

City Commission Policy 238

Debt Management Policy

DEPARTMENT: City Treasurer-Clerk

DATE ADOPTED: April 24, 1982

DATE OF LAST REVISION: December 11, 2024

238.01 AUTHORITY:
City Commission Adoption April 24, 1982. City Commission Revised February 13, 1985, March 9, 2011, March 26, 2014, January 29, 2020, and December 11, 2024

238.02 PURPOSE:
This policy applies to all debt issued by the City of Tallahassee and its Community Redevelopment Agency (CRA).

238.03 STATEMENT OF POLICY:
The policy establishes guidelines for the issuance and management of the City's debt in order to preserve the City's strong debt ratings, maintain flexibility for future financial needs, help develop a coherent long-term financing plan for the City's capital funding needs, ensure intergenerational equity by amortizing debt within the expected useful life of a project or asset and minimize the cost of borrowing to the City.

238.04 DEFINITIONS:

1. Average Life – The average number of years remaining on the principal amount of outstanding debt.
2. Bond Anticipation Notes – Debt instruments issued by the City to obtain interim financing for projects expected to be funded through the issuance of debt. Maturities must be five years or less by Florida law.
3. Bond Reserve – A reserve required by bond covenant to be set aside solely for the payment of principal and interest on the bonds when pledged revenues are not otherwise available.
4. Capital Assets – The land and fixed assets of a utility, net of depreciation.
5. Capital Improvements – The acquisition, construction, or renovation of assets with an estimated useful life of more than one year.
6. Capitalized Interest – Interest expense on bonds or notes that is paid from bond proceeds.
7. Debt – An obligation resulting from the borrowing of money. Debt shall include bonds, notes, loans, and capitalized leases.
8. Debt Service – The amount of money required to pay or to be set aside for the payment of principal and interest on Debt.
- 8a. Net Debt Service – The annual amount of money required to pay or to be set aside for the payment of principal and interest on the outstanding General Government Debt less 100% of the General Government Debt Service paid by enterprise funds or other non-general government revenues.
9. Full Market Value – The estimated full market value of assessed property. In Florida, property is assessed at no less than 85% of full market value.
10. General Fund Expenditures – Funds expended or proposed for expenditures from the General Fund.

11. General Government Debt – Debt incurred by the City whereby the proceeds are typically used for general government purposes and the debt is secured by the revenues or assets of general government. These revenues or assets do not include those of the enterprise funds.

11a. General Obligation Bonds (G.O.) – Bonds secured by a pledge of the issuer's full faith and credit. Prior to the issuance of such bonds, Florida Law requires approval by referendum.

11b. General Government Revenue Bonds – General Government Debt secured by a pledge of all or a portion of the City's non-ad valorem revenues. Bonds have been issued as Capital Bonds and Capital Improvement Bonds.

12. Long-Term Fixed-Rate Bonds – Debt that has a fixed rate of interest, with a maturity of between 10 and 30 years.

13. Medium Term Notes – Debt that has a fixed rate of interest, with a maturity of 1 to 10 years.

14. Rolling Medium Term Notes – Medium Term Notes that are designed to be rolled periodically and result in an ultimate maturity of between 10 and 30 years.

15. Variable Rate Obligations – Debt that has a floating rate of interest, and may have a maturity of up to 30 years.

238.05

EXCEPTIONS:

Any exceptions to the Policy must be approved by the City Treasurer-Clerk and the City Commission.

238.06

DEBT PROGRAMS:

The City has established the following debt programs to fund Capital Improvements.

1. General Government Bonds provide the funding for capital projects of the general government. These bonds are secured by a combination of general government non-ad valorem revenues. The current pledged revenues are comprised of the Half-Cent Sales Tax, the Local Communications Services Tax, the Guaranteed Entitlement Revenues, and the Public Service Tax.

2. Energy System Bonds provide funding for capital projects of the electric system and the natural gas system. The bonds are secured by a pledge of the electric fund and natural gas fund revenues, with each fund paying for the debt service that is associated with its projects.

