



CITY OF TAMARAC DEBT MANAGEMENT POLICY

I. Purpose

The purpose of the City of Tamarac debt management policy is to manage the issuance of the City's debt obligations and maintain the City's ability to incur debt and other long term obligations at favorable interest rates for capital improvements, facilities and equipment beneficial to the City and necessary for essential services.

II. Comprehensive Capital Planning and Financing System

The City plans long and short-term debt issuance to finance its capital improvement program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Director of Finance oversees and coordinates the timing and issuance process.

III. Authority to Issue Bonds

The City of Tamarac Charter Article VII. Financial Procedures Section 7.16 Bonds and Municipal Borrowing, authorizes the City to issue municipal bonds or to borrow funds for municipal purposes. Article V. City Manager Section 5.04 Powers and Duties of the City Manager Part (e) Bonds, Contracts, and Issuance of Checks, allows the City Manager to execute bonds on behalf of the City pursuant to actions and directions of the Commission.

IV. Criteria

The City will issue debt only for the purposes of acquiring or constructing capital improvements, and for making major renovations to existing capital improvements, for the good of the public. Exceptions to this rule will be considered on a case-by-case basis to determine if the contemplated debt is in the best interests of the City.

Before issuing any new debt the City will consider the following factors:

- Global, national and local financial environment
- Current interest rates
- Expected interest rate changes
- Robustness of local and broad economy
- Cash position
- Current debt position
- Availability of funds to repay
- Flexibility to cover future needs
- Urgency of current capital needs

V. Limitations on Indebtedness

The City will maintain a conservative debt position based on the criteria listed above. Pay-as-you-go and replacement programs will be utilized whenever feasible to avoid financing costs. Debt will be issued only if the benefits outweigh the costs of the debt.

VI. Types of Debt

Long Term Debt:

Depending on the specific circumstances, the City may use the following types of long-term (long-term is defined as having a term of more than one year) financing instruments:

- A. General Obligation Bonds: The City may issue bonds payable from ad valorem taxes when approved by vote of the electors. The City may also issue non-ad valorem bonds and covenant to budget and appropriate legally available funds to pay debt service for those bonds without voter approval.
- B. Revenue Bonds: The City may issue bonds secured by a specific revenue stream other than ad valorem taxes.
- C. Master Lease Agreements: The City may enter into a lease agreement with a provider or bank to lease equipment. The terms of the lease should coincide with the life of the equipment to be leased and a tax-exempt rate shall be sought. The City will strive to obtain the lowest rate possible using competitive bidding or current market analysis.
- D. 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 other organizations on either a long-term or short-term basis.

Short-Term and Interim Debt:

Short-term obligations (those due in less than one year) may be issued in anticipation of particular revenues such as taxes or grants, and such revenue may be pledged for repayment of the debt issuance. Short-term debt may also be issued to finance projects or portions of projects for which the City ultimately intends to issue long-term debt. Short-term and/or interim financing shall not exceed ten percent (10%) of outstanding long-term debt, unless there is a situation that needs immediate attention in order to address an emergency or to allow for significant cost savings. Under certain other circumstances, short-term obligations may be warranted upon the recommendation of the Director of Finance.

Interim financing may be appropriate when long-term interest rates are expected to decline in the future. In addition, some forms of short-term obligations can be obtained quicker than long-term obligations and thus can be used in urgent situations until long-term financing can be obtained. Short-term obligations include:

- A. Line of Credit: The City may establish a tax-exempt line of credit with a financial institution or other provider. Draws shall be made on the line of credit when the need for financing is so urgent that time does not permit the issuance of long-term debt or the need for financing is so small that the total cost of issuance of long-term debt would be prohibitive.
- B. 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.
- C. Interfund Borrowing: Interfund borrowing, a short-term cash lending from one fund to another fund, shall be discouraged. However, the use of this type of interim financing may be considered if it is in the City's best interests to do so as determined by the Director of Finance.
- D. Internal Interim Financing: Should the City desire to issue bonds for large capital projects, the City can, upon passage of an intent-to-issue resolution, use non-restricted reserve funds as interim financing to pay a portion of project costs that will then be paid back with bond proceeds. This type of financing will be reviewed by Bond Counsel to ensure the City is in compliance with applicable federal tax rules.
- E. Other types: The City may consider the use of Tax Anticipation Notes, Bond Anticipation Notes, Revenue Anticipation Notes, derivatives or other such structured borrowings if it is in the best financial interests of the City to do so.

Conduit Debt:

The City may sponsor conduit financings for those activities that have general public purpose, are in the best interest of the City, and adhere to Florida Statutes. All conduit financings must insulate the City completely from any credit risk or exposure and must be approved by the City Commission.

VII. Structural Features of Debt

Taxable and Tax-exempt Debt: The cost of taxable debt is higher than the cost of tax-exempt debt. However, the issuance of taxable debt is mandated in some circumstances, and may allow flexibility in subsequent contracts with users or managers of the improvement constructed with the bond proceeds. Therefore, the City will usually issue obligations tax-exempt, but may occasionally issue taxable obligations when there is an expected benefit from doing so.

