



Debt Management Policy Discussion

City of North Port, Florida



September 9, 2024

PFM Financial
Advisors LLC

200 South Orange Ave,
Suite 760
Orlando, FL 32801

pfm.com



Outline

- I. City Charter
- II. Debt Management Policy Objectives
- III. Debt Affordability Measures
- IV. Debt Finance Committee
- V. Debt Structuring
- VI. Debt Issuance & Management



I. City Charter



City Charter

- ◆ The City of North Port (“the City”) is the only City in Florida we know of that requires a voter referendum to approve the issuance of any type of debt
- ◆ The City Commission has approved a charter referendum for the November 5th ballot
- ◆ Commissioners have also directed staff to develop a robust debt policy, meant to ensure responsible and affordable use of debt financing to meet the City’s critical needs
- ◆ The charter amendment would allow the City to issue debt payable from funds other than property taxes without voter approval in response to declared emergencies or for safety and public health projects of \$15 million or less
- ◆ General Obligation (GO) Bonds in any amount that are paid from property taxes will still require referendum approval



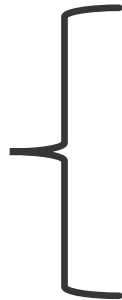
Comparable Debt Limits

- ◆ Two Counties in Florida that PFM works with that have limits to issuance amounts that do not require referendum approval
 - Brevard County
 - Debt is capped at \$15 million for general non-ad valorem revenues
 - Exceptions to this restriction:
 - Enterprise Funds, Self Liquidated Projects, Roads funded with Gas Tax, Declared State/Federal Emergency
 - Sarasota County
 - Debt is capped for general non-ad valorem revenues, with indexed growth (currently \$28 million)
 - Enterprise and Self-Sufficient funds (separately approved) are exempt



Comparable City Debt Limits

No Limit



City of Fort Myers	City of Leesburg	City of Palm Coast
<ul style="list-style-type: none"> - States no limit - Seeks to achieve lowest overall borrowing costs 	<ul style="list-style-type: none"> - Commit to follow State Statute and levels consistent with creditworthiness objectives 	<ul style="list-style-type: none"> - Commit to follow State Statute and City Charter (no formal limit) - Seek to achieve lowest possible borrowing cost - Financing team will review via proposal all capital financing involving a pledge or other extension of the City's credit

Specified Limits



City of Plantation	City of Sarasota	City of Tamarac	City of Venice
<ul style="list-style-type: none"> - G.O. debt is limited to 5% of the total assessed valuation of taxable property (\$617MM cap as of 2024) - Annual General Fund debt service expense will be limited to 12.5% of the total General Fund budget (\$15MM annual debt service cap as of 2024) 	<ul style="list-style-type: none"> - Limited to 10% of the taxable assessed valuation of City's real property (\$1.67B cap projected for 2024) 	<ul style="list-style-type: none"> - Limit subject to State Statute - Short-term and/or interim financing shall not exceed 10% of outstanding long-term debt, unless there is an emergent situation or opportunity for significant cost savings 	<ul style="list-style-type: none"> - Annual debt service payments limited to 10% of general fund revenues and in no case should they exceed 15% (10%: Approximately \$3.93MM cap as of 2023, 15%: Approximately \$5.90MM cap as of 2023) - No more than 15% of G.O. debt may be variable rate - Short-term obligations to mature in a year shall not exceed 5% of long-term outstanding debt - Established goal of revenue bond debt service to revenue ratio of 1:6 and a minimum coverage requirement of 1:2



II. Debt Management Policy Objectives



Debt Management Policy Defined

- ◆ Written procedures to guide debt evaluation and administration, which mirror the GFOA's recommended best practices
- ◆ Designed to improve decision making, reinforce policy objectives, provide structuring parameters and demonstrate the city's commitment to long-term capital planning
- ◆ Recognized as a credit strength by ratings analysis, banks and investors
- ◆ A well managed debt portfolio provides assurances that payments will be made in a timely manner and compliance requirements will be met
- ◆ Over time and based on economic conditions and city needs, the policy will be reviewed and updated



Debt Management Policy Objectives

- ◆ Ensure Fiscal Sustainability
- ◆ Evaluate Debt Affordability
- ◆ Promote Transparency, Accountability and Reporting Compliance
- ◆ Structure Debt Efficiently
- ◆ Utilize Appropriate Debt Instruments
- ◆ Preserve and Enhance Creditworthiness and Investor Confidence
- ◆ Support Capital Improvement Projects
- ◆ Ensure Legal and Regulatory Compliance



Debt Management Policy Components

◆ General Policy Statements

◆ Purpose and Uses of Debt

- Debt Position
- Capital Financing
- Asset Life

◆ Credit Worthiness

- Legal Restrictions
- Debt Issuance Limitations
- Capital Planning
- Credit Ratings
- Debt Affordability Metrics



Debt Management Policy Components (cont'd)

◆ Debt Structuring

- Debt Structure
- Length of Debt
- Backloading
- Refunding
- Credit Enhancements
- Debt Service Reserve Funds
- Capitalized Interest
- Fixed Interest Debt
- Variable Rate Debt
- General Obligation Bonds
- Revenue Debt
- Taxable Debt
- Leasing
- Lease-Purchase
- State and Federal Loan Programs
- Pooled Financing
- Interfund Borrowing
- Bank Loans
- Line of Credit
- Conduit Bond Financing
- Other Types of Debt



Debt Management Policy Components (cont'd)

- ◆ External Financing Team
 - Independent Financial Advisor
 - Bond Counsel
 - Disclosure Counsel
 - Underwriter
 - Credit Rating Agencies



Debt Management Policy Components (cont'd)

◆ Debt Issuance Process

- Debt Approval
- Competitive Sale
- Negotiated Sale
- Private Placement
- Investment of Proceeds
- Use of Bond Proceeds
- Costs and Fee



Debt Management Policy Components (cont'd)

- ◆ Debt Administration and Management
 - Debt Finance Committee
 - Debt Evaluation Report
 - Report to Bondholders
 - Tax Exempt Debt Compliance
 - Arbitrage Compliance
 - Financial Disclosure

- ◆ Use of Derivatives
 - Derivative or Synthetic Debt Structures



III. Debt Affordability Measures



Debt Affordability Measures

- ◆ The city will examine statistical measures and compare certain ratios to cities of comparable size and historical ratios, to include data related to:
 - Economy
 - Financial Performance
 - Leverage
- ◆ Specific measures will be tracked over time and presented in the Debt Evaluation Report to ensure policy targets are being met include:
 - Debt Per Capita
 - Debt to Taxable Assessed Value
 - Debt Service Payments as a % of Operating Revenue



