City of West Palm Beach

Debt Management Policy

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1. PURPOSE

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the City of West Palm Beach (the "City") and to provide for the preparation and implementation necessary to assure compliance and conformity with this policy.

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2. CONDITIONS FOR DEBT ISSUANCE

2.1. Uses of Debt

Under the governance and guidance of Federal and State laws and the City's Charter, ordinances and resolutions, the City may periodically enter into debt obligations that: (1) finance the construction, rehabilitation, or acquisition of infrastructure and other assets; (2) refinance existing debt obligations for the purpose of meeting its governmental obligations to its citizens and stakeholders; or (3) reduce unfunded accrued liabilities associated with pension obligations or other-post-employment benefits.

It is the City's desire and direction to assure that such debt obligations are issued and administered in an effective manner that achieves a long-term financial advantage to residents and stakeholders while making every effort to maintain and improve the City's credit ratings and reputation in the investment community.

The City may desire to issue debt obligations on behalf of external agencies or authorities for the purpose of construction or acquisition of infrastructure and other assets which further the strategic priorities of City government. In such cases, the City shall take reasonable steps to confirm the financial feasibility of the project and the financial solvency of the borrower and take all reasonable precautions to ensure the public purpose and financial viability of such transactions.

The City shall not issue debt obligations or utilize debt proceeds to finance current operations of City government unless necessitated by a state of emergency (e.g. hurricane), as evidenced in writing by the Mayor.

2.2. Strategic Finance Plan

A sound debt management policy begins with a multi-year budgetary forecast and component capital improvement plan (collectively the "Strategic Finance Plan") that forecasts revenues and expenditures including pay-as-you-go funding for capital projects. Pay-as-you-go funding coupled with anticipated grant funding and related aid provides the base funding for capital projects and upon integration with the capital improvement plan shall provide a clear picture of the remaining funding requirements. The City shall annually adopt a 5-Year Strategic Finance Plan including the following components:

2.2.1. Strategic Budgetary Forecasting System

The City has developed a strategic budgetary forecasting system to be used in preparation of the 5-Year Budgetary Forecast (the "Budget Forecast") component of the Strategic Finance Plan. The

Budget Forecast shall be presented for consideration and adoption by the City Commission as part of the annual budget process.

The Budget Forecast assesses the long-term financial implications of current and proposed policies, programs, and assumptions that develop the appropriate strategies to achieve organizational goals. A key component in determining future options, potential problems and opportunities is the forecast of revenues and expenditures. Revenue and expenditure forecasting does the following:

- Provides an understanding of available funding;
- Evaluates financial risk;
- Assesses the likelihood that services can be sustained;
- Assesses the level at which capital investment can be made;
- Identifies future commitments and resource demands; and
- Identifies key variables that cause change, either positively or negatively, in the level of revenues and/or expenditures.

The Budget Forecast shall set forth revenues and expenditures for the coming five (5) fiscal years and is updated as needed, or at a minimum, annually. The Budget Forecast shall include the following elements:

- Operating revenue forecast including:
  - Comprehensive taxable property value growth and new construction value-added revenue forecasting;
  - General operating revenue growth based on historical trends and current/short-term market expectations;
  - Anticipated grant funding and related aid;
  - One-time revenue sources; etc.
- Operating expenditure forecast including:
  - Personnel expenditure forecasting in accordance with existing/anticipated contract terms and related benefit requirements;
  - General operating expenditure growth based on historical trends and current/short-term market expectations;
  - One-time expenditure requirements; etc.
- Capital expenditure forecast including:
  - Renewal and replacement of existing assets including fleet and technology equipment;

  - Renewal and replacement of existing infrastructure including streets, curbs, sidewalks, streetlights, water, sewer, and stormwater;
  - Pay-as-you-go funding for capital projects ;
  - One-time expenditure requirements; etc.
- Financial position forecast including fund balance requirements pursuant to City Code
- Inclusion of new initiatives and funding directives as set forth by the Mayor, City Administration, and the City Commission

2.2.2. *Strategic Capital Planning and Financing System*

The City has developed a capital planning and financing system to be used in preparation of the 5-Year Capital Improvement Plan (the "CIP") component of the Strategic Finance Plan. The CIP shall be presented for consideration and adoption by the City Commission as part of the annual budget process. Individual departments are responsible for the preparation and prioritization of the capital project listing and the Finance Director is responsible for the coordination and preparation of the CIP.

The CIP anticipates the City's capital funding needs for the coming five (5) fiscal years and is updated as needed, or at a minimum, annually. The CIP shall include the following elements:

- Prioritized Capital Project listing;
- Capital Project timing requirements;
- Capital Project funding requirements;
  - capital funding requirements
  - operating budget requirements (i.e. operational/maintenance funding requirements resulting from the capital projects)
  - renewal and replacement requirements
- Comprehensive Funding Sources listing;
  - capital project generated funding sources
  - grant funding sources and related aid
  - pay-as-you-go funding sources
  - debt obligations
- Financing Plan.

2.3. Funding of Capital Projects

The City's preferred method for funding capital projects within the CIP shall be through current revenue when available (i.e. pay-as-you-go) or from outside funding sources such as grant funding and related aid. Debt obligations may be issued for capital projects when it is appropriate to achieve a fair allocation of costs between current and future beneficiaries. The Finance Director is responsible for evaluating and recommending the funding method of capital projects within the CIP.

2.4. Debt Calendar and Financing Plan

The Finance Director is responsible for overseeing and coordinating the timing, process of issuance, and marketing of the City's borrowing and capital funding activities (i.e. the "Financing Plan") required in support of the CIP. In this capacity, the Finance Director shall make recommendations to the Mayor, City Administration, and the City Commission regarding necessary and desirable actions and shall keep them informed through regular and special reports as to the progress and results of current-year activities under the CIP.