Maturity: The term of City debt issues shall not exceed the useful life of the project or equipment financed. The repayment of principal on tax supported debt should generally not extend beyond 20 years unless there are compelling factors which make it necessary to extend the term beyond this point.

Bond Insurance: Bond insurance is an insurance policy which can be purchased by the City, which guarantees the payment of principal and interest. This security provides a higher credit rating and thus a lower borrowing cost for an issuer. Bond insurance shall be acquired for all bonds issued by the City unless it is not in the best interest of the City.

Surety and Debt Service Reserve Funds: Surety and 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.

Coverage Requirements: Coverage is the ratio of pledged revenues to related debt service for a given year. For each bond issue, the Finance Department, in conjunction with the financing team, shall determine the appropriate coverage requirements, if any.

Use of Variable-Rate Securities: When appropriate, the City may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities.

Validation: The City may seek judicial validation if it is deemed in the best interest of the City and if there is risk of a legal challenge.

VIII. Investment of Bond Proceeds

Investment of bond proceeds will be consistent with those authorized by existing state law and by the City's investment policy and applicable bond covenants. When financially in the best interests of the City, bond proceeds shall be invested and tracked separately from other investments.

IX. Refinancing of Outstanding Debt

Advance Refundings: The City may issue advance refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, prudent and a net present value savings of at least three percent (3%) is provided.

Exceptions to the requirement shall be made only upon the recommendation of the Director of Finance.

Current Refundings: The City may issue current refunding bonds (as defined for federal tax law purpose) when advantageous, legally permissible, prudent and net present value savings equal or exceed three percent (3%).

Restructuring of Debt: The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current or advance refundings undertaken to restructure debt may be waived by the Director of Finance upon a finding that such a restructuring is in the City's overall best financial interests.

X. Credit Objectives

The City's goal is to maintain or improve its bond ratings. To that end, prudent financial management policies will be established and adhered to in all areas. Full disclosure of operations will be made to the bond rating agencies. The City will strive to achieve an underlying rating in the double "A" range from one or more of the major rating agencies.

XI. Ongoing Disclosure

In accordance with the Securities and Exchange Commission (SEC), Rule 15c2-12, the City will provide financial and operating information to the Nationally Recognized Municipal Information Repositories (NRMSIRs) designated by the SEC. The City will also provide its annual financial statements and other relevant information to rating agencies, paying agent banking institutions, and as required by Continuing Disclosure Requirements within all debt documents.

XII. Method of Sale

There are three ways the City may sell bonds: competitive (public) sale, negotiated sale and private placement.

The City, as a matter of policy, shall seek to issue its debt obligations in a negotiated sale unless it is determined by the Director of Finance that such a sale method would not produce the best results for the City.

Negotiated Sale: Bonds may be sold through an exclusive arrangement between the City and an underwriter or underwriting syndicate. At the end of successful negotiations, the issue is awarded to the underwriters. This method offers flexibility for the City. In a negotiated sale, the underwriter shall 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, underwriter's discount, and expenses.

Competitive Sale: When determined appropriate by the Director of Finance, the City may sell its debt obligations in which any interested underwriter is invited to submit a proposal to purchase an issue of bonds. The bonds are awarded to the underwriter presenting the best bid according to stipulated criteria set forth in the notice of sale. The criteria used to select an underwriter in a competitive sale shall be the true interest cost.

Private Placement: When determined appropriate by the Director of Finance, the City may elect to sell its debt obligations through a private placement or limited public offering. Selection of a placement agent shall be selected through the Request For Proposal (RFP) process.

XIII. Assembling a Financing Team

A Financing Team will be assembled to provide professional services that are required to develop and implement the City's debt program with the goal of continuity, quality service and competitive prices.

Bond Counsel: The City Attorney, with input from the Director of Finance, shall select Bond Counsel. The Bond Counsel's role is to prepare or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

Disclosure Counsel: The City Attorney, with input from the Director of Finance, shall select Disclosure Counsel. The Disclosure Counsel's role is to render an opinion as to the validity of facts contained in the bond documents as well as assisting the City in meeting its secondary market disclosure obligations.

Underwriters: The City shall solicit proposals for underwriting services for all debt issued in a negotiated or private placement sale. The solicitation process used for these services shall comply fully with City Purchasing Code requirements.

Financial Advisor: The City shall solicit proposals for financial advisory services for all debt issued in a negotiated, competitive or private placement sale. The solicitation process used for these services shall comply fully with City Purchasing Code requirements.

City Staff: The City Manager shall appoint the Director of Finance and any other City staff members deemed appropriate to coordinate the efforts of the hired consultants and the City. The City Attorney shall supervise all counsel as necessary, as well as provide any other legal services required for issuance of debt.

XIV. Arbitrage Liability Management

It is the City's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the applicable laws.

Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, arbitrage calculations will be performed by qualified arbitrage professionals in strict adherence to applicable laws and regulations. These calculations will be done in accordance with required Internal Revenue Service reporting dates, which are five (5) years after the delivery date of each issue, and each fifth year thereafter until the bonds have been matured, redeemed early or retired.

