

# *Village of Wellington*

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## Debt Management Policy



# **Village of Wellington Debt Management Policy**

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## **Section 1 – Purpose and Framework**

Regularly updated fiscal policies are an important tool in ensuring the use of the Village of Wellington's resources to meet its commitments in providing the required services to the citizens of Wellington and to maintain sound financial management practices. Policies are therefore guidelines for general use and allow for exceptions in extraordinary conditions.

The Village recognizes that the foundation of any well-managed debt program is a comprehensive debt policy. The following Debt Management Policy is enacted in an effort to standardize and rationalize the issuance and management of debt by the Village of Wellington and demonstrates a commitment to long term financial planning objectives.

This Debt Management Policy, as amended and adopted by Village Council (the Council), sets forth the goals and objectives of the program and authorizes the Village's Director of Administrative and Financial Services to further define targets and benchmarks within these parameters.

This debt policy is designed to:

- Establish parameters for issuing and managing debt;
- Provide guidance to decision makers related to debt affordability standards;
- Facilitate the actual financing process by establishing important policy decisions in advance;
- Promote objectivity in the decision making process and
- Document the objectives to be achieved by staff, both before the issuance and after.

Any policy should consider exceptions and cannot foresee the particular circumstances that are involved on any one transaction. Bond resolutions are brought to the Council by the Director of Administrative and Financial Services for authorization. If the resolution should contain exceptions to this policy, they should be recognized and authorized by the Council separately. If during the course of a transaction an exception requires immediate attention the Director of Administration and Financial Services may proceed with the Village Manager's acknowledgement of the exception.

The Village's overriding goal in issuing debt is to respond to and provide for the needs of its citizens while maintaining its fiscal responsibilities. The Village issues debt instruments, administers debt proceeds and debt service payments, acting always with prudence and diligence and attention to the prevailing economic condition. This policy documents the Village's goals for the use of debt instruments and provides guidelines for the use of debt for financing the Village's capital needs.

An important goal of the Village is to maintain Wellington's high rating by the credit rating agencies. Wellington's ratings reflect positively upon the general reputation of the

Village and its management and allow the issuance of debt at a lower interest rate compared to entities with lower ratings.

The Village will also seek to minimize borrowing costs by taking advantage of favorable economic conditions. Awareness of market conditions and investor sentiment are an important means of minimizing the costs of debt and the burden on the citizens. To accomplish this, the Village will seek input from financial consultants who closely monitor the financial markets.

The Village will adhere to the following legal requirements for the issuance of debt.

- State law, which authorizes the issuance for debt
- The federal and state laws which govern the eligibility of tax exempt status;
- The federal and state securities laws, which govern disclosure, sale and trading of debt.

## **Section 2 - Credit Worthiness Objectives**

Rating agencies issue a credit rating based upon their opinion of the credit worthiness of the borrower relevant to the risk factors. The rating assists the purchasers of the debt to determine the likelihood of full and timely repayment of the debt.

The four primary factors that contribute to the overall rating of the issuer include the economic, financial, administrative/management and debt factors. Not all are under control of the Village but are considerations of the overall credit quality of the Village.

- Economic factors include employment opportunities and trends, leading industries, diversity of taxpayer base, wealth and income indicators future growth prospects and surrounding regional economy.
- Financial factors include the capacity to raise revenue, expenditure mandates, stated fiscal goals and policies and historical performance.
- Administrative/management factors include planning effort, clear goals and policies, adherence to goals and policies, relationship between elected and appointed officials.
- Debt factors include current debt burden ratios, current debt structure, debt repayment schedule and future capital financing needs.

Ratings are generally expressed by the rating agencies with a letter symbol. Generically the ratings are as follows:

- AAA – the highest rating indicating the issuer’s capacity to meet its financial commitment on the obligation is extremely strong and carries the smallest degree of investment risk.
- AA – differs from AAA rating only in a small degree indicating the issuers capacity to meet its financial commitment is still strong and is considered along with AAA bonds to be “high grade” bonds
- A –indicates the issuer is somewhat more susceptible to the adverse effects of changes in the circumstances and economic conditions than higher rated bonds though the issuer capacity is still strong and are considered upper medium grade bonds.