2.5. Debt Authorization

No debt obligation issued for the purpose of financing capital projects shall be authorized by the City Commission unless it has been included in the Strategic Finance Plan or until the City Commission has modified said Plan. Such modification shall occur only after the City Commission has received a report of the impact of the contemplated debt obligation on the existing Strategic Finance Plan and recommendations as to the financing arrangements from the Finance Director.

2.6. Fixed vs. Variable Rate Debt

The City may utilize a mix of fixed and variable rate debt obligations to lower overall borrowing costs. Variable rate debt obligations represent securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. It is often appropriate to issue variable rate debt obligations to diversify the debt portfolio, improve the match of assets to liabilities, and provide for lower overall borrowing costs.

The relative proportion of variable rate debt obligations shall not exceed 30% of an individual credit pledge and not more than 25% of the City's total outstanding debt obligations. Periodic reviews of all outstanding variable rate debt obligations shall be undertaken to determine refunding opportunities (e.g. conversion to fixed rate debt obligations) within the context of this Policy.

2.7. Short-Term and Interim Debt

2.7.1 Short Term Debt Obligations

Short-term debt obligations (i.e. debt obligations maturing in less than one year) may be issued in anticipation of particular revenues such as taxes or grants, and such revenues may be pledged for repayment of the debt obligation. Specifically, short-term debt obligations allow the City to cover periods of cash shortfalls resulting from a mismatch between the timing of revenues and timing of expenditures. Within the context of this Policy, short-term debt obligations do not constitute the financing of current operations as the underlying obligation is fully repaid within one year.

2.7.2 Interim Financing

Interim debt obligations may be issued to finance projects or portions of projects for which the City ultimately intends to issue long-term debt. Interim debt obligations offer the City the ability to secure financing more quickly than a traditional bond issuance and thus provide the City a measure of flexibility in responding to urgent situations. Interim financing may also be appropriate when long-term interest rates are expected to decline in the future.

Short-term and Interim obligations include:

- **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. A Line of Credit may also be used to finance projects in order to provide financing for the purposes of bundling several projects into a bond issue to realize economies of scale.

- **Loans from State Agencies:** If it is financially or strategically beneficial, the City may participate in loan programs from state agencies or organizations on either a long-term or short-term basis.

- **Inter-fund Borrowing:** Inter-fund 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 recommended by the Finance Director. Inter-fund Borrowing may also be used for small amounts of long-term borrowing but must require interest to be paid to the fund lending the money at a rate of prevailing issuance rates or bank prime rates.

- **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.

- **Other types:** The City may consider the use of Tax Anticipation Notes, Bond Anticipation Notes, Revenue Anticipation Note, Commercial Paper, or other such structured borrowings if it is in the best financial interests of the City.

A takeout financing plan (i.e. plan for conversion of the interim debt through a long-term financing) shall be approved by the Finance Director before an interim debt obligation is presented to the City Commission for authorization.

2.8. Refunding of City Indebtedness

Refunding of outstanding debt represents unique opportunities for the City to realize savings in debt service costs. Periodic reviews of all outstanding debt shall be undertaken to determine refunding opportunities. Within federal tax law constraints, a refunding shall be considered if and when there is a net economic benefit or if it is essential in order to modernize covenants essential to operations and management.

2.8.1. Call Options

The Finance Director shall recommend the call option, if any, the call protection period and the call premium for each bond sale. A call option, or optional redemption provision, if any, gives the City the right to prepay or retire debt prior to its stated maturity. This option may permit the City to achieve interest savings in the future through refunding of the debt obligation. Often the City must pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. In addition, if a debt obligation is called, the holder may be entitled to a premium payment (i.e. call premium).

Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following shall be conducted in connection with each issue:

- The call premium, if any;
- The level of rates relative to historical standards;

- The time until the bonds may be called at a premium or at par;
- The need for original issue discounts; etc.

2.8.2. Advance Refunding

Advance refundings are used to refinance outstanding bonds before the date the outstanding bonds become due or callable. New bonds that are issued to refinance an outstanding bond issue before the call date are known as advance refunding bonds. Proceeds of the advance refunding bonds are placed into an escrow account with a fiduciary and used to pay interest and principal on the refunded bonds and then redeem them at their maturity or call date.

The City may issue advance refunding bonds when advantageous, legally permissible, prudent, and when aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds, equal or exceed 3%, and substantial call option value is achieved. Exceptions to this requirement shall be made only upon the approval of the Finance Director.

2.8.3. Current Refunding

Current refundings are used to refinance outstanding bonds within 90 days of the date the outstanding bonds become callable. New bonds that are issued to refinance an outstanding bond issue on or after the call date are known as current refunding bonds.

The City may issue current refunding bonds when advantageous, legally permissible, prudent, and the aggregate net present value savings equal or exceed 3%, and substantial call option value is achieved. Exceptions to this requirement shall be made only upon the approval of the Finance Director.

2.8.4. 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 refunding undertaken to restructure debt may be waived by the Finance Director upon a finding that such a restructuring is in the City's overall best financial interest.

2.8.5. Refunding Escrows

The City may choose to fund its refunding escrows through the purchase State and Local Government Securities (“SLGS”) or through the purchase of treasury securities on the open market when market conditions make such an option financially preferred. The Finance Director is responsible for developing procedures for executing open market purchases and the savings objectives to be achieved by undertaking such actions.