The Director of Finance will be responsible for identifying the amount of unspent debt proceeds including interest which is on hand and to the extent feasible, ensure the oldest proceeds on hand are spent first.

Arbitrage rebate costs shall be charged as negative interest revenue to the funds in which the related obligation proceeds were originally deposited.

XV. Modification to Policy

This policy will be reviewed annually by the Director of Finance.

Glossary

Ad Valorem Tax: a tax calculated “according to the value” of property. Such a tax is based on the assessed valuation of real and tangible personal property.

Advance Refunding: a procedure whereby outstanding bonds are refinanced by the proceeds of a new bond issue. Typically an advance refunding is performed to take advantage of interest rates that are significantly lower than those associated with the original bond issue or to remove restrictive language.

Arbitrage: the difference between the interest rate cost of a debt instrument and the rate of interest earned on the investment of the proceeds. Federal law limits the amount of interest cities earn on proceeds of debt issuance.

Bond: includes bonds, debentures, notes, certificates of indebtedness, mortgage certificates, or other obligations or evidences of indebtedness of any type or character.

Bond Anticipation Note (BAN): a short-term debt instrument issued by a state or municipality that will be paid off with the proceeds of an upcoming bond issue.

Bond Counsel: an attorney (or firm of attorneys) retained by the issuer to give a legal opinion concerning the validity of the securities. Bond counsel may prepare or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

Bond Insurance: an insurance policy purchased by an issuer, which guarantees the payment of principal and interest of an issue. This security provides a higher credit rating and thus a lower borrowing cost for an issuer.

Capital Improvement Plan: a plan outlining capital needs for a specified time period.

Capital Lease: an acquisition of a capital asset over time rather than merely paying rent for temporary use. A lease-purchase agreement, in which provision is made for transfer of ownership of the property for a nominal price at the scheduled termination of the lease, is referred to as a capital lease.

Conduit Bonds: conduit financings are securities issued by a government agency to finance a project of a business, whose activities have a general public purpose. The business receives all proceeds of the tax-exempt bond issue and is responsible for payment of the debt in its entirety.

Competitive Bid: a sealed bid, containing price and terms, submitted by a prospective underwriter(s) to an issuer, who awards the contract to the bidder with the best price and terms.

Continuing Disclosure: the requirement by the Securities and Exchange Commission for most issuers of municipal debt to provide current financial information to the informational repositories for access by the general marketplace.

Coverage: the ratio of pledged revenues to related debt service for a given year.

Debt Service Reserve Fund: the fund into which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. This is often established with debt proceeds.

Derivatives: a financial product, the value of which is derived from the value of an underlying asset, reference rate, or index. Typically these agreements are contracts between a lender/investor and a borrower.

Financial Advisor: a consultant who advises an issuer on matters pertinent to a debt issue, such as structure, sizing, timing, marketing, pricing, terms and bond ratings.

Financing Team: the group of professionals consisting of City staff, Bond Counsel, Disclosure Counsel, Underwriters and Financial Advisors that work together to issue bonds.

General Obligation Bonds (GO): bonds which are secured by the full faith and credit and taxing power of the municipality and use funds that are legally available for payment of debt service. A city can issue ad valorem GO bonds, which are repaid solely from ad valorem taxes, or non-ad valorem bonds which are repaid from legally available general fund revenues by a covenant to budget and appropriate.

Improvement Bonds: special obligations of the municipality which are payable solely from the proceeds of the special assessments levied for an assessable project.

Master Lease Agreement: a pre-determined lease agreement between a city and a provider to lease equipment whose useful life is too short to finance with long-term debt.

Municipal Securities Rulemaking Board (MSRB): a 15-member self-regulating organization that is entrusted with the responsibility of writing rules of conduct for the municipal securities market.

Negotiated Sale: underwriting of a new securities issue in which the spread between the purchase price paid to the issuer and the public offering price is determined through negotiation with one or more underwriters rather than multiple competitive bidding.

Paying Agent: an agent of the issuer with responsibility for timely payment of principal and interest to bond holders.

Present Value: the value of a future amount or stream of payments stated in current dollars.

Project: any capital expenditure the Commission deems to be for a public purpose.

Reserve Fund: a fund established by the terms of a bond issue into which money is deposited for payment of debt service in case of a shortfall in current revenues.

Revenue Anticipation Note (RAN): a short-term debt issue of a municipality that is to be repaid out of anticipated revenues such as sales tax. When the revenue is collected, the RAN is paid off.

Revenue Bond: a bond payable from a specific source of revenue and to which the full faith and credit of an issuer is not pledged. Revenue bonds are payable from identified sources of revenue and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise.

Tax Anticipation Note (TAN): a short-term obligation of a state or municipal government to finance current expenditures pending receipt of expected tax payments.

Underwriter: the firm that purchases a securities (bond) offering from a governmental issuer for resale.

Yield Restriction: the investment of bond proceeds in financial instruments that earn interest rates which are not significantly higher than the cost of borrowing.