Debt Affordability Measures

- Specific measures will be tracked over time and presented in the Debt Evaluation Report to ensure policy targets are being met include:
 - Debt Per Capita
 - Target of \$2,500 or less
 - Debt to Taxable Assessed Value
 - Target of 2.50% or less
 - Debt Service Payments as a % of Operating Revenue
 - Target of 15.00% or less

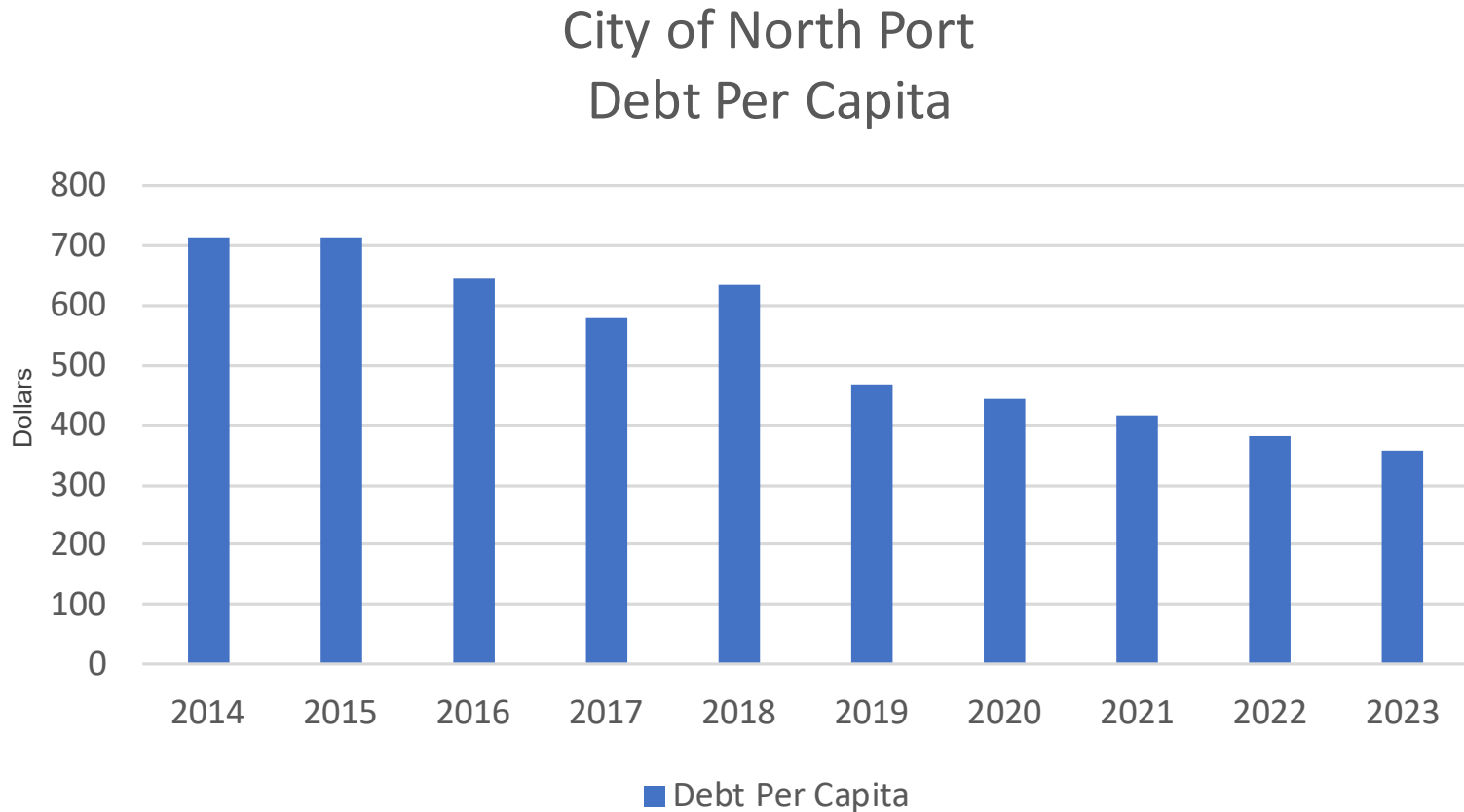


North Port's Historical Debt Affordability Metrics

	Debt Per Capita	Debt to TAV	Debt Service as % of Op. Revenues
2023	\$357	0.42%	2.44%
2022	\$380	0.54%	5.09%
2021	\$416	0.63%	5.60%
2020	\$443	0.74%	8.13%
2019	\$469	0.82%	6.45%
2018	\$534	1.03%	6.74%
2017	\$577	1.19%	6.87%
2016	\$644	1.44%	7.29%
2015	\$712	1.68%	7.92%
2014	\$712	1.77%	8.13%