3. LIMITATIONS ON CITY INDEBTEDNESS

This section of the Debt Management Policy establishes the target debt ratios, measurements and constraints for the City in the following categories:

3.1. Measures of Future Flexibility

As the City periodically addresses its ongoing needs, the Mayor, City Administration, and the City Commission must ensure that future elected officials shall have the flexibility to meet the capital needs of the City. Since neither State law nor the City Charter provides any limits on the amount of debt which may be incurred (other than the requirement to have General Obligation debt approved in advance by referendum), this policy establishes the following targets which at the same time ensure future flexibility.

Please refer to Appendix A for a detailed listing of the City's current status (i.e. as of the most recent audited fiscal-year-end) under the measures of future flexibility.

Description	Targets
General Government	
Debt Service as a percentage of General Government expenditures:	
Debt Limit	20% max
Goal/Target	10% max
Variable Rate Debt as a percentage of Total Debt:	25% max
Pay-as-you go funding for Renewal and Replacement *(adj. annually for CPI growth)* :	
Fleet and Minor Equipment	$2.0M annually (min)
Technology Equipment	$800K annually (min)
Buildings(s)/Structure(s) Maintenance	$500K annually (min)
Roads, Curbs and Sidewalks	$2.5M annually (min)
General Fund Emergency Reserve as a percentage of operating revenues:	
City Code	13% min
Goal/Target	15% - 20%

Description	Targets
Enterprise Funds	
Debt Service Coverage	
Test #1 (as a % of Maximum Annual Debt Service)	
Goal/Target	120% min
Test #2 (Required Transfers)	
Goal/Target	100% min
Weighted Average Maturity of Debt Program(s):	25-year max
Variable Rate Debt as a percentage of Total Debt:	25% max
Renewal and Replacement pay-as-you go funding as a percentage of operating revenues:	
Water/Sewer	10% min
Stormwater	10% min
Emergency Reserve as a percentage of operating revenues:	
Water/Sewer	15% min
Stormwater	15% min

3.2. Affordability Targets

Debt affordability is an integrated approach that helps analyze and manage City debt by factoring in historical debt use, financial and economic resources of the City, and long term goals for capital needs.

3.2.1. Direct Net Debt per Capita

This ratio measures the burden of debt placed on the size of population supporting the debt and is widely used by analysts as a measure of an issuers' ability to repay debt. To find out the proportionate amount of debt borne by each resident, you should divide Direct Net Debt by the most current population within the City. Direct Net Debt includes the General Governmental Debt portion of the City's debt obligations less any sinking fund accumulations.

Capital improvement needs tend to grow along with the population. Thus, debt levels growing at the same pace as the city's population result in a constant debt per capita. When debt growth exceeds population growth, debt per capita increases, providing a warning sign to analysts that debt levels are growing relative to the population.

The City shall strive to maintain the Direct Net Debt Per Capita ratio at or below the historical 10 year average.

3.2.2. Direct Net Debt to Gross Property Value

This ratio measures direct debt levels against the property tax base. It provides an indication of the burden that direct debt places on all property owners within the City. With property ownership serving as a proxy for wealth, this ratio may best capture the capacity to provide public services. The ratio of Direct Net Debt to Property Value is calculated by dividing Direct Net Debt by the gross assessed value of all properties within the City.

The City shall strive to maintain the Direct Net Debt to Property Value ratio at or below the standard median of 1.50% for cities of comparable size as published by Moody's Investor Service.

3.2.3. Overall Net Debt Burden

This ratio measures overall debt levels against the property tax base. It provides an indication of the overall burden that debt places on all property owners within a particular jurisdiction. With property ownership serving as a proxy for wealth, this ratio may best capture the capacity to provide public services. The Overall Net Debt Burden ratio is calculated by dividing Overall Net Debt by the taxable assessed value of all properties within the City. Overall Debt includes direct debt of the City plus the debt of overlapping and underlying units of local government that share the City's tax base.

The City shall strive to maintain the Overall Net Debt Burden ratio within the City at or below the standard median of 2.00% for cities of comparable size as published by Moody's Investor Service.

Please refer to Appendix A for a detailed listing of the City's current status (i.e. as of the most recent audited fiscal-year-end) under the affordability targets.

3.3. Constraints

The following constraints shall govern the issuance and administration of debt obligations:

3.3.1. Purposes of Issuance

The City may issue debt obligations for: (1) construction, rehabilitation, or acquisition of infrastructure and other capital assets; (2) refinancing existing debt obligations; and (3) reducing unfunded accrued liabilities associated with pension obligations or other-post-employment benefits (i.e. "OPEB").

3.3.2. Maximum Maturities

All debt obligations shall have a maximum maturity of the earlier of: (i) the estimated useful life of the Capital Improvements being financed; or (ii) thirty years; or (iii), in the event they are being issued to refinance outstanding debt obligations, the final maturity of the debt obligations being refinanced. Moreover, to the extent possible, the City should design the repayment of debt so as to recapture rapidly its credit capacity for future use. The City may choose to structure debt repayment so as to wrap around existing obligations or to achieve other financial planning goals. Such alternative structures shall be subject to the determination by the Finance Director that such alternative is in the best interest of the City..

3.3.3. Minimum Funding Threshold

Debt obligations shall be considered for those capital projects with funding requirements in excess of $1,000,000. Capital projects not meeting this threshold shall be targeted for funding through current revenue when available (i.e. pay-as-you-go) or from outside funding sources such as grant funding and related aid.

3.3.4. Capitalized Interest (Funded Interest)

Subject to Federal and State law, interest costs may be capitalized from the date of issuance of debt obligations through the completion of construction for revenue generating capital projects. Interest may also be capitalized for capital projects in which the revenue designated to pay the debt service on the bonds shall be collected at a future date, not to exceed six months from the estimated completion of construction.