The Village currently maintains an AA General Obligation (G.O.) rating which allows it to pay less interest expense on its obligations. Not all of the Village’s debt carries the same credit quality as a G.O. pledge; other revenue pledges are separately rated.

All debt issues need not be rated, the Director of Administrative and Financial Services shall be responsible for determining if a rating shall be requested for a particular financing. Based on a cost benefit analysis, the Village may purchase bond insurance to increase the rating to AAA. In that circumstance a higher underlying credit rating lowers the bond insurance premium.

Maintenance of the G.O. AA rating is an indicator of the overall financial stability and management and allows the Village to enter into the bond market in an economic manner

when needed. Moody's Investors Services publishes a national median of all governments rated, segregated by population and ratings. It is important that the Village of Wellington use these medians as a guideline for creditworthiness.

<b>Municipal Financial Ratios - U. S. Cities (50,000&lt;population&lt;100,000)</b>					
	<b>Group Medians (Most Recent Available)</b>				
<b>Selected Medians</b>	Aaa	Aa	A	Baa	Ba
General Fund Balance as % of Revenue	29.00	26.80	20.70	7.20	3.10
Unreserved, Undesignated General Balance as % of Revenue	15.90	20.40	13.00	3.20	1.20
Direct Net Debt as % Full Value	0.80	1.10	1.10	2.90	11.00
Debt Burden (Overall Net Debt as%of Revenues)	2.00	2.80	3.00	4.30	12.70
Full Value (\$000)	\$9,888,184	\$4,968,200	\$3,486,831	\$2,741,904	\$1,232,353
Full Value per capita	\$148,969	\$73,804	\$53,377	\$34,963	\$22,167
Population 2000 Census	67,742	66,237	59,643	71,329	61,821
Per capita Income (2000 Census)	\$37,582	\$23,242	\$20,058	\$16,488	\$15,721
Source Moody's Investor Service 2005					

Though this table incorporated only those factors that are easily quantified and comparable on a national scale it does not include the other factors that are considered in a rating review.

A good credit rating is advantageous in the calculation of future debt service costs, as shown in the schedule below, the higher ratings the lower the overall interest rate. From the schedule below, the difference between an AA rating and an A rating for a 10 year bond is 13 basis points per year. Which is equivalent to \$13,000 a year on \$10 million bond and \$130,000 over the 10 year life until maturity.

	<b>Representative Municipal Bond Yields</b>					
<b>Maturity</b>	<b>Insured</b>	<b>AAA</b>	<b>AA</b>	<b>A</b>	<b>BBB</b>	<b>Treasury</b>
3 M	3.53	3.49	3.53	3.6	3.76	4.95
6 M	3.54	3.49	3.54	3.61	3.78	5.13
1 Y	3.55	3.49	3.55	3.61	3.82	4.84
2 Y	3.58	3.52	3.58	3.66	3.91	4.8
3 Y	3.61	3.54	3.6	3.73	3.94	-
5 Y	3.67	3.59	3.66	3.8	4.02	-
10 Y	3.91	3.81	3.89	4.02	4.32	-
15 Y	4.14	4.03	4.12	4.28	4.54	-
20 Y	4.3	4.18	4.29	4.44	4.65	-
30 Y	4.47	4.34	4.47	4.58	4.81	-

Source: Standard and Poor's September 11, 2006

### **Section 3 – Capital Planning and Financing Systems**

The total cost of desired capital projects generally exceeds the currently available funds. The capital planning process will prioritize projects and identify the funding needs. The debt management process will determine 1) the availability of funds which can be raised through debt, based on the debt limit; 2) the projects that can be accomplished and when they will commence. Close coordination of capital planning and debt management will ensure that Wellington citizens will achieve maximum benefit from limited funds and that potential for inappropriate spending and waste will be minimized. This coordinated program will be referred to as the Capital Improvement Program (CIP).