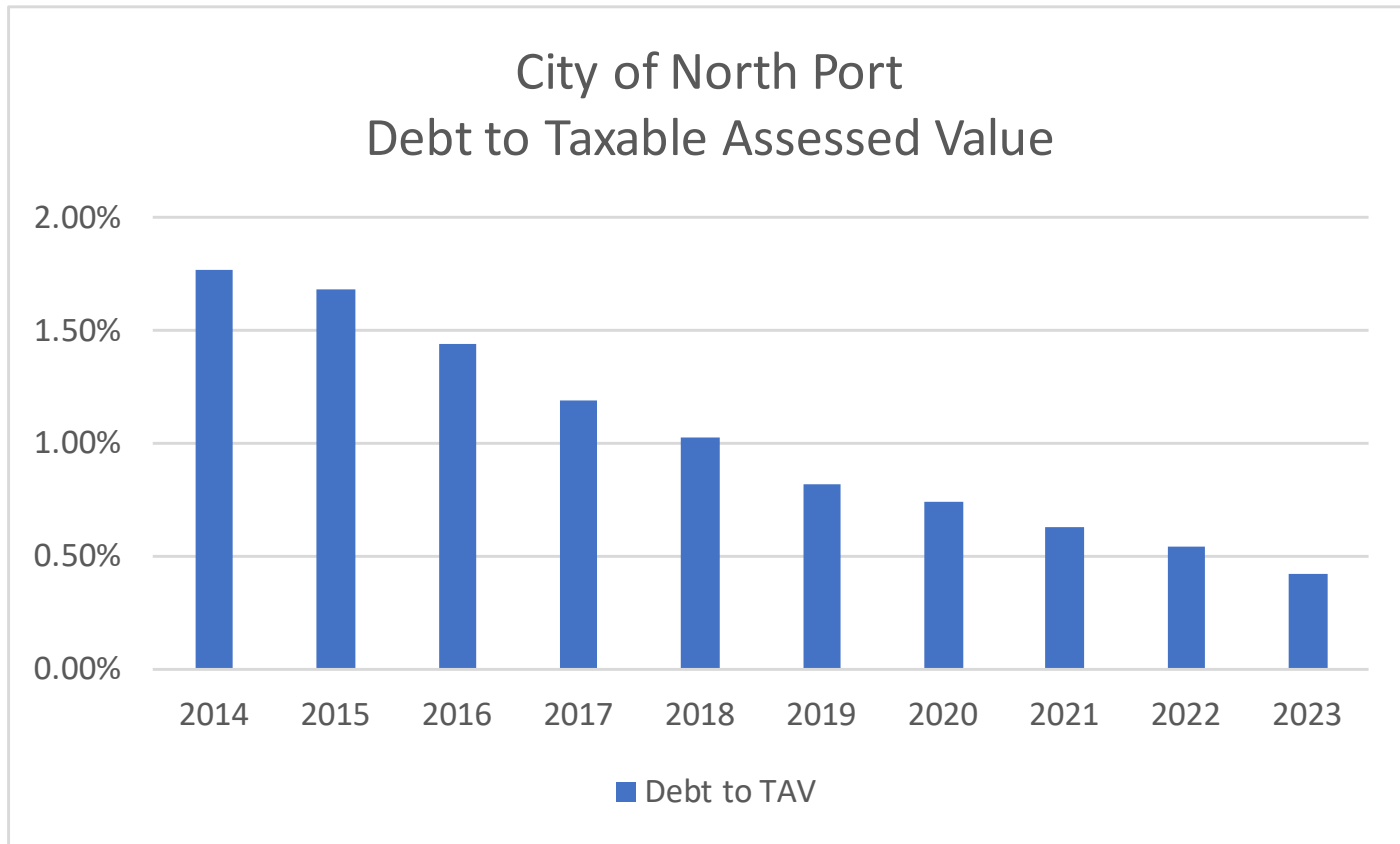


North Port's Historical Trend – Debt Per Capita



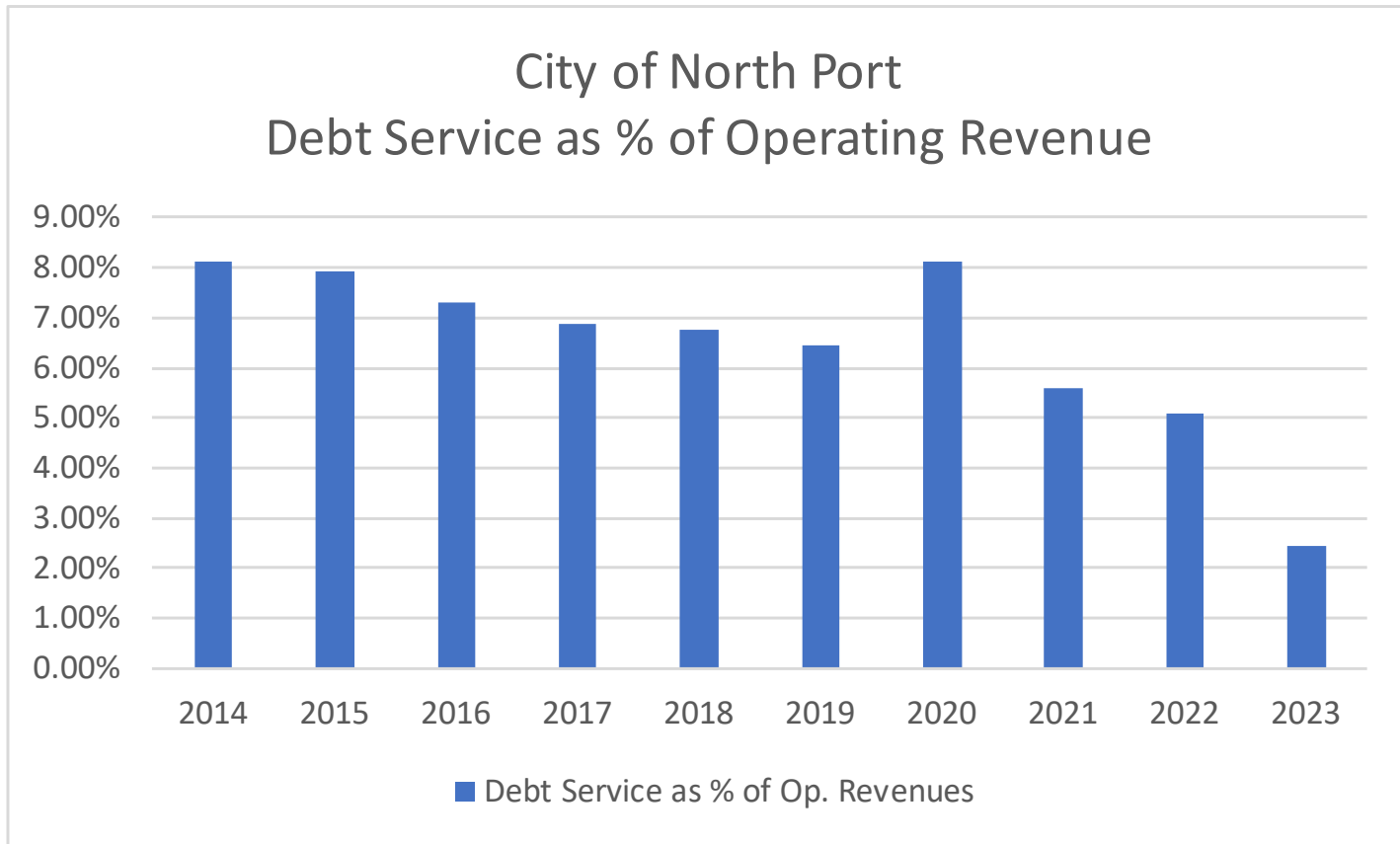


North Port's Historical Trend – Debt to TAV





North Port's Historical Trend – Debt Service as % of Operating Revenue





Ratings Criteria – Scorecard Approach

◆ City staff works with PFM to update certain ratios that are included in the Moody's Scorecard – below are the metrics:

- **Economy**
 - Resident Income
 - Full Value per Capita
 - Economic Growth
- **Financial Performance**
 - Available Fund Balance Ratio
 - Liquidity Ratio
- **Leverage**
 - Long-Term Liabilities Ratio
 - Fixed-Costs Ratio



Moody's Cities and Counties Score Calculator - Economy

Economy										
	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	Weight	Current
Resident Income (MHI Adjusted for RPP / US MHI)	≥ 120%	100% to 120%	80% to 100%	65% to 80%	50% to 65%	35% to 50%	20% to 35%	< 20%	10%	103.40%
Full Value per Capita (Full Valuation of the Tax Base / Population)	≥ \$180,000	\$100,000 to \$180,000	\$60,000 to \$100,000	\$40,000 to \$60,000	\$25,000 to \$40,000	\$15,000 to \$25,000	\$9,000 to \$15,000	< \$9,000	10%	\$115,202
Economic Growth (Difference Between Five-Year Compound Annual Growth in Real GDP and Five-Year CAGR in Real US GDP)	≥ 0.0%	-1.0% to 0.0%	-2.5% to -1.0%	-4.5% to -2.5%	-7.0% to -4.5%	-10.0% to -7.0%	-15.0% to -10.0%	< -15.0%	10%	3.90%



Moody's Cities and Counties Score Calculator - Financial Performance

Financial Performance										
	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	Weight	Current
Available Fund Balance Ratio (Available Fund Balance + Net Current Assets / Revenue)	≥ 35.0%	25.0% to 35.0%	15.0% to 25.0%	5.0% to 15.0%	0.0% to 5.0%	-5.0% to 0.0%	-10.0% to - 5.0%	< -10.0%	20%	35.1%
Liquidity Ratio (Unrestricted Cash / Revenue)	≥ 40.0%	30.0% to 40.0%	20.0% to 30.0%	12.5% to 20.0%	5.0% to 12.5%	0.0% to 5.0%	-5.0% to 0.0%	< -5.0%	10%	92.1%



Moody's Cities and Counties Score Calculator - Leverage

Leverage										
	Aaa	Aa	A	Baa	Ba	B	Caa	Ca	Weight	Current
Long-term Liabilities Ratio ((Debt + Adjusted Net Pension Liabilities + Adjusted Net Other Post-Employment Benefits + Other Long-Term Liabilities) / Operating Revenue)	≤ 100%	100% to 200%	200% to 350%	350% to 500%	500% to 700%	700% to 900%	900% to 1100%	> 1100%	20%	98.3%
Fixed-Costs Ratio (Adjusted Fixed Costs / Revenue)	≤ 10%	10% to 15%	15% to 20%	20% to 25%	25% to 35%	35% to 45%	45% to 55%	> 55%	10%	3.3%



Ratings Criteria – Scorecard Approach

City of North Port, FL - Moody's U.S. Cities and Counties Scorecard											
	Value	Aaa	Aa	A	Baa	Ba	B		Weight	Numeric Score	Implied Rating
Economy (30%)											
Resident Income	103.4%	≥120%	100% - 120%	80% - 100%	65% - 80%	50% - 65%	35% - 50%		10%	2.81	Aa
Full Value Per Capita	\$115,202	≥\$180,000	\$100,000 - \$180,000	\$60,000 - \$100,000	\$40,000 - \$60,000	\$25,000 - \$40,000	\$15,000 - \$25,000		10%		Aa
Economic Growth	3.9%	≥0%	(1)% - 0%	(2.5)% - (1)%	(4.5)% - (2.5)%	(7)% - (4.5)%	(10)% - (7)%		10%		Aaa
Financial Performance (30%)											
Available Fund Balance Ratio	35.1%	≥35%	25% - 35%	15% - 25%	5% - 15%	0% - 5%	(5)% - 0%		20%	1.16	Aaa
Liquidity Ratio	92.1%	≥40%	30% - 40%	20% - 30%	12.5% - 20%	5% - 12.5%	0% - 5%		10%		Aaa
Institutional Framework (10%)											
Institutional Framework	Aa	<p>Majority of revenue not subject to externally imposed caps and governing body can increase revenue meaningfully w/o limitation or approval of voters or other governments</p> <p>AND</p> <p>Ability to meaningfully reduce expenditures not constrained by externally imposed mandates or restrictions</p>	<p>Majority of revenue subject to externally imposed caps but governing body can increase revenue meaningfully w/o approval of voters or other governments</p> <p>OR</p> <p>Ability to meaningfully reduce expenditures mildly constrained by externally imposed mandates or restrictions</p>	<p>Majority of revenue subject to externally imposed caps but governing body can increase revenue moderately w/o approval of voters or other governments</p> <p>OR</p> <p>Ability to meaningfully reduce expenditures moderately constrained by externally imposed mandates or restrictions</p>	<p>Majority of revenue subject to externally imposed caps and governing body can increase revenue only minimally w/o approval of voters or other governments</p> <p>OR</p> <p>Ability to meaningfully reduce expenditures heavily constrained by externally imposed mandates or restrictions</p>	<p>Majority of revenue subject to externally imposed caps and governing body cannot increase revenue w/o approval of voters or other governments</p> <p>OR</p> <p>Ability to meaningfully reduce expenditures very heavily constrained by externally imposed mandates or restrictions</p>	<p>Majority of revenue subject to externally imposed caps and governing body cannot increase revenue</p> <p>OR</p> <p>Ability to meaningfully reduce expenditures extremely constrained by externally imposed mandates or restrictions</p>		10%	3.00	Aa
Leverage (30%)											
Long-term Liabilities Ratio	98.3%	≤100%	100% - 200%	200% - 350%	350% - 500%	500% - 700%	700% - 900%		20%	1.27	Aaa
Fixed-Costs Ratio	3.3%	≤10%	10% - 15%	15% - 20%	20% - 25%	25% - 35%	35% - 45%		10%		Aaa
Implied Rating Outcome>>										1.87	Aa1

Provided for illustration purposes only; Information sourced to Moody's 2023 MFRA Data