3.3.5. Limitations on Lease-Purchase Financing

The City may enter into short-term lease purchase obligations to finance the acquisition of capital equipment and furnishings with estimated useful lives of less than ten (10) years. Outstanding lease-purchase obligations issued to finance capital equipment and furnishings shall be evaluated in terms of financing costs versus comparable financing alternatives in addition to the requesting department’s ability to fund lease payments within its annual operating budget. Repayment of these lease-purchase obligations shall occur over a period not-to-exceed the useful life of the underlying asset. The Finance Director is responsible for reviewing repayment terms and amortization schedules and no City department shall initiate a lease-purchase agreement without approval from the Finance Director.

3.3.6. Limitations on Loan Guarantees and Credit Support

As part of the City's financing activities, City (i.e. General Fund) resources may be used to provide credit support of loan guarantees for public or private developments that further the strategic goals of the City. Key factors to be considered in determining whether or not the General Fund should be used to secure a particular debt obligation shall include the following:

- Demonstration of underlying credit self support, thus limiting potential General Fund financial exposure;
- Use of General Fund support as a transition to a fully stand alone credit structure, where interim use of General Fund credit reduces borrowing costs and provides a credit history for new or hard to establish credits; and
- General fund support is determined by the Finance Director to be in the City's overall best interest.

3.3.7. Limitations on Issuance of Self Supporting Debt Obligations

The City shall seek to finance the capital needs of its self supporting enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, City Departments, in consultation with the Finance Director shall develop financial plans and forecasts showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners, City government and other affected parties. The amount of revenue-secured debt obligations issued by the City shall be limited by the economic feasibility of the overall financing plan.

3.3.8. Bond Covenants and Laws

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

4. DEBT ISSUANCE PROCESS

The Finance Director coordinates the administration and issuance of debt obligations and is responsible for selecting the financing team and for the accuracy of disclosure and other bond related documents.

The Finance Director shall coordinate the issuance of all debt obligations, including issuance size, debt structuring, pledging of repayment sources and method of sale. All borrowing requests or debt refunding proposals are to be communicated to and coordinated by the Finance Director.

The Finance Director, working with the City Attorney, and Bond Counsel shall manage any legal activities that may arise with respect to issuance of the bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the City may pursue a validation action to obtain judicial approval before the bonds are issued. If a bond transaction is controversial and gives rise to a reverse validation action, the City may find itself a party to that litigation.

Furthermore, after the bonds are issued, the City (acting through the Finance Director) shall be ultimately responsible for:

- Supervising, investing and administering the expenditure of construction bond proceeds;
- Collecting, or monitoring the collection of, revenues;
- Applying pledged revenues to pay operating expenses and debt service;
- Complying with all undertakings, covenants and agreements;
- Filing of any reports required with various governmental regulators, a bond insurer or other credit enhancement provider, if any, and the credit rating agencies;
- Addressing any problem that may arise with respect to the bonds, such as a shortfall in revenues, a tax audit or a regulatory issue; and
- Preparing, reviewing and filing Annual Reports and Notice Events under SEC Rule 15c2-12; etc.

4.1. Method of Sale

Debt obligations are to be sold either (1) to an underwriting syndicate through a competitive bid or a negotiated sale or (2) through a private placement. The selected method of sale shall be that which is the most advantageous to the City, in the judgment of the Finance Director, in terms of lowest net interest rate, most favorable terms in the financial structure used, market conditions, and prior experience. The City Commission shall approve the method of sale through Resolution prior to the sale of the debt obligation.

4.1.1. Competitive Sale

In a competitive sale, a sealed bid for the debt obligation is submitted to the City at a specific time on a specific date. The bids shall be awarded on a true interest cost basis (“TIC”), providing other bidding requirements are satisfied.

Advantages of the competitive sale method are primarily driven by the increased competition of the bid process and include lower interest rates, lower underwriters' discount (i.e. compensation to the underwriters), and enhanced distribution of bonds by an expanded number of underwriters marketing the bonds.

Disadvantages of the competitive sale method include limited flexibility in timing and structuring of sale, particularly for a refunding transaction.

4.1.2. Negotiated Sale

In a negotiated sale, the City, prior to the public sale date, selects the underwriting firms that shall coordinate and manage the financing through all of its many stages. The selection of the underwriters is discussed in more detail in the *Selection of Financial Consultants and Service Providers* section of this Policy. The negotiated sale process provides the City control over the financing structure, the issuance timing, and provides flexibility of distribution.

Due to the inherent structure of a negotiated deal and the lack of a competitive bidding process, the Finance Director, in consultation with the City's Financial Advisor, shall take a proactive oversight role in ensuring that the financing costs are in line with current market conditions as follows:

- The Finance Director shall evaluate the proposed underwriters' discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Finance Director shall determine the allocation of fees with respect to the management fee, if any, and sales credits. The determination shall be based upon participation in the structuring phase of the transaction.
- All fees and allocation of the management fee, if any, shall be determined prior to the sale date; a cap on management fee, expenses and underwriters' counsel shall be established and communicated to all parties by the Finance Director. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated in writing.

4.1.3. Private Placement

When determined appropriate by the Finance Director, the City shall negotiate financing terms with banks and financial institutions for specific borrowings. Typically, bank financings are carried out by the City to avoid the costs of public offering and therefore reduce the cost of borrowing funds for issues typically less than $10,000,000.

4.2. Selection of Financial Consultants and Service Providers

The Finance Director is responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices. The solicitation and selection process for such services shall comply with City Code requirements.

The City expects that its financial consultants and service providers (i.e. the “financing team”) shall provide the City with objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any *conflicts of interest*.