3. Consolidated Utility System Bonds provide funds for capital projects for the Water, Sewer, and Stormwater facilities. The bonds are secured by a pledge of the funds' revenues, with each fund paying for the debt service that is associated with its projects. In addition to the three established credits, the City may issue other debt instruments supported by specific revenue sources. Examples of these types of bank loans/private placements include Fire Improvement Revenue notes pledging fire assessment revenues, Capital Improvement Revenue Notes pledging a portion of the City's Blueprint 2020 Sales Tax Revenue, and Airport Improvement Revenue Notes pledging miscellaneous airport revenues such as rental car fees, parking fees, and other lease revenues.

238.06.A

Debt Structure:

1. The City seeks to minimize the cost of servicing its debt, and may issue variable rate obligations, medium term notes and long-term fixed-rate bonds in its effort to achieve this goal and diversify its debt portfolio.

a. Variable rate obligations allow the City to access interest rates for the shortest maturities. These maturities typically have lower interest rates than longer-dated maturities given a normal sloping yield curve. While there is interest rate risk with variable rate obligations, historically variable rate debt has cost less than fixed rate debt.

b. Medium term notes provide for a fixed rate of interest for a period of one to ten years. As with variable rate debt, medium term notes are used to lower the City's debt service costs by issuing debt that has a shorter maturity than long-term fixed rate debt. Medium term notes may be re-issued or "rolled" upon initial maturity to amortize debt over a longer period of time (20 to 30 years in total), or they may be used for projects that would have a shorter repayment term (10 years or less).

c. Long-term fixed-rate bonds are used to lock in interest rates for periods of more than 10 years and are the most commonly used structure for municipal debt. The City is authorized to utilize Bond Anticipation Notes to provide interim funding prior to the permanent financing being put in place.

3. The City may establish and maintain a Bond Reserve Fund equal to an amount deemed prudent. Bond Reserve Funds may be funded in cash or through a surety bond. Bond Reserves funded in cash necessitated by the sale of bonds will be provided from bond proceeds.

4. The City may utilize a variety of credit enhancements that are designed to improve the credit rating or marketability of the bonds to be issued. These credit enhancements may include bond insurance, letters of credit, and additional supporting revenue pledges.

5. The City may employ the use of hedging instruments and interest rate swap agreements. These instruments may include, but are not limited to, interest rate caps, interest rate floors and interest rate collars. The City will not utilize any hedging instruments or enter into any interest rate swap transaction without adopting a separate policy governing their use. 6. The City may issue taxable bonds for a variety of purposes. Taxable bonds may or may not be subsidized by the federal government.

7. The City may participate in any debt program that provides for a subsidy from the federal government for the interest costs associated with the debt issuance. The Treasurer-Clerk shall develop procedures for complying with the regulations in order that the City receives the subsidy offered by the federal government.

238.06.B

DEBT ISSUANCE:

1. The City will issue debt for the purposes of acquiring or constructing Capital Improvements or for refunding prior debt issued.

2. All Capital Improvements financed through the issuance of bonds will be financed for a period not to exceed the useful life of the projects, but in no event beyond 30 years.

3. The City will seek to issue debt in the most cost-effective manner, whether that be by competitive or negotiated sale or through a private placement.

4. The Treasurer-Clerk will engage bond market professionals to assist in the issuance of debt, including, but not limited to, a financial advisor, bond counsel and disclosure counsel.

238.06.B.1

Debt Refunding:

1. The targeted savings for a fixed-rate refunding shall be 5% of the net present value of the refunded bonds.

2. Refundings that involve a variable rate to fixed-rate refunding or fixed-rate refunding to a variable rate will be evaluated on the economic merits that are available. Refundings that involve a variable rate component do not lend themselves to a net present value savings analysis.

238.06.B.2 Debt Targets

The City will monitor and report debt ratios annually and at the time of each debt issuance and strive to structure debt to meet the following targets. The following targets are measures for liquidity, operating margins and debt burden.

