Financial Policy Debt Management

Resolution Number 2025- Effective for the FY25 and FY26 Budget 08-14-2025

This Financial Policy supersedes and replaces any previous versions

DEBT MANAGEMENT

Purpose: **To** provide a comprehensive and viable debt management policy which recognizes the capital improvement needs of the County.

Policy: Utilize debt to maximize the County's ability to provide the highest-level services and infrastructure taking into account existing legal, economic, financial, and debt market considerations while balancing the taxpayers' ability, and desire, to pay.

Procedure:

1. No County debt issued for the purpose of funding capital projects shall be authorized by the Board of County Commissioners unless it has been included in the Capital Budget and Financial Plan or the Board of County Commissioners has been notified.

2. The County shall issue long-term debt only for:

A. The purpose of constructing or acquiring capital facilities and other capital assets as defined by the Statement of Governmental Accounting Standards 34 (SGAS 34) (specifically, the approved schedule of capital improvements)

B. Making major renovations to existing capital facilities and other capital assets per SGAS 34

C. Refunding outstanding debt when sufficient cost savings can be realized, or it is advantageous to do so.

3. The County may enter leases or debt for the acquisition of major equipment or other capital assets when it is cost justifiable to do so.

4. Conduit debt, including bank eligible conduit bonds, may be issued/sponsored for activities (such as economic development, housing, or health facilities) that have a general public purpose and are consistent with the County's overall service and policy objectives. All conduit financings must insulate the County completely from any credit risk or exposure and must be approved by the County's bond counsel and financial advisor before being submitted to the Board of County Commissioners for authorization and implementation.

A. No conduit bonds shall be issued in any year if such conduit bonds constitute obligations ("bank eligible obligations") which would be taken into account in determining whether Alachua County, Florida is a "qualified small issuer" within the meaning of Section 265(b)(3) of the Internal Revenue Code of 1986, as amended, for such year, unless (A) a bank eligible obligation issuance fee, in addition to the amounts imposed by the County in connection with any TEFRA approval of the obligations, has been remitted to the County with respect to such bank eligible obligations, or (B) the County Manager or County Manager's designee shall determine that the County has no intent to issue bank qualified bonds during such calendar year.

B. At the beginning of each calendar year, the County's Finance Director shall calculate, based on then-current market rates and assuming a $10 million issue of bonds maturing in 10 years, (A) the difference between interest rates on bank eligible obligations and non-bank eligible obligations of the County (the "differential") and (B) the net present value amount determined by applying said differential over the projected 10 year period and based on the principal amount described above (the "bank eligible obligation issuance fee").

C. If the bank eligible obligations are to be part of a single plan of finance for the issuance of multiple installments of bank eligible obligations during a calendar year, the bank eligible obligation issuance fee shall nonetheless be due upon the first installment issued.

D. All bank eligible obligation issuance fees collected shall be held in trust by the County until the end of the calendar year in which they are collected. Notwithstanding the foregoing, if after a bank eligible obligation issuance fee shall be paid by one entity a second entity requests County approval of bank eligible obligations, the amount that would otherwise be paid by the second entity shall be one-half the bank eligible obligation fee paid by the first entity, and such payment when received by the County shall be paid over to the first entity. If a subsequent entity, then requests County approval of bank eligible obligations, the same process would be repeated except that one third of the fee would be paid to the County, which would distribute the same equally to the first two entities, and so on. If the County did not issue any county debt during such calendar year that would have been bank qualified but for the fact that that conduit bonds constituting bank qualified obligations were issued during such calendar year, the bank eligible obligation, issuance fees shall be returned in proportionate amount to the entities that paid them; otherwise, said fees shall be retained by the County.

5. Financing Requirements

A. Capital improvements related to enterprise fund operations should be financed solely by debt to be repaid from user fees and charges and other legally available sources generated from the respective enterprise fund's operation.

B. Capital improvements not related to enterprise fund operations shall be financed by debt to be repaid from legally available revenue sources able to be pledged for same.