The Village will develop a system for use in preparing a multi-year CIP to be considered and adopted by the Council as part of the budget process. Individual departments and related agencies shall prepare multi-year capital plans. Coordination and preparation of the CIP shall reside with the Departments of Administrative and Financial Services and Engineering and Environmental Services. The CIP shall incorporate the upcoming five years and shall be updated periodically. The CIP shall contain a comprehensive description of the sources of project funds, timing of capital projects, future operating and capital budgets, financing arrangements, revenue projections and debt service. The CIP shall ensure that the planned financing conforms to the policy targets regarding:

- Magnitude and composition of the outstanding debt.
- Economic and fiscal resources of the Village to afford such debt over the next five years.

Affordability impacts of the CIP shall be evaluated in consultation with the various Village Departments. Such planning will consider a long term horizon so that project priorities and future commitment of funds are visible for both management decisions and public comment.

#### **A. Financing Priorities**

It shall be the responsibility of the Director of Administrative and Financial Services, within the context of the CIP, to oversee and coordinate the timing, process of issuance and marketing the Village's borrowings and capital funding activities in support of the CIP. In this capacity the Director of Administrative and Financial Services shall make recommendations to the Council regarding necessary and desirable actions and shall keep it informed through regular and special reports as to the progress and results of current year activities under the CIP.

#### **B. Funding of Capital Outlays**

As part of the capital funding philosophy, the Village shall make contributions from its own current revenue when available or from outside funding sources, such as state or federal grants, to finance capital projects. The Department of Administrative and Financial Services will have the responsibility to evaluate and recommend the funding

method of each capital project. The Village shall contribute to the General Governmental segment of the CIP program an amount equal to the equivalent of 1 mil in property taxes per year. If the Village has a dedicated portion of ad valorem tax going to debt service (General Obligation Bonds related debt service) that amount does not count towards the equivalent 1 mil contribution. The General Governmental segment is defined as funded by revenues other than ad valorem taxes that can be used for any lawful governmental purpose. Projects that cost less than \$1 million will not be funded from borrowings unless as a part of a group of projects.

Debt will be issued for a capital project when it is appropriate means to achieve a fair allocation of costs between current and future beneficiaries. As the Village addresses the needs at any one period of time, the Council must both be prepared to ensure the flexibility of this and future generations of elected officials to meet the present needs and challenges that face the community.

### C. Competing Projects

Competing projects requesting funds will be evaluated according to priorities established departments and then approved by the Council. In the selection of the projects to be funded, a balance will be established between the projects' abilities to meet the Village's priorities and the financial requirements of the projects. For each project, the following information is necessary to assess the approvability of the project and its funding with debt:

- Nature of Project and Use of Funds - For each project for which debt is proposed, the nature of the project, as well as the intended use of the debt proceeds will be described.
- Cost-Benefit Analysis of Project – The benefits of a proposed project will be defined and where appropriate, quantified in monetary terms. The sources and uses of funds will be identified and estimated. Where revenues are part of the benefits, all assumptions made in deriving the revenues will be documented. The validity of the assumptions and the risk associated with the revenue streams will be assessed. The costs of the project will be estimated, with the basis of estimates documented and the risk associated with the estimates assessed. Where Governmental Funds are proposed, the impact upon budgets and taxes will be assessed.
- Expenditure Plan and Sources of Debt Service – A detailed plan for the funds expenditure and debt repayments will be developed for each project. The plan will demonstrate the timely matching of funds availability with project expenditures and that debt service will commence with the flow of revenues needed to pay interest and principal on the debt. The need for Capitalized Interest (funds for interest borrowed in the debt plan to pay the interest expense during construction) will be documented and analyzed. The estimates for the project cost

expenditure plan and basis of revenue cash flow estimated will be documented and the risk associated with these revenue streams will be analyzed.

**D. Maintenance, Replacement and Renewal**

Consistent with the philosophy of keeping the capital facilities and infrastructure systems in good repair and to maximize the capital stock's useful life, the Village should set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal.

## **Section 4 -Conditions of Debt Issuance**

### **A. Purpose of Debt**

The Village may only borrow in order to finance capital expenditures. The issuance of debt to fund operating deficits or operations is not permitted. A prerequisite for the approval of a project for funding by debt is that it satisfies the capital acquisition needs of the Village as determined by the Council. The Council may make exception to this standard if it is in the best interest of the Village. An example would be to issue pension obligation or OPEB bonds in which the proceeds reduce the Village's exposure to another liability.