All financing team members shall be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm’s ability to provide the highest quality level of independent advice or service which is solely in the City’s best interests or which could reasonably be perceived as a *conflict of interest.*

4.2.1. Financial Advisor

The City shall, as a matter of policy, retain an independent financial advisor (“Financial Advisor”) for advice on debt structuring, the rating review process, marketing debt issuances, sale and post-sale services, to prepare and/or review the official statement and generally act as an independent financial consultant and economic market expert.

The Financial Advisor shall be selected via a recurring RFQ process.

4.2.2. Bond Counsel

The City shall retain external bond counsel for all financing transactions. The primary role of bond counsel is to certify both that the City has legal authority to issue the bonds and that, to the extent applicable, the securities qualify for federal tax exemption. The opinion of bond counsel provides comfort to investors in purchasing the City’s securities, since it reduces the risk that bond contracts may be unenforceable or interest income includable in the computation of federal income taxes.

Bond counsel advises the City on whether a proposed debt obligation is legally permitted and works with the City in order to assure compliance with all constitutional, statutory, and procedural requirements. Bond counsel shall also assist drafting bond documents, including the official statement, ordinances or resolutions authorizing issuance and sale of a bond offering, and other necessary documents.

The Bond Counsel shall be selected via a recurring RFQ process.

4.2.3. Disclosure Counsel

The City may retain external disclosure counsel for all bond issues. This function separates from the normal bond counsel duties the specific responsibilities associated with securities law compliance. Accordingly, the City may hire disclosure counsel to draft the official statement and other disclosure requirements of the U.S. securities laws.

The Disclosure Counsel shall be selected via a recurring RFQ process.

4.2.4. Underwriters

The underwriting syndicate is a firm or a group of firms that purchase all of the bonds and then resell them to investors. The selection of the underwriter(s) may be for a single transaction or for a series of transactions for a specific timeframe. The City shall, as a matter of policy, qualify and maintain, via a recurring, RFQ process a reasonable number of Firms to underwrite the City's debt. As part of this qualification process, the City will strive to include Minority-Owned and Local/Regional Investment Banks as part of its underwriting team This method offers maximum flexibility and diversification of ownership for the City's bonds.

- ***Competitive Deal***

  Selection of an underwriter(s) in a competitive sale shall be through a bid process and awarded on a TIC basis, providing other bidding requirements are satisfied.

- ***Negotiated Deal***

  In a negotiated sale, the underwriter or underwriting syndicate shall be chosen from among those firms qualified in the RFP process. The criteria used to select an underwriter(s) in a negotiated sale should include, but not be limited to, the following:

- overall industry experience,
- marketing philosophy,
- capability,
- previous experience with City transactions,
- ability to execute,
- quality and experience of personnel assigned to the City's engagement,
- quality and uniqueness of the financing plan, and
- underwriter's discount and expenses.

The Finance Director, in consultation with the City's Financial Advisor, shall be responsible for recommending selecting the underwriter(s)

Underwriters' Counsel

- The selection of the underwriters' counsel by the Senior Manager/Co-Manager shall be made in consultation with the Finance Director.

4.2.5. Other Service Providers

The City may periodically solicit for other service providers (escrow agents, verification agents, etc.). Other service providers may be called upon to perform various services such as:

- Verification Agents – to provide verification of financial data;
- Financial Institutions – to provide letter-of-credit facilities for variable rate issues;
- Feasibility Consultants/Consulting Engineers – to review financial and operational feasibility of projects and conduct rate studies;
- Arbitrage Specialists – to track rebate liability;
- Printers – to print Preliminary Official Statements and Official Statements; etc.

4.3. Credit Ratings and Enhancements

The City shall seek a rating from at least one of the nationally recognized credit rating agencies on all bond issues.

4.3.1. Rating Agency Relationships

The Finance Director is responsible for maintaining relationships with the rating agencies that currently assign ratings to the City's various debt obligations. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with debt issuances.

As part of the rating process, it is often useful and sometimes required to hold meetings with representatives of credit rating agencies. Meetings can be either at the rating agency's offices or in the City. Such meetings give the City an opportunity to make a presentation, provide a framework for resolution of questions, and facilitate and exchange of views.

The City seeks to maintain the highest possible credit ratings for all categories of short and long-term debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives. The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the City is committed to ensuring that actions within its control are prudent. By maintaining high credit ratings, the City can issue its debt at lower interest rates as compared to entities with lower ratings. Additionally, the ratings reflect upon the general reputation of the City and its management.

Each proposal for additional debt obligations shall be analyzed for its impact upon the City's credit rating. The major source of risk considered by rating agencies is the stability and reliability of the revenue sources to service the debt obligation. Projects with volatile or risky debt repayment streams that may adversely impact the City's credit rating shall be avoided.

The Finance Director is responsible for determining which of the major rating agencies shall be asked to provide rating services.

4.3.2. Minimum Long-Term Rating Requirements

The City's minimum credit rating requirement for its direct, long-term, debt obligations shall be as follows:

- General Government Debt: "A-"
- Enterprise Debt: "A-"

If a prospective credit does not, or may not, meet the credit rating targets, the Finance Director will review the factors causing the credit to fall below the target rating and prepare a report detailing the key aspects of the credit.

4.3.3. Use of Credit Enhancement

The City shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. Selection of credit enhancement providers shall be subject to a competitive bid process developed by the Finance Director and/or Financial Advisor. Credit enhancement may be used to comply with the minimum long-term rating requirement on a City debt obligation even if such credit enhancement is not cost effective if, in the opinion of the Finance Director, the use of such credit enhancement meets the City's debt financing goals and objectives.

