

# **DEBT MANAGEMENT POLICY**

## **POLICY NO. 41-01**

### **I. PURPOSE**

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

### **II. SCOPE**

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

### **III. CAPITAL BUDGETING AND DEBT ISSUANCE POLICY**

#### **A. Capital Improvement Plan (CIP)**

The CIP serves as the planning guide for the construction of public facilities, infrastructure and other capital purchases in the County. The CIP is designed to balance the need for these assets with the fiscal capability of the County to meet those needs. The County shall issue debt to meet these cash flow needs on a short-term or long-term basis, dependent upon the intended use of the proceeds.

#### **B. Long-Term Debt**

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

#### **C. Short-Term Debt**

Short-term debt can be used to diversify a debt portfolio, reduce interest costs, provide interim funding for capital projects, provide short term funding for capital assets with a shorter useful life, and to improve the match of assets to liabilities. The County may issue commercial paper, lines of credit, other forms of variable rate debt and synthetic variable rate debt from time to time.

#### **D. Issuance Process**

Determination of recommendation for the issuance of both short and long-term debt to the Board of County Commissioners should be made by consensus of the following parties:

County Administrator  
County Budget Manager/Director  
County Finance Director (Clerk of Court & Comptroller)  
Department Director of financed project  
Independent Financial Advisor, Bond Counsel, Disclosure Counsel  
Other appropriate parties as determined by those listed above

**IV. MEASURES OF DEBT LEVELS AND DEBT ISSUANCE LIMITS**

1. General Obligation Bonds shall have debt ratios necessary to maintain sound credit ratings.
2. Revenue Bonds shall maintain specific coverage ratios not less than the following:
  - i. Utility System Net Revenues excluding connection fees should be at least equal to 110% of maximum combined debt service, and 120% including connection fees.
  - ii. Public Service Tax Revenues should be at least 135% of combined debt service.
  - iii. Sales Tax Revenues should be at least 125% of debt service.
  - iv. State Revenue Sharing moneys should be at least equal to 110% of maximum combined debt service.
  - v. Local Option Gas Tax Revenues should be at least 150% of the combined maximum debt service requirement.

**V. SALE METHODS**

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

**VI. CALL PROVISIONS**

Call provisions for the County bond issues shall be made as short as possible considering the impact of shorter call provisions on the interest rate(s) and other factors related to the financing, such as current and expected future interest rate trends and anticipated sources of repayment. The County shall seek to minimize any prepayment premium also considering such factors.

**VII. DEBT STRUCTURE**

A. Premium Bonds, Discount Bonds, and Capitalized Interest

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

## B. Interest Rate Swaps

The County may consider interest rate swap transactions only as they relate to its debt management program and not as an investment instrument or hedge. Any swap transaction should not include provisions that could impair the outstanding uninsured bond rating of the County.

## VIII. VARIABLE RATE DEBT

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

## IX. DEBT REFUNDING

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

## X. CREDIT OBJECTIVES

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

## XI. CREDIT ENHANCEMENT AND LIQUIDITY

Bond insurance, surety policies, letter of credit, liquidity facilities and other credit enhancements or liquidity facilities, may be used when it provides an economic savings and/or enhances investor demand for the County's obligations.

## **XII. REPORTING AND COMPLIANCE**

### **A. Continuing Disclosure**

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

### **B. Debt Service Payments**

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

### **C. Compliance with Bond Covenants, Federal and State Law**

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

### **D. Bond Yield Arbitrage Monitoring**

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

Adopted: July 16, 2019