The final maturity of the debt issued shall not be longer than the estimated useful life of the capital asset constructed or acquired and shall be 20 years or less. The final maturity may be less than the useful life of the capital asset if it has been determined by the Director of Administrative and Financial Services to be in the best economic interest of the Village.

The Director of Administrative and Financial Services will determine the call option, if any, the call protection period and the call premium for each bond issuance and sale based on the financing team's recommendations. A call option gives the Village the right to prepay debt or retire debt prior to its stated maturity. This option may allow the Village to achieve interest saving through refunding the bonds. The investor or purchaser of the bond sometimes requires a higher interest rate if the call protection period is shorter than acceptable market standards. In addition, the Village may have to pay a call premium to the investor if the call is enacted. Because the options can vary widely depending on the market conditions, evaluation of the factors should be conducted in connection with each issuance.

### **B. Refunding Criteria**

Periodic reviews of the Village's outstanding debt will be undertaken to determine refunding opportunities by the Village Financial Advisor. Within tax law restraints, a refunding will be considered if and when there is a net economic benefit or if it is essential in order to modernize previously issued debt covenants that have become burdensome to the operations of the Village.

Advance refunding is used to refinance outstanding debt before the date the outstanding debt becomes due or is callable. New bonds which are issued to refinance an outstanding bond issue before the call date are called advance refunding bonds. Proceeds of the advance refunding bonds are placed in 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 earliest call date.

Current refunding are used when to refinance outstanding debt on or after the date the callable. It may be to the benefit of the Village to issue current refunding bonds to take advantage of the more favorable market conditions and lower market interest rates, restructuring the principal and interest payments or eliminating burdensome covenants.

The Village may issue advance or current refunding bonds when advantageous, legally permissible, prudent, and when aggregate net present value saving, expressed as a percentage of the par amount for the refunding bonds, exceeds a target rate of 5% or when the average annual savings are greater than \$10,000 per year. Refunding with a negative savings will not be considered unless there is a compelling public purpose. The Director of Administrative and Financial Services will determine if the criteria exist to pursue either an advance or current refunding.

To fund the refunding escrow the Village will purchase State and Local Government Securities (SLGS) from the Federal government. At the direction of the Director of Administrative and Financial Services the Village may choose to fund the escrow with securities on the open market when market conditions make such an option financially preferred. If the securities are to be purchased on the open market the Village will have procedures in place that will allow an open competition from at least three vendors.

## **Section 5 – Types of Debt Pledges**

There are many types of debt available to the Village to finance its capital needs. The Village should choose the revenue pledge that best associates the benefit received to the payer of the debt. Available revenue pledges should be used conservatively, the Village has a limited number of revenue streams that are that are credit worthy to be “bondable”.

### **A. General Obligation Bonds**

General Obligation bonds (G.O. bonds) are secured by an ad valorem tax beyond operating levels levied on the real and tangible personal property within the Village. They carry the Village’s requirement to levy the tax to pay the annual debt service. G.O. bonds usually achieve lower rates of interest since they are perceived to be of low risk and have a legal basis to be repaid.

G.O. bonds are limited by Florida law not to exceed a tax of 2 mils or \$2 per \$1000 of assessed valuation. The Village is required by State Statute to pass a referendum prior to issuing any G.O. bonds that have a term longer than one year.

### **B. Covenant to Budget and Appropriate**

Covenant to Budget and Appropriate Bonds are backed by of all lawfully available governmental revenues except ad valorem taxes. No particular revenue stream is pledged to the repayment of the debt. This debt is not as credit worthy as the G.O. bonds. Since this debt it does not pledge the taxing authority of the government, it does not require a referendum.

### **C. Special Revenue Bonds**

Special Revenue Bonds are repaid by a pledge of specific governmental revenue such as Public Service Tax, Gas Tax or Sales Tax. This type bond requires that the revenue stream be used first to satisfy the bond covenants and then used to for any lawful governmental purpose.

New revenues sources should not be pledged towards a bond issue until there is a basis for evaluating the credit worthiness of the revenue stream. If there is a new revenue item from the State that is guaranteed, the Village may only pledge up to 50% of the annual revenue received for debt service. A new revenue source is defined as revenue previously not received by the Village in any form.