Policy Targets	Liquidity	Debt Service as % of Expenditures/Coverage Ratio	Debt Burden
General Fund	Spendable General Fund Balance of 15% of General Fund Expenditures	Net Debt Service to be less than 10% of General Fund Expenditures	Debt as a % of Full Market Value less than 2%
Consolidated Utility System	150 days cash on hand	Debt Service Coverage of 1.50X or higher	Debt as a % of Capital Assets less than 50%
Energy System	210 days cash on hand	Debt Service Coverage of 2.0X or higher	Debt as a % of Capital Assets less than 60%

The following targets are measures of the structure of the City's debt portfolio at the time of issuance.

Structuring Criteria	Average Life (Range)	Variable Rater (VR)	Rolling Medium Term Notes (RMTN)	Combined VR/RMTN
General Government	10-15 years	20%*	20%*	30%*
Consolidated Utility	15-20 years	25%	30%	40%
Energy System	15-20 years	25%	30%	40%

**The City shall not exceed the greater of these percentages or \$50 million individually for Variable Rate and Rolling Medium Term Notes and \$90 million combined for Variable Rate and Rolling Medium Term Notes at the time of issuance.*

238.06.B.3 Capitalized Interest:

1. Capitalized interest on new General Government Debt may be paid from bond proceeds for the period from the time of sale through the end of the then current fiscal year.
2. Capitalized interest on new enterprise funded debt may be paid from bond proceeds for the period from the time of sale through when the new asset is expected to be operational.
3. Due to budget timing, and at the discretion of the Treasurer-Clerk, capitalized interest may be extended into the next fiscal year to align with the City's other debt issue schedules. This capitalized interest structure should not exceed 18 months.

238.06.C POST DEBT ISSUANCE POLICIES:

1. Disclosure of material events shall be made in compliance with regulatory bodies, including the Securities and Exchange Commission (SEC) and the Municipal Securities Rulemaking Board (MSRB). The City shall ensure that appropriate documents are provided to the Electronic Municipal Market Access (EMMA) system in a timely manner. a. The City will post notice of the incurrence of all future debt, including bond issues, bank loans, private placements, etc.,

unless notified by its disclosure counsel that notification is not necessary. b. The City Treasurer-Clerk will coordinate with Financial Reporting to ensure that audited financial statements are posted as described above within the 180-day requirement. c. If complete audited financial statements are not available by the deadline, the City Treasurer-Clerk will work with Financial Reporting to post draft financials and ensure that the completed report is posted when available.

2. The City shall maintain and follow post-compliance procedures to aid in compliance efforts with regulatory bodies.
3. Unless otherwise indicated in governing ordinances or resolutions, bond proceeds will be invested in accordance with the City's Non-Pension Investment Policy (#234).
4. The City will promote positive investor relations by providing various materials to holders of City debt, including the Annual Report to Bondholders.

238.06.D

CONDUIT DEBT:

The City may choose to issue conduit debt on behalf of private entities in the form of industrial revenue bonds or similar instruments. The City shall maintain the guidelines for this program in Commission Policy #240, Industrial Revenue Bond Issuance.

238.06.E

TAX EQUITY AND FISCAL RESPONSIBILITY ACT (TEFRA) DEBT:

The City Commission, in the capacity as "host government", may choose to approve a TEFRA Resolution authorizing the issuance of debt by a non-profit charitable corporation. The City would not be a party to the issuance, nor would the issuance be a conduit debt of the City. Any such approval will be in accordance with Commission Policy 239, TEFRA Host.

238.07

ADMINISTRATION

The City Treasurer-Clerk shall be responsible for this policy.

238.08

SUNSET PROVISION:

This policy is subject to sunset review by the City Commission no later than five (5) years from the date of adoption. Subsequent reviews by the City Commission are to occur no later than five (5) years from the date of the prior review. Revisions will become effective immediately upon City Commission approval.

238.09

EFFECTIVE DATE

The revisions to this policy shall become effective December 11, 2024

Revisions:

March 26, 2014

January 29, 2020

December 11, 2024