C. Cash surpluses, to the extent available and appropriable, shall be used to finance scheduled capital improvements if it is deemed to be the best financing method for that particular improvement.

D. Revenue sources shall be pledged for debt only when legally available and, in those situations where they have previously been used for operation and maintenance expenses and/or general operating expenditures, they shall be pledged for debt only when other sufficient revenue sources are available to replace operation and maintenance expenses and/or general operating expenditures as deemed appropriate by the Board of County Commissioners.

E. Where possible, capital expenditures shall be funded through pay-as-you-go programs, debt restructuring, and alternative financing mechanisms, such as grants, state loan programs or federal pilot projects.

6. Maturity Limitations

A. All capital improvements financed through the issuance of debt shall be financed for a period not to exceed the useful life of the improvements, but in no event to exceed 30 years.

B. All capital improvements financed through lease-purchase obligations shall be financed for a period not to exceed the useful life of the improvements.

7. General Debt Limitations

A. Rapid debt repayment is a goal of the County's debt management policies. Each borrowing shall be structured to repay principal as rapidly as the amount of the pledged revenue source will allow. Adjustment in repayment time frames may be modified to reflect changes in the interest rate environment, which may argue for shorter or longer retirement plans.

B. The County shall manage its debt and sustain its financial position in order to seek and maintain the highest credit rating possible.

C. The County shall strive to maintain debt ratios within the median range of benchmarks (performed by the County's Financial Advisor).

D. The County shall not construct or acquire a public facility if it is unable to adequately provide for the identifiable annual operation and maintenance costs of the facility.

E. The County shall consider coordinating with other local government entities, to the fullest extent possible, so as to minimize the overlapping debt burden to citizens.

F. The County shall ensure that an adequate system of internal control exists so as to provide reasonable assurance as to compliance with applicable laws, rules, regulations, and covenants associated with outstanding debt.

8. Debt Issuance Restrictions

A. The County shall market its debt through the use of competitive bid whenever deemed feasible, cost effective, and advantageous to do so. However, it is recognized that, in some situations, certain complexities and intricacies of a particular debt issue are such that it may be advantageous to market the debt via negotiated sale.

B. The County shall use the services of outside finance professionals selected using competitive bid.

C. Credit enhancements (insurance, letters of credit, etc.) shall be used only in those instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement.

D. In order to maintain a stable debt service burden, the County shall attempt to issue debt that carries a fixed interest rate. However, it is recognized that certain circumstances may warrant the issuances of variable rate debt. In those instances, the County should attempt to stabilize debt service payments through the use of an appropriate stabilization arrangement.

9. Refunding

A. The County shall continually monitor its outstanding debt in relation to existing conditions in the debt market and shall refund any outstanding debt when sufficient cost savings can be realized.

B. Outstanding debt shall be refunded as long as the net present value savings between the refunded bonds and the refunding bonds is equal to or greater than three (3) percent without extending the maturity of the debt being refunded, unless extenuating circumstances would justify a smaller percentage savings (e.g., historically low interest rates).

C. The County may also refund existing debt for the purpose of revising existing bond covenants to meet particular organizational and/or strategic needs of the County when it is advantageous to do so.

10. Disclosure Requirements – It is the policy of the County to endeavor to provide full and fair disclosure in connection with the initial sale and distribution of its publicly marketed debt instruments and to provide appropriate ongoing secondary market information, in compliance with the requirements of applicable federal and state securities laws, rules, and regulations, including Securities and Exchange Commission Rule 15c2-12.

11. Arbitrage Reporting – Finance and Accounting shall establish a system of record keeping and reporting (or procure the services of a company specializing in arbitrage) to meet the arbitrage rebate compliance requirements of the federal tax code. This includes tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding and future debt issues.

12. Investment of Bond Proceeds – The investment of bond proceeds shall be governed by the County's Investment Policy and any applicable bond covenants. In the event of conflicting policies, the more restrictive policy shall be enforced.

13. Short-Term and Interim Financing

A. Bond Anticipation Notes – Where their use is judged by the County/Clerk staff, County's bond counsel and financial advisor to be prudent and advantageous to the County, the County may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, takeout financing for such must be planned for and determined to be feasible by the Financial Advisor.