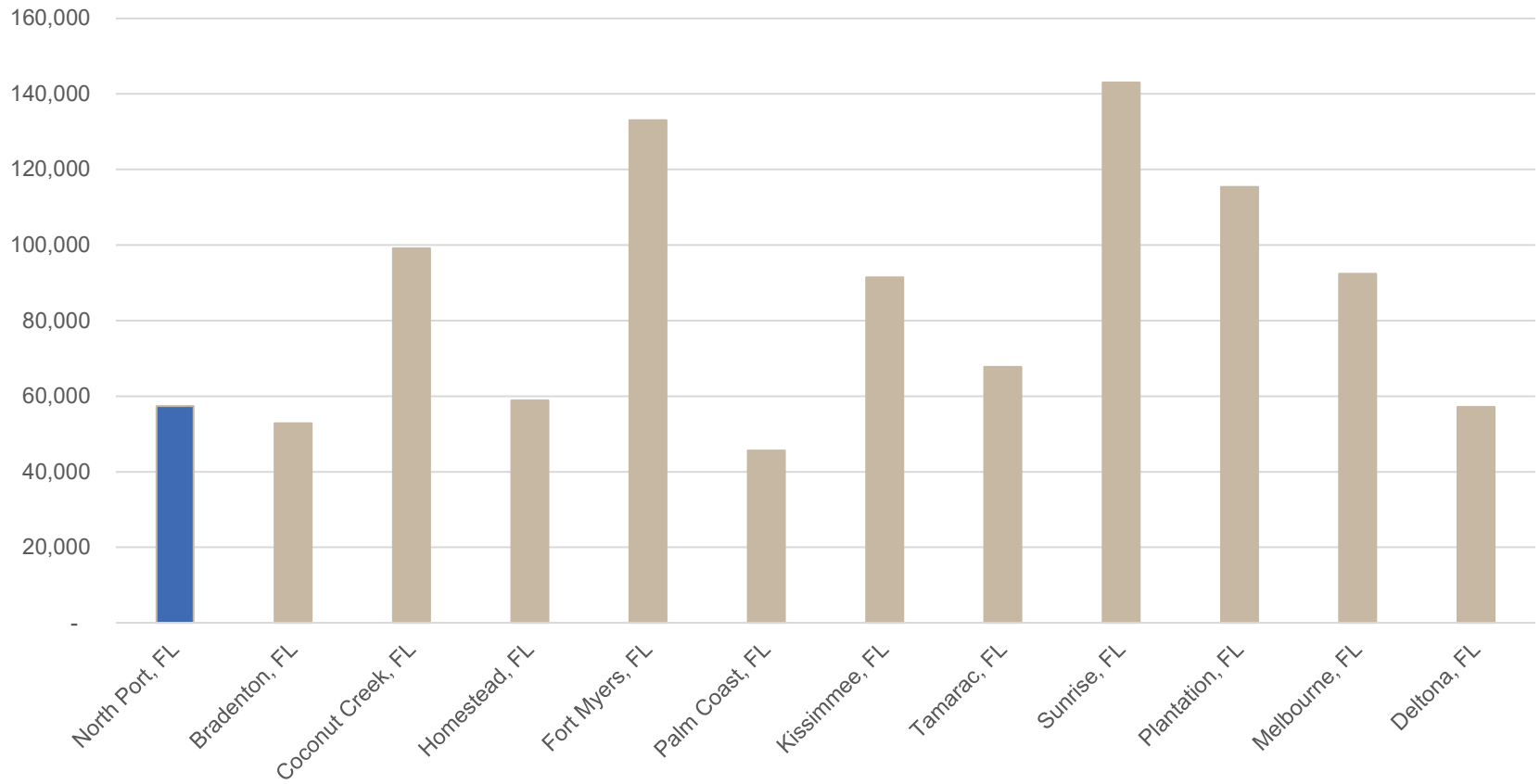
Peer Analysis

	Moody's Rating	Population	General Fund Revenues (\$000)
City of North Port	Aa2	74,793	57,422
City of Bradenton	Aa1	55,698	52,827
City of Coconut Creek	NR	57,833	95,200
City of Homestead	Aa3	80,737	58,899
City of Fort Myers	Aa3	86,395	133,075
City of Palm Coast	NR	89,258	45,637
City of Kissimmee	NR	79,226	143,237
City of Tamarac	Aa2	71,897	67,733
City of Sunrise	Aa2	91,750	142,999
City of Plantation	Aa1	92,212	115,415
City of Melbourne	NR	84,678	92,369
City of Deltona	Aa2	93,692	57,175