### **D. Utility Revenue Bonds**

Utility Revenue Bonds are issued to support the capital needs of the utility. The repayment is pledged to come from the utilities revenue stream of user fees. The pledge

of the revenue of the utility will require that the Village maintain the revenue rates at a level to adequately pay the operations and the debt service.

#### E. Special Assessment Bonds

Special Assessment Districts are legally designated geographic areas with the Village, which pay for basic infrastructure and public improvement to the area through a supplemental assessment. Special assessments districts may or may not be a legally separate entity from the Village. Bonds issued for financing projects of the district are repaid from special assessments of the property owners. This financing approach achieves the objective of repayment of debt from those property owners who directly benefit for the improvements financed.

## **Section 6 – Types of Debt Instruments**

The following are brief summaries of the type of instruments for debt the Village might issue. Other types exist or may be created in reaction to the market demand. These new instruments may be added to the list after an analytical review is performed by the Director of Administrative and Financial Services and they are deemed to be in the best interest of the Village in view of the financial plan goals and objectives. The Director of Administrative and Financial Services shall choose the best structure of debt warranted by the market conditions and the project to be financed.

With each instrument the Village has the option to issue debt whose interest payments to individuals are tax-exempt from Federal income tax or to issue taxable debt. Taxable debt has a higher interest rate than tax-exempt due to the tax advantages to the investor, but is useful to finance those projects that do not meet the legal definitions for a tax-exempt issue. Taxable debt does not have the legal constraints of tax-exempt debt.

The Village also has the option of participating in one of the many bond pools, where local governments have joined together to issue debt to gain economy of scale to reduce issuance costs or to enter into a market segment or gain access to debt instruments unavailable to smaller issuers.

### **A. Fixed Rate Bonds**

Fixed Rate bonds have the future principal and interest payments scheduled and amounts determined at the time of issuance. The maturity of the serial bonds determines the total payment amount in the future. The payment structure is usually based on a level principal and interest payment whereas the annual amount paid stays constant or as a level principal payment where the annual amount of the principal retired stays constant and total amount paid decreases annually. Other structures can call for the principal payments to be front loaded or rear loaded based on the project to be financed and the best economically means to pay for the project.

### **B. Variable Rate Notes**

Variable rate notes are when the amount of interest paid changes in reaction to market demands and investor's preference. There are two principal types of variable rate notes 1) in Variable Rate Demand Bonds (VRDBs) interest rate changes based on a predetermined schedule such as daily, weekly, or monthly at a rate based on current market conditions. 2) Commercial Paper is when the debt is issued with various maturities from 1 to 270 days. When that debt matures it is reissued for a period of 1 to 270 days. Each time the buyer negotiates an interest for the period, which is market based.

Interest rates on variable rate notes are generally favorable to an issuer relative to interest on other forms of debt. Should the opportunity for the Village to participate in a variable

rate note or commercial paper pool the Director of Administrative and Financial Services should evaluate from a cost/ benefit prospective.

C. Lines or Letters of Credit

Where the use is considered prudent or the most economic means to satisfy financial objectives, the Village has the power to enter into agreements with local banks or other financial entities the for purpose of acquire loans or letters of credit that shall provide the Village access to capital under terms and conditions beneficial to the Village. These financing tools can be used as either a supply of emergency money to fund temporary cash flow demands or as a support to demand notes.

There are instances whereas the best most economic capital is available at a commercial bank through a bank loan. This financing is usually for a small project with a limited duration of the loan. Bank loans can be either fixed or variable rate.

## **Section 7 – Affordability and Capacity Targets**

Given the significant restrictions in Florida on local government revenue sources, the Village is aware of the need to gauge the effect of ongoing debt service on its budgets and priorities over time. Issuance of debt is one of the longest term commitments that a government can make and should make with a complete understanding of the long term budget effects. Therefore the Village will consider generally accepted debt standards in evaluating when and why and how much debt should be issued. These standards lead to a debt plan that keeps the debt levels within acceptable ranges and promotes fiscal stability while maintaining the flexibility for the future.