The City shall consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement:

- Bond Insurance - the City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.
- Debt Service Reserve Fund – the City may utilize a debt service reserve fund to strengthen the underlying credit of the debt obligation. Options for funding the reserve fund requirement include, but are not limited to, the following: funding through bond proceeds at the time of issuance; the provision of a surety bond or letter-of-credit; etc.

5. DERIVATIVES

The prudent use of derivatives can be an effective tool in meeting capital financing needs and structuring a balance sheet while managing risk associated with the movement of interest rates. Utilizing derivative products can provide the City with cost effective alternatives to traditional debt financing.

5.1. Acceptable Derivative Objectives

Derivative transactions are appropriate for use when they are designed to achieve specific financial objective(s) consistent with the City's overall financial policy and strategy. The City may execute a derivative transaction if it achieves one or more of the following objectives:

- To achieve a lower net cost of borrowing;
- To prudently hedge risk in the context of a particular financing, such as capping or hedging variable interest rate risk;

- To provide a better match between the interest rates on the City's debt and its investments (asset/liability management), resulting in an increased net investment return;
- To achieve more flexibility in meeting overall financing objectives, such as altering the pattern of debt service payments or locking in savings on a refunding; and
- To manage exposure to changing markets in advance of anticipating bond issuances (through the use of anticipatory hedging instruments).

5.2. Permitted Transactions

The City shall consider the following derivative instruments as acceptable:

5.2.1. Floating to fixed rate swaps

- Hedge interest rate risk on variable rate debt;
- Lock-in fixed rates on new money/refunding bonds that may be issued in the future; and
- Take advantage of opportunities to obtain fixed swap rates that are lower than comparable fixed rate bonds.

5.2.2. Fixed to floating rate swaps

- Increase the amount of variable rate exposure without incurring the remarketing and liquidity costs; and
- Eliminate the put risk associated with variable rate debt.

5.2.3. Basis swaps

- Manages the risk associated with the mismatch between two interest rate benchmarks.

5.3. Prohibited Transactions

The City shall not enter into any derivative transaction if the following conditions are present:

- The derivative is intended for speculative purposes;
- The derivative may create extraordinary leverage or other financial risk;
- The derivative exposes the City or the swap provider to a situation in which either would have insufficient liquidity to terminate at current market rate; and
- The City's finance team is unable to reasonably value the instrument.

5.4. Approval Process

Before recommendation of a derivative financing to the City Commission, the Finance Director shall review the risks and benefits of such financing and expected impacts on the City's Strategic Finance Plan and credit ratings. The proposed derivative transaction shall only be considered if it meets the objectives of the City as described herein. A Risk/Benefit Analysis Report shall be prepared which evaluates the derivative.

5.5. Risk/Benefit Analysis Report

In the Risk/Benefit Analysis Report (the "Report"), the City shall identify and evaluate the proposed benefit(s) of the derivative transaction.

5.5.1. Savings Analysis

The City shall obtain an analysis of potential savings from the proposed derivative transaction using a service provider experienced in the pricing of derivatives. The City shall enter into derivative transactions only if such products are expected to generate net present value savings (including all ongoing costs and fees) of at least 5%, as compared to a transaction without the derivative product. However, if in the opinion of the Finance Director, the derivative transaction achieves a different public purpose other than savings, the savings threshold may not apply. The Finance Director's justification for waiver of this threshold shall be provided in the Report.

The Report shall also detail the potential risks of the derivative transaction and the means employed to mitigate the risks.

5.5.2. Risk Analysis

The City shall address any methods to mitigate the identified risks. The following risks shall be considered, and the related mitigating factors explained:

- Market/Interest Rate Risk - risk of exposure to fluctuations in interest rates;
- Amortization Risk - risk of a mismatch of the expiration of the underlying debt obligation and its hedge (the swap agreement). Amortization risk includes the possibility that, as the result of early redemption of the underlying variable rate bonds, the repayment schedule of the bonds differs from the underlying notional amount of the swap agreements. The risk only arises if the City elects to redeem bonds ahead of schedule. At the discretion of the Finance Director, the City shall attempt to mitigate this risk by setting the term of the swap to meet its more conservative expectations regarding final repayment of the underlying obligation;

- Tax Law Risk - risk of rate adjustments, extraordinary payments, termination or other adverse consequences in the event of a future change in Federal income tax policy;
- Termination Risk - refers to the possibility that the City may be required to make a large payment to the counterparty if a swap agreement is terminated prior to its scheduled maturity pursuant to its terms (i.e. other than at the option of the City). Termination exposure shall be evaluated on a per-project and per-counterparty basis for all existing and proposed transactions. The City shall attempt to mitigate this risk by maintaining sufficient liquidity to cover this exposure and limiting the events that trigger an early termination, including the selection of counterparties with strong creditworthiness;
- Counterparty Risk - risk that the counterparty fails to make its required payments. The City shall attempt to minimize counterparty risk by establishing minimum counterparty credit standards and by diversifying the City's exposure to individual counterparties;
- Credit Risk - risk of changes in the credit-worthiness of the counterparty. The City shall attempt to mitigate this risk by setting minimum counterparty credit standards and by including provisions in the documents to limit exposure to adverse changes in the counterparty's credit standing;
- Liquidity/Remarketing Risk - risk that the City cannot secure a cost effective renewal of a Letter or Line of Credit, or suffers a failed auction or remarketing with respect to the underlying variable rate bonds;
- Ratings Risk - risk that the transaction could impact the City's current credit ratings, or its desired future credit ratings;
- Basis Risk - risk that the basis for the anticipated payments that the City would make or receive would not match the payments that it seeks to hedge. The City shall evaluate different swap indices as part of its analysis and identify the amount of basis risk that may result from each;
- Tax Exemption of City Debt Risk - risk that the transaction is not in compliance with all Federal tax law requirements with respect to the City's outstanding tax-exempt bonds; and
- Administrative Risk - risk of the ability of the City to administer and monitor the transaction consistent with the policies outlined herein.

