or 3) restructure the stream of debt service payments. Except as provided below, the County will not consider refunding long-term debt unless the net present value savings on debt service cost on the proposed new bonds is at least 5%. In addition, the maximum term of the new bonds will not exceed the remaining life of the bonds to be refunded.

The following are circumstances where a lower net present value savings (i.e. less than 5%) may be justified:

1. The refunding is being done for reasons other than economic savings (e.g. unnecessarily restrictive bond covenants).

2. Interest rates are at historically low levels and future opportunities to achieve more savings are not likely to occur.

3. A large bond issue in terms of issue size may produce a significant dollar amount of savings at a lower threshold.

Variable Rate Debt

Given the possibility that the need for project financing may not coincide with attractive market interest rates, a variable rate program to provide for the timely initiation of certain projects may be prudent. The County uses variable rate debt for the following purposes: (1) as an interim financing device (during construction periods or during periods of relatively high long-term fixed rates), (2) as an integral portion of overall long-term debt strategy, and (3) to better match shorter lived assets to liabilities. The aggregate principal amount of Non Self Supporting Debt bearing a variable rate will not exceed 25% of the aggregate principal amount of all Non Self-Supporting Debt.

Installment Debt

As a means to financing tangible personal property (i.e. equipment) acquisitions and to allow for financing options of tangible personal property, the County may enter into installment debt arrangements. Installment debt, also called an installment loan, is granted to the borrower with a preset number of monthly payments of equal amount. These amounts are amortized to include a certain amount of principal and interest calculated over a set number of months. Once the borrower successfully submits all of these payments in their entirety, the loan is paid off.

MSTU and Special District Debt

The County has established Fire/Rescue municipal service tax units and a County Library district has been authorized by special act of the legislature. In addition to these existing districts, the County may establish other special districts in the future to implement its CIP and/or to provide services and improvements within a specific area of the County. These MSTU's and special districts may issue debt for the purpose of funding facilities and infrastructure necessary to carry out their functions. Such debt will only be issued when approved in a voter referendum held within the MSTU or special district. The bonds will be MSTU or District General Obligation Bonds and will be payable by a special property tax levy on property within the district.

County Financing Committee

It is the responsibility of the CFC to review and make recommendations to the County Administrator regarding the issuance of Debt Obligations and management of outstanding debt. The CFC consists of the Director of OFMB or designee, if applicable, the County Department Head or designee, two active qualified Local Government Finance Officers, a qualified representative from the Clerk and Comptroller's Office, and a qualified citizen at large appointed by the BCC. The Director of OFMB is the chairperson of the CFC. Meetings will be open to the public and official minutes will be taken and copies made available upon request.

Selection of Outside Professionals

Outside professionals are responsible for the preparation of the bond resolution, official statement, and other official documents for each bond issue.

For all competitive sales, underwriters will be asked to submit competitive bids for the bonds. For negotiated sales, the underwriting team will be selected from the pre-qualified underwriter pool established through an RFP process (refer to PPM CW-F-078). The resolution awarding the sale of the bonds will be submitted to the BCC at a scheduled public meeting for approval.

The County retains external Bond Counsel for all debt issues (for both public debt offerings and private placements).. All debt issued by the County includes a written opinion by Bond Counsel affirming that the County is authorized to issue the debt and determining the debt's federal income tax status. Bond Counsel is selected through an RFP process administered by the County Attorney. The contract award will be submitted to the BCC at a scheduled public meeting for approval.

The County retains external Disclosure Counsel for all public offerings. Disclosure Counsel renders an opinion to the County to the effect that, with certain conditions, nothing came to their attention to indicate the offering document contains any untrue statement or omits a material fact required to be included. Disclosure Counsel also provides advice to the County to assist in meeting its secondary market disclosure obligations. Disclosure Counsel is engaged in the same manner as Bond Counsel. The contract award will be submitted to the BCC at a scheduled public meeting for approval.

The County's Financial Advisor along with the County Debt Manager, manages the debt issuance process and compares the interest rates proposed by the underwriters to current published market rates to assure that the County receives the most favorable terms for each issue. In addition to transactional tasks, the Financial Advisor advises the County on strategic financial planning matters and assists management in the analysis and evaluation of capital project financing alternatives. The Financial Advisor is selected through an RFP process in accordance with County purchasing procedures. The contract award will be submitted to the BCC at a scheduled public meeting for approval.

Method of Sale

All new money and refunding Debt Obligations of the County will be sold by competitive bid unless the CFC and the Financial Advisor shall make a recommendation to the County Administrator that the County will be better served by selling such Debt Obligations through a negotiated sale. Negotiated sale of debt will be considered when the complexity of the issue requires specialized expertise, when the negotiated sale would result in substantial savings of time or money, when market conditions are unusually volatile or when a negotiated sale is otherwise in the best interest of the County. This rationale will be provided as part of the authorizing resolution. The resolution authorizing the issuance of the bonds by either competitive bid or negotiated sale will be submitted to the BCC at a scheduled public meeting for approval. For selection of underwriters for a negotiated sale refer to PPM CW-F-078.

Post Issuance Review

The County Debt Manager will conduct a post-sale analysis that will, at a minimum, document the pricing of the bonds relative to other similar transactions, record the true interest cost and other necessary information.

Relations, with Bond Rating Agencies and Investors

OFMB shall maintain frequent communications with bond rating agencies regarding the County's financial condition and anticipated bond issues. OFMB will also maintain communications (e.g. emails, mail-outs, telephone contacts) with institutional investors through regular required disclosures as well as less formal communications.

OFMB will provide notice of occurrence, if any, of certain events as required by the Securities Exchange Commission (SEC) Rule 15c2-12 to the Electronic Municipal Market Access (EMMA). Notice is provided through the County's Disclosure and Dissemination Agent, Digital Assurance Corporation (DAC). The County, through the Clerk and Comptroller of Palm Beach County shall provide the County's Comprehensive Annual Financial Report (CAFR) to EMMA as part of the continuing disclosure which is required under Rule 15c2-12 of the SEC.

Verdenia C. Baker

VERDENIA C. BAKER
COUNTY ADMINISTRATOR

Supersession History

1. PPM # CW-F-074, issued 5/24/07
2. PPM # CW-F-074, issued 8/18/09
3. PPM # CW-F-074 issued 6/27/11