The Village believes that debt is an equitable means of financing projects and represents an important means of providing for Wellington’s needs. Debt will be used to finance projects only if it is the most cost effective means available for the Village. The “pay-as-you-go” means of using current revenues to pay for capital projects is often considered the most preferred means of financing as it ensures fiscal responsibility and avoids interest payments. The “pay-as-you-go” method is not always equitable, however, since it requires current citizens to pay taxes or fees to accumulate available capital over long periods of time. This means that the future citizens reap the benefits of projects paid for by the past taxpayers. In some cases, it is more equitable for citizens to acquire the benefits of a project while they are paying taxes or fees for the project or a “pay-as-you-use” philosophy.

### **A. Targets for General Governmental Debt**

The Village shall use an objective analytical approach to determine whether it can afford to assume new debt. Governmental debt is defined as debt that is non-self supporting and is paid from a revenue stream that could support any lawful Village purpose. This process shall compare generally accepted measures of affordability to the current values of the Village.

These measures shall include:

- Debt per Capita
- Debt as a percent of taxable value
- Debt service payments as a percent of current revenues and expenditures
- The level of overlapping net debt of all taxing jurisdictions

In assessing affordability, the Village shall also examine the direct cost and benefits of the proposed project. The decision on whether or not to assume new general debt shall be based on these costs and benefits, current conditions of the municipal market and the Village ability to “afford” new debt as determined by the previous measurements.

B. Targets for Revenue Bonds

When appropriate, self supporting revenue bonds shall be issued before general governmental debt or general obligation bonds. Self supporting revenue bonds are those bonds that have a dedicated revenue stream legally segregated for their repayment, whereas the funds cannot be used for any other operating purpose. An example would be a utility revenue bond. In determining the affordability of the proposed revenue bonds, the Village will perform an analysis comparing proposed annual revenues to the estimated average annual debt service and to the maximum annual debt service (MADS). A forecast will be developed to project anticipated revenues from the new project or expansion. The Village will increase any related rate in order to attain the revenue necessary to achieve the required coverage ratio.

C. Targets and Ranges

The table below addresses the targets and ranges of the affordability criteria for the Village of Wellington. The ranges will provide analytical guidelines in assessing new debt and its effect on the fiscal health of the Village and the fiscal flexibility for future generations.

Description	Targets
<b>General Government Debt Service as percent of non-ad valorem General Fund expenditures:</b>	
Debt Limit	20%max.
Goal/ Target	10% max
Contribution to CIP for General Government Capital and Debt Service	1 mil
Weighted Average Maturity of All Debt Programs	
Governmental	15 year max
Enterprise	20 year max
General Government Debt per Capita	\$850 max
Overlapping Governmental Debt per Capita	Information Only
Net Direct Tax Supported as a percentage of property values	3.0%max
Overlapping Governmental Debt as percentage of property values	5.00%
General Funds Reserve as Percentage of current year's operating budget	22% to 30%
<b>Revenue Bond Coverage:</b>	
As percent of MADS	110% min
As percent of Average Annual Debt Service	125% min.
Target for planning purposes	150%

## **Section 8 – Method of Issuance and Sale**

The Director of Administrative and Financial Services coordinates the administration and issuance of debt and is responsible for selecting the financing team and for the accuracy of disclosure and other bond related documents. The Director of Administrative and Financial Services may assign other staff members as appropriate to assist on the finance team.

The Director of Administrative and Financial Services, working with the Village Attorney will manage any legal activities that may arise with respect to the issuance of bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the Village may pursue a validation action to obtain judicial approval before the bonds are issued.

Debt issues are sold to an underwriter syndicate either through competitive bid or a negotiated sale. The selected method of sale will be that which is the most advantageous to the Village, in the judgment of the Director of Administrative and Financial Services, in terms of lowest net interest rate, most favorable terms in the financial structure used, market conditions and prior experience. The Village Council must approve the process selected prior to the sale.