5.6. Form of Swap Agreements

To the greatest extent possible, any interest rate swap agreements entered into by the City shall contain the terms and conditions set forth in the International Swap and Derivatives Association, Inc. (“ISDA”) Master Agreement, including any schedules and confirmations. However, the City shall seek to amend the standard terms and conditions as is appropriate for the City’s benefit. The City may use additional documentation if the product is proprietary or if such documentation is in the City’s best interest.

5.7. Minimum Counterparty Requirements

The City shall enter into derivative transactions only with qualified counterparties. The City shall employ the following minimum counterparty requirements:

5.7.1. Minimum Rating

- Qualified swap counterparties must be rated at least “Aa3/AA-/AA-, or equivalent by any two of the nationally recognized rating agencies, (Moody’s Investors Service, Standard and Poor’s Ratings Services, and Fitch Ratings). or have an Aaa/AAA/AAA subsidiary as rated by at least one nationally recognized credit rating agency.

5.7.2. Minimum Capitalization

- $150 million minimum capitalization.

5.7.3. Demonstrated Record

- Track record of successfully executing and performing in swap transactions.

The City shall limit exposure to individual counterparties, based on the credit rating of the counterparty as well as on the relative risk associated with each derivative transaction.

5.8. Standard Terms

The City shall seek to attain the following standard terms in the derivative agreement:

5.8.1. Term

The City shall determine the appropriate term for an agreement on a case-by-case basis. The term shall be consistent with the purpose for which the swap is utilized, while taking into account the call dates for the related debt. In no event shall the term extend beyond the existing debt (or other obligation being hedged).

5.8.2. Events of Default

An event of default by the counterparty may lead to termination of the agreement, with the termination payment being calculated on the side of the bid-offered spread most beneficial to the City. Events of default by the counterparty shall include the following:

- Failure to make payments when due;
- Material breach of representations and warranties;
- Failure to comply with downgrade provisions;
- Downgrade of Counterparty to below Investment Grade
- Failure to comply with any other provision of the agreement after a specified notice period; etc.

5.8.3. Downgrade Provisions

Downgrade provisions triggering terminations shall in no event be worse for the City than those affecting the counterparty.

5.8.4. Termination Provisions

- Optional - all interest rate swap transactions shall contain provisions granting the City the right to optionally terminate a swap agreement at anytime over the term of the agreement. The Finance Director, in consultation with the City's financial advisor, shall determine if it is financially advantageous for the City to terminate a swap agreement.
- Mandatory - a termination payment to or from the City may be required in the event of termination of a swap agreement in the case of credit-related and non-payment events. It is the intent of the City not to make a termination payment to a counterparty that does not meet its contractual obligations. Prior to entering into the swap agreement, or making any such termination payment, as appropriate, the Finance Director shall evaluate whether it would be financially advantageous for the City to enter into a replacement swap as a means of offsetting any such termination payment or obtaining insurance to guarantee performance of the counterparty. Any swap termination payment due from the City may be made from available City monies and the agreement shall allow sufficient time for appropriate legislative action.
- Available Liquidity - the Finance Director shall consider the extent of the City's exposure to termination payment liability in connection with each swap transaction, and the availability of sufficient liquidity to make any such payments that may become due.

5.8.5. Cure Provisions

Cure provisions must provide sufficient time for appropriate legislative action to occur.

5.8.6. Payment

Payments may be structured on a monthly, semi-annual, or annual basis. Swap payments shall have a lien level that is no greater than parity. Whenever possible, termination payments should have a lien level that is subordinate to related debt payments.

5.8.7. Collateral

Collateral thresholds shall be set on a sliding scale reflective of credit ratings, size, and directional market risk of the transaction.

- Required - the City shall require collateral or other credit enhancement to be posted by each swap counterparty if the credit rating of the counterparty or its guarantor falls below the “A” category from any two out of the three nationally recognized rating agencies previously identified. The level of collateral shall be determined on a deal by deal basis, taking into account such factors as the counterparty ratings. Additional collateral for further decreases in credit ratings of each counterparty shall be posted by such counterparty in accordance with the provisions contained in the collateral support agreement attached to each swap agreement.
- Safekeeping Requirements - collateral shall be deposited with a custodian, acting as agent for the City, or as mutually agreed upon between the City and each counterparty.
- Collateral Value - the market value of the collateral shall be determined on a monthly basis (at a minimum). The amount of collateral posted shall be equal to the positive termination value of the swap agreement to the City. The City shall determine reasonable threshold limits for the initial deposit and for increments of collateral posted thereafter.
- Features of Collateral - acceptable collateral includes cash, U.S. Treasury securities, and U.S. Agency securities. The City shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to the City.

5.9. Monitoring and Reporting

The Finance Director shall actively manage and routinely monitor any derivative product entered into by the City. This includes frequent monitoring of market conditions to identify opportunities and risks. A written report providing the status of all derivative products entered into by the City may be prepared from time to time, but in no event less than annually.

Monitoring and/or reporting shall consider the following areas:

5.9.1. Agreements

- A summary of each swap agreement including but not limited to:
  - The type of swap;
  - The rates and dollar amounts paid by the City and received by the City;
  - The rate and amounts that were required to be paid and received; and
  - The current market value.
- Highlights of all material changes to swap agreements or new swap agreements since the last report.
- Actual collateral posting by each swap counterparty, if any, under each swap agreement and in total by that swap counterparty.
- Information concerning any default by a swap counterparty under a swap agreement with the City, and the results of the default, including but not limited to the financial impact to the City, if any.
- A summary of any swap agreements that were terminated or that have expired. Summary of key terms of agreements including notional amounts, interest rates, maturity, and method of procurement.
- Values of early termination, shortening or lengthening the term to certain benchmarks, sale or purchase of options, and application of basis swaps.
- Discussion of other risks associated with each transaction.
- A summary of any planned swap transactions and the projected impact of such swap transactions to the City.