B. Tax (Revenue) Anticipation Notes – Where their use is judged by the County/Clerk staff, County's bond counsel and financial advisor to be prudent and advantageous to the County, the County may choose to issue Tax or Revenue Anticipation Notes as a source of interim operating financing.

C. Other – Where their use is judged by the County/Clerk staff, County's bond counsel and financial advisor to be prudent and advantageous to the County, the County may choose to use other short-term financing tools such as a line of credit or pooled commercial paper programs.

D. Advance Project Development Authorization - County staff are authorized to identify and utilize available funds to initiate architectural and engineering services, as well as preliminary construction bidding, prior to securing final project financing. This approach allows the County to advance project readiness, refine cost estimates, and address design or permitting issues early in the process. By completing these preliminary steps in advance, the County can reduce delays, improve the accuracy of funding requests, and position projects for timely implementation once financing is secured.

14. Debt Affordability Assessment

A. Article VII Section 12 of the Florida Constitution requires that long-term debt pledged by the full faith and credit of the County can only be approved by voter referendum. For debt issues to be placed on the ballot, the Board must approve both the capital and financing proposals. There is no statutory limit on the amount of debt and corresponding tax levy the voters can approve.

B. The Finance Team implements debt management policies throughout all funds. The Team consists of members including the Assistant County Manager for Budget and Fiscal Services, Finance Director, County Attorney or designee, and the County's Financial Advisor. The Team is responsible for planning all debt issuance for the County including the use of short-term and long-term financing. The County shall not enter into financing agreements without first having the alternatives reviewed by the Team and a recommendation forwarded to the County Manager or County Manager designee.

C. The Finance Team shall be responsible for determining reasonable debt levels for the County as part of the annual budget process and capital improvement plan. Each year, the Team shall review the County's ability to absorb and pay for long-term obligations (including new bond issues). The review process shall include recommendations on how much new debt can be afforded by the County. The Team's recommendations shall be based on an analysis of the following measures using the below definitions:

The terms "Direct Debt" and "Revenue Debt" are defined in Government Finance Officers Association's Recommended Practice for Debt Management Policies as follows:

"Direct Debt" – Debt payable from general revenues, including General Obligation (G.O.) Bonds, capital leases, and notes payable.

"Revenue Debt" – Debt payable from a specific pledged revenue source.

Debt Limitations

1. Total current debt service on "Direct Debt" less any dedicated limited ad valorem debt service measured as a percent of the current total General Fund <u>*revenue* less any General Fund ad valorem revenue (resulting in the Covenant to Budget and Appropriate (CBA) amount/limit)</u>. The current debt service costs without the dedicated limited ad valorem debt service shall not exceed 35% of the total General Fund <u>*CBA revenue*</u>.

2. Total current debt service on "Direct Debt" measured as a percent of current General Fund <u>*revenue*</u>. Debt service costs on "Direct Debt" shall not exceed 5% of total General Fund <u>*revenue*</u>.

3. Total current debt service on “Direct Debt” measured as a percent of General Fund *operating expenditures*. Debt service costs on “Direct Debt” shall not exceed 10% of total General Fund *operating expenditures*.

4. Total debt includes “Direct Debt” and “Revenue Debt” as a percent of *assessed value*. Total net direct indebtedness shall not exceed 3% of the full valuation of taxable property in the County.

5. Total debt includes “Direct Debt” and “Revenue Debt” *per capita*. Total net direct indebtedness shall not exceed $1,000 per capita.

6. Per capita debt as a percentage of per capita income. Per capita debt shall not exceed 5% of per capita income.

AS ADOPTED BY THE BOARD OF COUNTY COMMISSIONERS

History:
Resolution 18-26 Dated 05/03/2018
Resolution 23-08 Dated 02/28/2023
Resolution 23-51 Dated 07/11/2023
Resolution 24-15 Dated 03/12/2024
Resolution 25-11 Dated 04/01/2025
Resolution 25- Dated 08/14/2025