### **A. Negotiated Bonds**

In general the Village debt is issued through a negotiated process with the exception of the Village's G.O. Bonds. The Village staff, in conjunction with the financing team, is in continuous communication with the rating agencies, trustees and the municipal debt market. The negotiated sale of debt provides the Village control over the financing structure, the issuance timing, and provides flexibility of distribution

### **B. Competitive Bonds**

All General Obligation Bonds (G.O. Bonds) issued by the Village should generally be sold on a competitive basis, except in the case of an advance refunding. The security of the tax authority pledge makes these bonds a readily marketable commodity. In a competitive basis, bids will be awarded on a true interest cost basis (TIC), providing other bidding requirements are satisfied. If the bids are unsatisfactory the Village shall have the right to reject all and negotiate for the sale of the securities.

### **C. Bond Pools**

Bond pools may be used when determined advantageous by the Director of Administrative. Bond pools may or may not be the lowest TIC but may offer other

advantages such as economies of scale in issuance costs and lower administrative expenses and should be evaluated with total cost considerations.

D. Private placement

When determined appropriate by the Director of Administrative and Financial Services the Village may negotiate terms with banks and finance institutions of specific borrowing. Typically the bank financing are carried out by the Village to avoid the costs of public offering and therefore reduce the overall cost of borrowing funds. These issues are for less than \$10,000,000.

There may be a time that when the transaction is unusual and large, the securities may appeal to a large sophisticated investor. This private placement scenario avoids many of the costs and disclosure required under a public offering.

## **Section 9 – The Financing Team (Consultants and Service Providers)**

The Director of Administrative and Financial Services shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the Village’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 Village will maintain professional service agreements with qualified professionals related to the issuance and management of debt. Payments and fees for all professionals will be decided on a case by case basis and will be paid out of bond proceeds, if appropriate.

### **A. Bond Counsel**

The Village will retain external bond counsel for all debt issues. As part of the responsibility to oversee and coordinate the marketing of all Village indebtedness, the Director of Administrative and Financial Services shall make recommendations to the Council regarding the selection of Bond Counsel to be employed and the duration of the employment or for a series of related financings. Bond counsel will prepare the necessary authorizing resolutions, agreements and other documents necessary to execute the financing. All debt issued by the Village will include a written opinion by bond counsel affirming that the Village is authorized to issue debt and stating that the Village has met all state constitutional and statutory requirements necessary for issuance and determining the debt’s federal tax status. Generally, the bond counsel will also serve as the Disclosure Counsel.

### **B. Underwriter’s Counsel**

If the financing is to be sold on a negotiated basis, the Village will select an underwriter’s counsel with the concurrence of the underwriter. Underwriter’s counsel primary responsibility is to provide legal advice to the underwriter, prepare the bond purchase contract and the disclosure documents (OS).

### **C. Financial Advisor**

The Village will select a financial advisor for all transactions. The financial advisor will advise on the structuring of obligations to be issued, inform the Village of various options, advise the Village as to how choices will impact the marketability of debt. The primary duties of the financial advisor are to advise and assist on all of the provisions of the transaction and generally act as an independent financial consultant and economic market expert on behalf of the Village. To ensure independence the financial advisor will not bid or underwrite any Village debt issues.

#### D. Trustee and Paying Agent

The Director of Administrative and Financial Services shall periodically solicit for trustees and paying agent services from qualified commercial or trustee banks.

#### E. Underwriters

The underwriting syndicate is a firm or group of firms that will purchase all of the bonds for resale to investors. The criteria used to select an underwriter in a competitive sale will be the true interest cost (TIC) For all negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance proposed. The Director of Administrative and Financial Services will recommend to the Village Council the selected underwriter. The selection of the underwriter may be for a single transaction or for a series of transactions for a specific timeframe.

The criteria for selecting an underwriter will be:

- Overall experience
- Marketing philosophy and distribution
- Capability
- Previous experience as managing underwriter
- Financial strength, as evidence by the firms current financial statements
- Experience of the public finance team assigned
- Resources to complete the financing
- Total overall, and breakdown of the underwriter's discount

#### F. Other Consultants

Other consultants may be required due the specific nature of the bond issue. For example, a utility bond may require a rate or feasibility consultant to determine the adequacy of the revenue stream and a consulting engineer to discuss the projects to be constructed. An arbitrage consultant should be consulted before issuance to foresee and prevent problems with IRS compliance.