5.9.2. Counterparties

- Full name, description, and credit ratings of each counterparty and credit enhancer insuring swap payments, if any.
- For each counterparty, the City shall provide the total notional amount position, the average life of each swap agreement, the available capacity to enter into a swap transaction, and the remaining term of each swap agreement.

- Listing of any credit enhancement, liquidity facility or reserves, and accounting of all costs and expenses associated with the credit enhancement, liquidity facility, or reserves.
- Current credit rating of each counterparty and credit enhancer insuring swap payments, if any.
- Aggregate marked-to-market value for each counterparty and relative exposure compared to other counterparties.
- Calculation of City's net termination exposure for each counterparty.

5.9.3. Benefit

- Comparison of the actual debt service requirements of the transaction and the projected debt service on the transaction at the time of original execution. This shall be shown on an annual basis and is to include a determination of the cumulative actual savings versus the projected savings at the time the transaction was executed.

6. POST ISSUANCE

The Finance Director is responsible for the ongoing administration of the City's capital financing activities including investment of the proceeds from the debt obligation, maintenance of the capital and debt service accounts, arbitrage compliance, and continuing disclosure and any other legal or administrative compliance issues.

6.1. Maintenance of Bond Accounts

The Finance Director is responsible for ensuring that all required accounts, as set forth in the underlying bond covenants or agreements related to a debt obligation, are created within the City's general ledger and that the flow-of-funds requirements, if any, are being followed.

6.2. Investment of Debt Proceeds

The proceeds of debt obligations shall be invested until expensed for the underlying project/initiative in order to maximize utilization of the public funds. The investments shall be made to obtain the highest level of safety in accordance with the City's Investment Policy. All bond proceeds shall be invested in a manner to avoid, if possible, or minimize any potential negative arbitrage over the life of the bond issue. Investment contracts shall be bid in accordance with the City's Procurement Code.

6.3. Debt Management

The Finance Director shall establish and maintain a debt management database to track critical information on outstanding debt from issuance through maturity and provide reporting functionality including, but not limited to, the printing of amortization schedules by series or in aggregate.

6.4. Continuing Disclosure

The Finance Director with the assistance of the financing team shall produce all the necessary documents for disclosure. All debt issues shall meet the disclosure requirements of the SEC (rule 15c2-12) and other government agencies before and after the bond sales take place.

The Finance Director is responsible for providing ongoing disclosure on the status of the following notice events to the Municipal Securities Rulemaking Board as obligated:

- Principal and interest payment delinquencies;
- Non-Payment related defaults;
- Unscheduled draws on debt service reserves reflecting financial difficulties;
- Unscheduled draws on credit enhancements reflecting financial difficulties;
- Substitution of credit or liquidity providers, or their failure to perform;
- Adverse tax opinions or events affecting the tax-exempt status of the security;
- Modifications to rights of securities holders;
- Bond calls;
- Defeasances;
- Release, substitution, or sale of property securing repayment of the securities;
- Rating changes; and
- Failure to provide annual financial information as required.

The City may utilize private sector entities to facilitate compliance reporting including web-based compliance reporting systems that allow issuers to file, transmit (i.e. to NRMSIR, investors, citizens, etc.) and archive disclosure documents over the life of a debt obligation.

6.5. Reporting Requirements

6.5.1. Annual Audit of the City

The annual audit of the City (i.e. the CAFR) shall describe in detail all funds and fund balances established as part of any direct debt financing of the City.

6.5.2 Bondholders Report

The Finance Director will be responsible for preparing and issuing an annual report to Bondholders. This report will detail the outstanding debt of the City and provide additional information of importance to interested parties regarding the City's financial obligations.

6.5.3 Arbitrage Compliance

The Finance Director shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt obligations. The City may utilize professional arbitrage rebate compliance services to attain its commitments under this section.

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Appendix A

CITY OF WEST PALM BEACH, FLORIDA

Measures of Future Flexibility
September 30, 2011

		Target	Actual
General Government			
(1)	Debt service as a percentage of General Government expenditures:	10.00%	11.55%
(2)	Pay-as-you-go funding for Renewal and Replacement:		
	Fleet and Minor Equipment	$ 2,000,000	$ 1,376,685
	Technology Equipment	$ 800,000	$ 600,000
	Buildings/Structures	$ 500,000	$ 150,000
	Roads, Curbs, Sidewalks, Streetlights	$ 2,500,000	$ 4,104,000
(3)	General Fund Reserve as a percentage of General Fund operating revenues:	20.00%	24.58%
Enterprise Funds			
(4)	Debt service coverage:		
	Test #1:	120.00%	276.00%
	Test #2:	100.00%	148.00%
(5)	Pay-as-you-go funding for Renewal and Replacement as a percentage of operating revenues:		
	Water/Sewer	10.00%	8.19%
	Stormwater	10.00%	3.00%
(6)	Emergency Reserve as a percentage of operating revenues:		
	Water/Sewer	20.00%	25.48%
	Stormwater	20.00%	34.57%

Affordability Targets
September 30, 2011

		Target	Actual
(7)	Direct Net Debt per Capita	$ 2,000	$ 1,905
(8)	Direct Net Debt to Property Value	1.50%	1.72%
(9)	Overall Net Debt Burden	2.50%	2.65%