Peer Analysis

General Fund Revenues

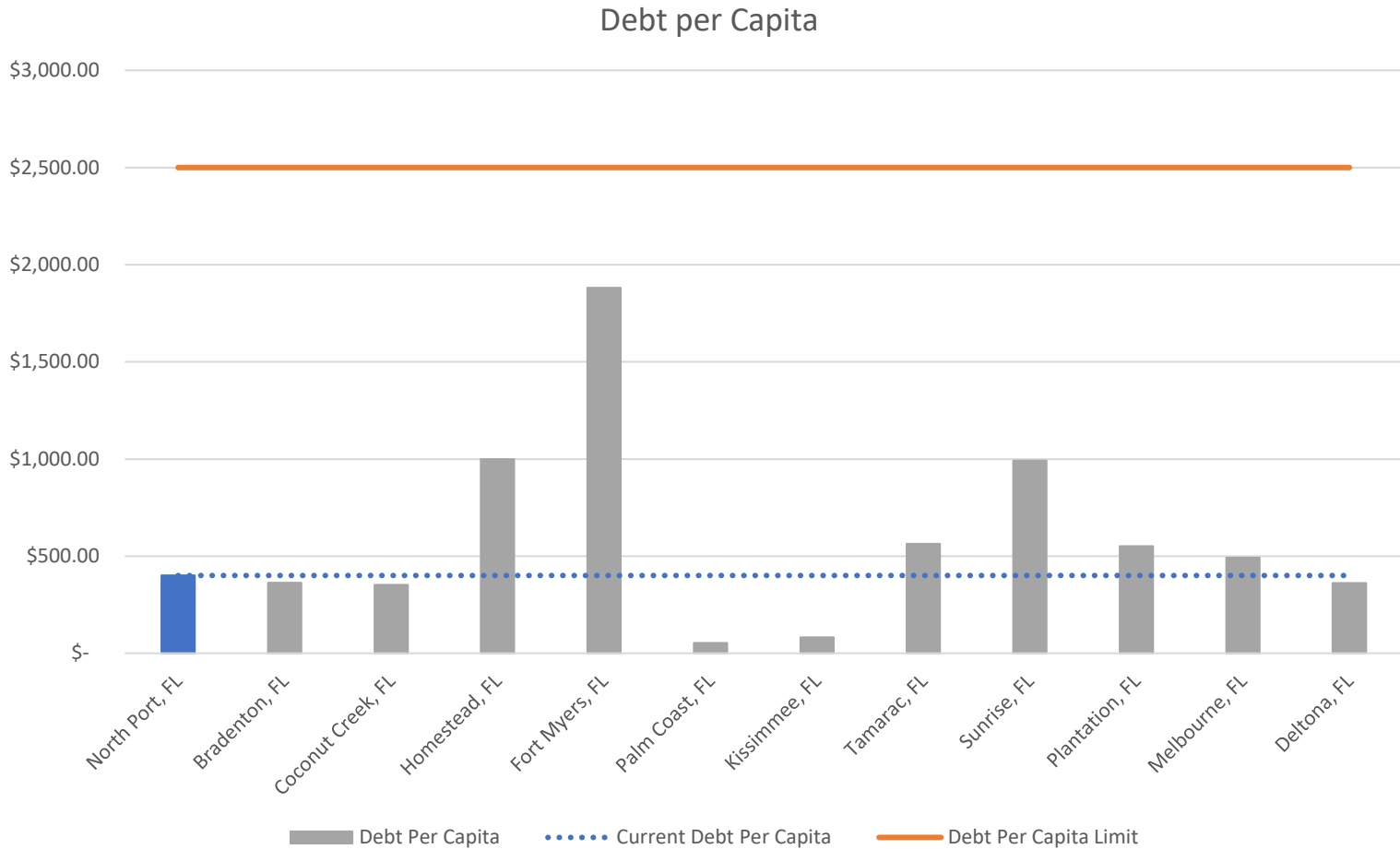


Source: Moody's FY23 MFRA Data

*FY 2022 Data

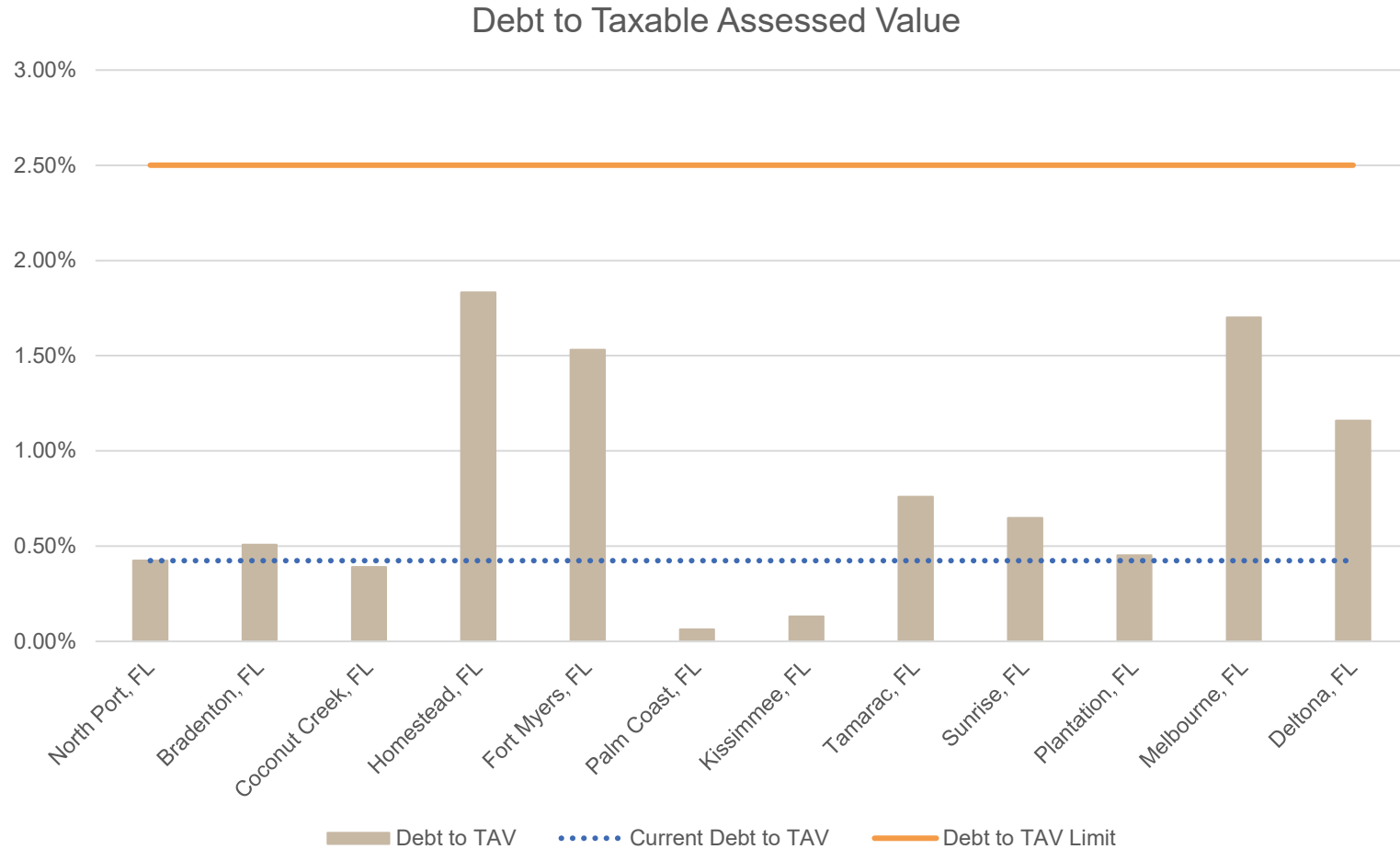


Comparable City Debt Affordability Metrics - Debt Per Capita



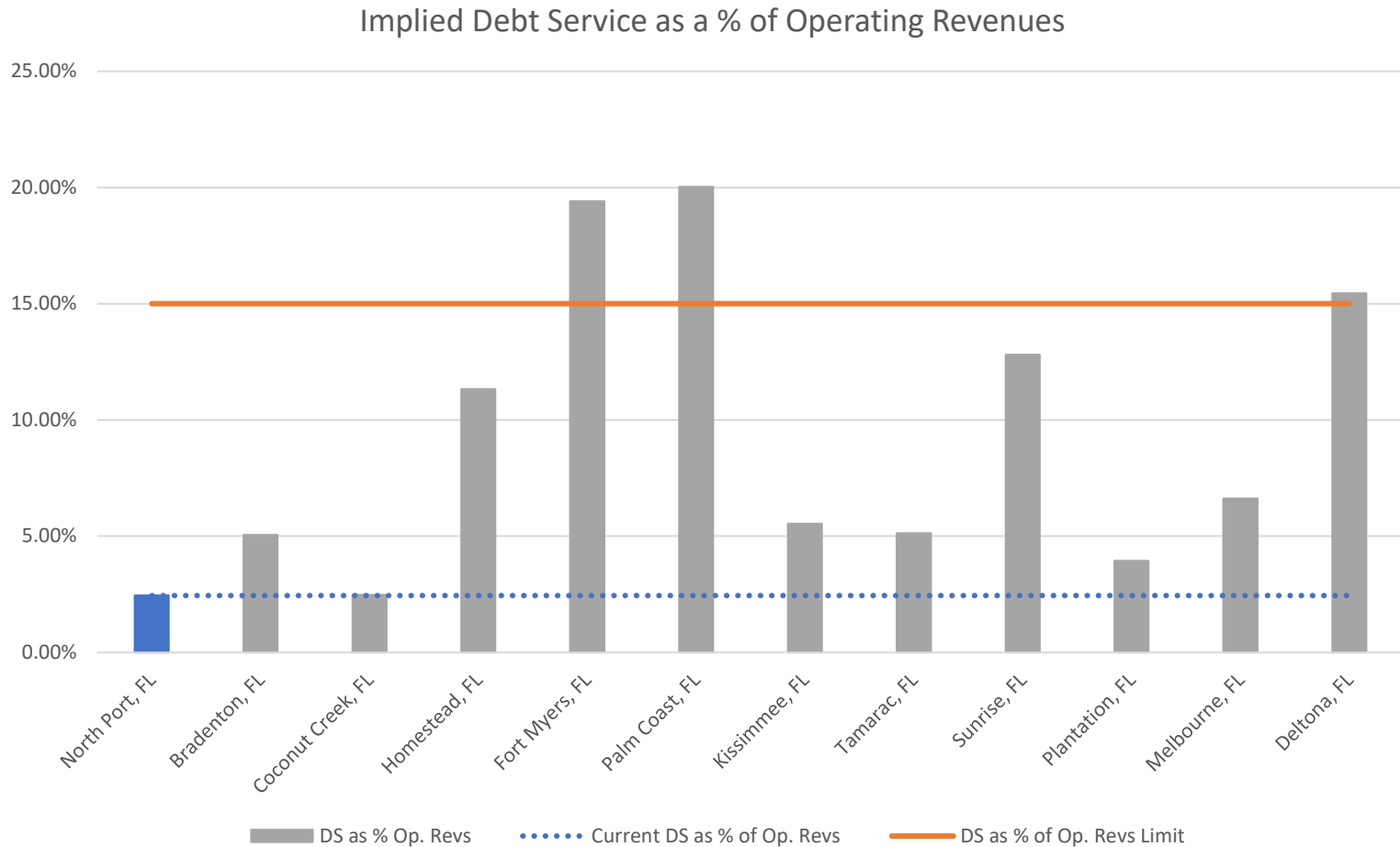


Comparable City Debt Affordability Metrics - Debt to TAV





Comparable City Debt Affordability Metrics - DS as a % of Operating Revs





IV. Debt Finance Committee



Debt Finance Committee

- ◆ The city will establish and maintain a committee to serve in an advisory capacity to the City Commission through an Ordinance being brought forward
- ◆ Will provide recommendations to the Commission regarding financing alternatives, Debt Management Policy updates, and any other considerations related to the city's debt portfolio
- ◆ Members of the committee will include the following:
 - ◆ Five (or more) citizens appointed by the Commission (voting)
 - ◆ Mayor, Vice Mayor or designated Commissioner (non-voting)
 - ◆ City Manager or designee (non-voting)
 - ◆ City Finance Director or designee (non-voting)
 - ◆ City's Financial Advisor (non-voting)



Debt Finance Committee

- ◆ Will meet annually, or more if necessary
- ◆ Will administer the Debt Evaluation Report
- ◆ Will make recommendations on financings and provide associated reports to City Commission
- ◆ Will review the debt management policy every 5-years at minimum





V. Debt Structuring



Structuring Considerations

Debt will be structured to achieve the lowest possible net cost to the city given various market conditions, legal covenants and the nature and type of security provided