**Section 10 – Credit Enhancements and Derivatives**

The Village shall seek credit enhancements (letter of credit, bond insurance, surety bonds, etc.) when such credit enhancements prove to be cost effective. Credit enhancement may be used to establish a credit rating on a obligation even if such credit enhancement is not cost effective if, in the opinion of the Director of Administrative and Financial Services, the use of such credit enhancement meets the Village’s financing goals and objectives.

The Village may choose to enter into contracts and financing agreements involving interest rates swaps, floating/fixed rate auction of reset securities, or other forms of debt bearing synthetically determined interest rates as authorized under the applicable statutes. The Village will consider the use of derivative products on a case-by-case basis and consistent with the law, financial prudence and the Village’s financing goals and objectives.

Before entering into such contracts of agreements, the Director of Administrative and Financial Services will review the risks and benefits of such financing techniques and expected impacts on the long term financial operations and credit rating. The report will include an analysis of the contract and the resulting cash flows under different interest rate scenarios in the short and long term timeframe. The report will be presented to the Village Council for authorization and implementation approval.

## **Section 11 – Financing Proposal**

Any financial proposal or refunding proposal made to the Village of Wellington involving a pledge or extension of the Village’s credit through the sale of securities, execution of loans or leases, or making guarantees or otherwise involving directly or indirectly the lending or pledging of the Village’s credit shall be referred to the Director of Administrative and Financial Services.

The Director of Administrative and Financial Services shall be responsible for analyzing the proposal, responding to the proposal and recommending to the Village Manager and/or the Council if in the opinion of the Director of Administrative and Financial Services the proposed financing agreement is beneficial to the Village and complies with the Village’s long term financial planning.

## **Section 12 - Post Issuance**

The Director of Administrative and Financial Services will be responsible for the on going administration of the Village's debt program including investment of the bond proceeds, maintenance of the debt service accounts, arbitrage compliance, and continuing disclosure and any other legal or administrative compliance issues.

### **A. Maintenance of Bond Accounts**

The bond covenants or agreements require that certain accounts are created and maintained. The Director of Administrative and Financial Services will create the accounts in the Village's book and records and ensure compliance with the underlying covenants. If cost effective and in compliance with the long term plan of the Village, the Director of Administrative and Financial Services may substitute a surety agreement in place of a funded debt service reserve account.

### **B. Investment of Bond Proceeds**

The proceeds of the bond sales will be invested until expended for the intended project in order to maximize the utilization of the public funds. The investments will comply with the Village's investment policy unless superseded by a bond covenant or related agreement. All bond proceeds shall be invested in manner to avoid if possible and minimize any potential negative arbitrage over the life of the bond issue. Bond proceeds to be used for the construction or acquisition of the capital assets shall be conservatively invested according to the draw schedule which shall be provided at the time of the bond issuance. The project draw schedule will be amended as needed.

### **C. Continuing Disclosure Requirements**

The Director of Administrative and Financial Services with the assistance of professional support will produce all the necessary documents for disclosure. All debt issues will meet the disclosure requirements of the SEC and other government agencies before and after the bond sales take place. The Village's Comprehensive Financial Report (CAFR) will be the primary vehicle for compliance with the continuing disclosure requirements. The CAFR may be supplemented with additional documentation as required. The Village will follow a policy of "full disclosure" in its CAFR and bond prospectuses. The Director of Administrative and Financial Services will be responsible for providing disclosure on the status of the following material events to the Nationally Recognized Municipal Security Information Repository, (NRMSIRs), as obligated:

- Principal and interest payment delinquencies
- Nonpayment related defaults
- Unscheduled draws on reserves
- Unscheduled draws on credit enhancements

- Substitution of credit or liquidity providers, or the failure to perform
- Adverse tax opinions or events affecting the tax-exempt status of the security
- Modifications to the rights of security holders
- Bond calls
- Defeasances
- Matters affecting collateral
- Rating changes

#### D. Policy Compliance

Each year included in the CAFR, the Village will report it's compliance with the target and goals of this Debt Management Policy. Included in the Supplemental Information will be a chart that contains the Debt Affordably and Capacity Targets vs. the Actual amounts as of the current fiscal year end.