Debt Management Policy

I. Purpose

The purpose of this policy is to establish guidelines for the issuance and management of the debt of the City of Palm Bay, Florida (hereinafter referred to as to “City”). The City is committed to consistent, best practices financial management, including maintaining the financial strength and flexibility of the City and the full and timely repayment of all borrowings.

II. Scope

This debt policy applies to all debt issued by the City. Debt issued by state agencies on behalf of the City is not subject to the provisions of this policy.

III. Capital Budgeting and Debt Issuance Policy

A. Community Investment Program

The City Council annually reviews a 5-year Community Investment Program (CIP). The CIP serves as the planning guide for the construction of public facilities in the City. The CIP is designed to balance the need for public facilities, with the fiscal capability of the City to meet those needs. The City shall issue debt to meet these cash flow needs on a short-term or long-term basis, dependent upon the intended use of the proceeds.

B. Long-Term Debt

Long-term debt will be used to finance essential capital projects and certain equipment where it is cost effective, prudent or otherwise determined to be in the best interest of the City. Long-term debt, which includes capital lease financings, should not be used to fund the City’s operations, provided that the City may issue long-term debt to finance pesion or other post employment benefit obligations. Capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the facilities or equipment.

C. Short-Term Debt

Short-term debt can be used to diversify a debt portfolio, reduce interest costs, provide interim funding for capital projects and improve the match of assets to liabilities. The City may issue commercial paper, other forms of variable rate debt and synthetic variable rate debt from time to time, but its use will generally be restricted to providing interim financing for capital projects. The amount of unhedged variable rate debt will generally not exceed 20% of all outstanding debt.

IV. Measures of Debt Levels and Debt Issuance Limits

1. General Obligation Bonds shall have debt ratios necessary to maintain sound credit ratings.

2. Revenue Bonds shall maintain specific coverage ratios not less than the following:

    i. Utility System Net Revenues excluding connection fees should be at least equal to 110% of maximum combined debt service, and 120% including connection fees.
    ii. Public Service Tax Revenues should be at least 135% of combined debt service.
    iii. Sales Tax Revenues should be at least 125% of debt service.
    iv. State Revenue Sharing moneys should be at least equal to 110% of maximum combined debt service.
    v. Local Option Gas Tax Revenues should be at least 150% of the combined maximum debt service requirement.

V. Sale Methods

The City, upon advise of its Financial Advisor will determine whether the sale of debt shall be via a competitive sale or a negotiated sale on a case-by-case basis after considering such factors as the size and the complexity of the offering and market conditions.

VI. Call Provisions

Call provisions for the City bond issues shall be made as short as possible and consistent with the lowest interest cost to the City. When possible, the City bonds shall be callable only at par.

VII. Debt Structure

A. Premium Bonds, Discount Bonds, and Capitalized Interest

The City will utilize various debt structures to accomplish its financing goals. These structures include, but are not limited to, the use of premium bonds, discount bonds, capital appreciation bonds, variable rate and multimodal bonds, and capitalized interest when appropriate.

B. Interest Rate Swaps

The City will consider interest rate swap transactions only as they relate to its debt management program and not as an investment instrument or hedge. As a result, any swap transaction should not impair the outstanding uninsured bond rating of the City. (For additional details, see City's Interest Rate Risk Management Policy)

VIII. Variable Rate Debt

The City may issue variable rate debt obligations in amounts and in proportion to its fixed rate debt that the City, upon advice of its Financial Advisor, determines are appropriate to achieve the City's goals with respect to its credit rating, risk management, debt management flexibility and debt service costs. The specific amount of variable rate obligations permitted will be set considering cash reserves, market conditions, matching of current and future assets and liabilities, budget procedures and other factors deemed relevant by the City, its Financial Advisor and national credit rating agencies. Variable rate obligations that are swapped to a fixed rate for a term of greater than five (5) years will be considered as fixed rate obligations.

IX. Debt Refunding

The City will monitor outstanding debt in relation to existing conditions in the debt market and may refund any outstanding debt when sufficient cost savings can be realized. Refunding outstanding debt may be considered when the net present value savings between the refunded bonds and the refunding bonds is equal to or greater than 3% for either a current refunding or for an advance refunding. A higher savings threshold may be adopted for when the present value savings could vary from the amount presented at closing (i.e. synthetic refundings, put bonds, swaptions, etc.). Conversely, a lower savings level may be acceptable for certain refundings (i.e. refundings with a very short duration). The City may also refund existing debt for the purpose of revising bond covenants to meet particular organizational and/or strategic needs of the City.

X. Credit Objectives

It is the City's intent to maintain and improve the credit ratings on its outstanding bonds. The City will actively seek to adhere to benchmarks and overall debt coverage ratios contemplated in its planning process. The City will also maintain frequent communications with the credit rating agencies and bond insurers.

XI. Credit Enhancement and Liquidity

Bond insurance, surety policies, letter of credit, liquidity facilities and other credit enhancements or liquidity facilities, may be used when it provides an economic savings for the City.

XII. Reporting and Compliance

A. Continuing Disclosure

The City will (1) provide disclosure in connection with the initial sale and distribution of its publicly marketed debt instruments and (2) provide ongoing secondary market information, in compliance with the requirements of applicable federal and state securities laws, rules and regulations.

B. Debt Service Payments

The City will include the appropriations necessary to make the required debt service payments in its annual budget.

C. Compliance with Bond Covenants, Federal and State Law

The City shall comply with all covenants and requirements of bond resolutions, and State and Federal laws authorizing and governing the issuance and administration of debt obligations.

D. Bond Yield Arbitrage Monitoring

The City shall contract for arbitrage calculation services to monitor the earnings on its bond proceeds for each debt series and determine whether a rebate is necessary.