- ◆ Length of Debt – managing affordability with useful life of asset
- ◆ Backloading – target level payments unless structuring benefit exists
- ◆ Refunding – monitor debt portfolio to identify opportunities to lower payments
- ◆ Credit Enhancements – increase marketability with net benefit to the city
- ◆ Debt Service Reserve Funds – established to mitigate revenue shortfall
- ◆ Capitalized Interest – used during construction period or current budget



Structuring Considerations Continued

Debt will be structured to achieve the lowest possible net cost to the city given various market conditions, legal covenants and the nature and type of security provided

- ◆ Fixed Rate Debt – eliminate rate risk and establish budget certainty
- ◆ Variable Interest Debt – effective in a steep rate environment, capped at 20%
- ◆ General Obligation – property tax secured debt approved by referendum
- ◆ Revenue Debt – pledging specific City revenue(s) to payment of debt service
- ◆ Taxable Debt – provides flexibility when tax counsel identifies use concerns
- ◆ Leasing – allows use of space/equipment without ownership risk
- ◆ Lease-Purchase – private placement of debt secured by asset (not revenue)



Structuring Considerations Continued

Debt will be structured to achieve the lowest possible net cost to the city given various market conditions, legal covenants and the nature and type of security provided

- ◆ State & Federal Loan Programs
- ◆ Pooled Financing
- ◆ Interfund Borrowing
- ◆ Bank Loans
- ◆ Line of Credit
- ◆ Conduit Bond Financing
- ◆ Other Types of Debt (TAN, BAN, RAN, CP Notes, other)

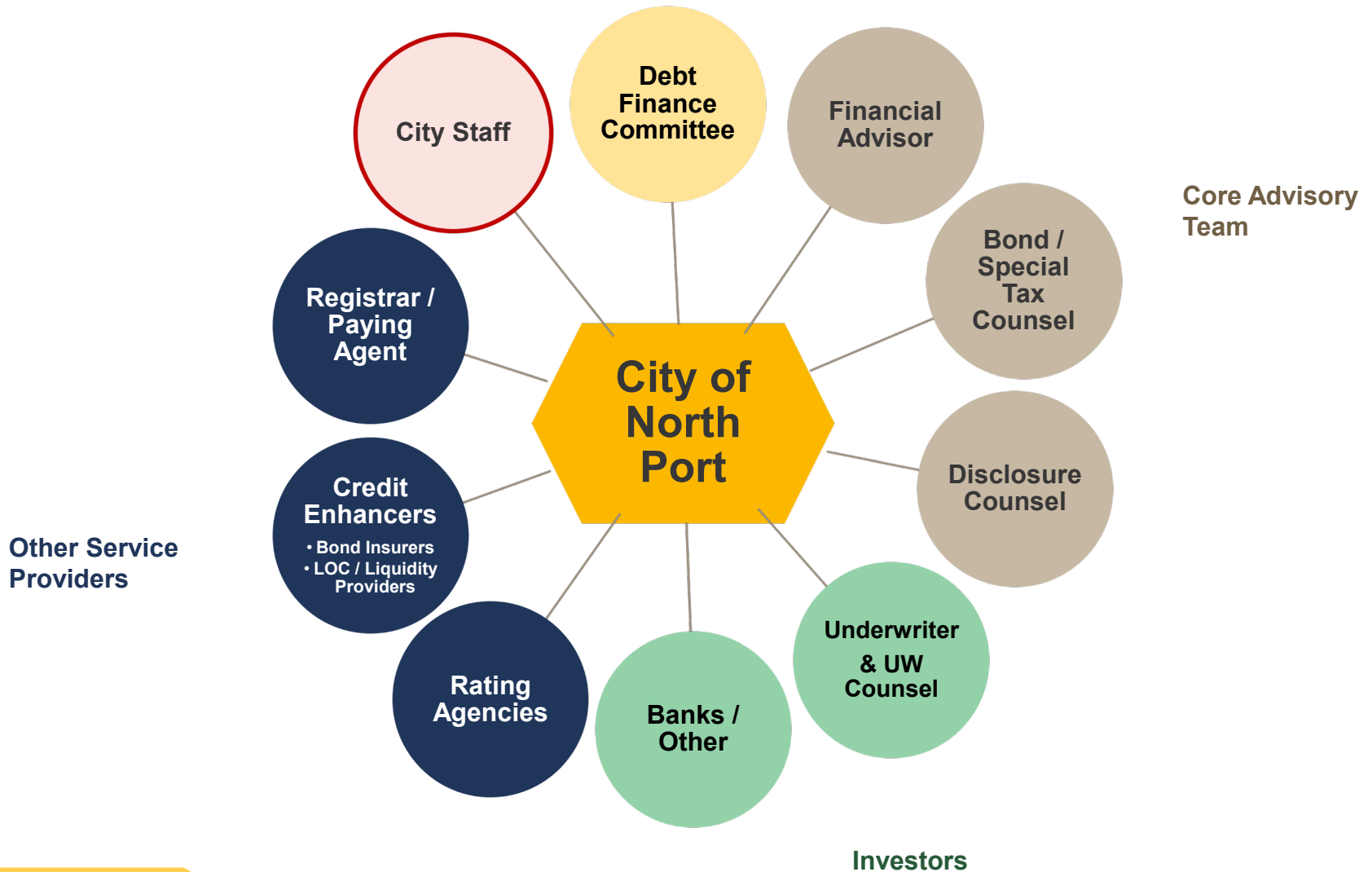


VI. Debt Issuance & Management



Potential Financing Team Members

PFM will assist to procure (as needed) and organize members of the financing team





Primary Bond Sale Methods

PFM will assist to identify the optimal method of accessing the capital markets

There are 3 methods of sale for bonds, as shown below:

1. Competitive Sale (public offering)

- Sold at a specific date and time
- Any firm may bid on the bond offering
- Bonds awarded to the lowest conforming bid

2. Negotiated Sale (public offering)

- Underwriter pre-selected (may be through an RFP process)
- Underwriter offers bonds for sale to investors (includes local citizens)
- Pricing date, bond size and maturity amounts flexible
- Commonly used for complex financings, story bonds, distressed credits, large issuances, and/or in volatile market conditions

3. Direct or Private Placement (non-public offering)

- Bonds are sold directly to private investor or bank (may be through an RFP process)
- Typically shorter bond terms (less than 20 years)
- Typically smaller bond amounts



Compliance Requirements

North Port's Finance Department will be responsible for the following:

Report to Bondholders

- Develop the ACFR, which sufficiently meets Continuing Disclosure Certificates in connection with debt obligations and includes Notes to the Financial Statements

Tax-Exempt Debt Compliance

- Abiding by all applicable Federal tax rules related to tax-exempt debt issuances

Arbitrage Compliance

- Necessary recordkeeping is conducted to meet the requirements of federal tax codes as it relates to arbitrage rebate liabilities

Financial Disclosures

- Committed to meeting secondary disclosure requirements on a timely and broad basis



Overview of Financing Process



- **Review of unfunded capital projects**
 - **Determine project scope, cost & timing**
 - **Identify source of repayment**
 - Size & structure bond scenarios
 - **Determine method of sale & select team**
-
- **Public notice & hearing**
 - **City Commission approval & direction to proceed**
 - Tax analysis & due diligence
 - Prepare disclosure document (official statement)
-
- Obtain ratings, if needed
 - Obtain credit enhancement, if needed
 - Underwriter & investor reach out
 - **City Commission approval of financing parameters**
 - Sell & price the bonds
-
- Closing/money transfer
 - Invest bond proceeds
 - Begin project & track progress
 - Make principal & interest payments
 - Comply with disclosure and arbitrage regulations
 - **Monitor for refinancing opportunities**



Use of Derivatives

The use of derivatives is not recommended

Risks associated with swaps

- Market
- Counterparty
- Rate
- Basis mismatch
- Collateral posting requirements

Prior to considering derivatives

- City staff along with the City's financial advisor must present risks and potential benefits associated with such options for the City Commission to consider based on the Debt Finance Committee's recommendation



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