State of Florida

DIVISION OF BOND FINANCE

DEBT MANAGEMENT POLICY

December 2024

Previous Versions Adopted:

April 2001
December 2005
December 2012
August 2013

Table of Contents

I. Introduction 3
II. Annual Debt Affordability Analysis 3
III. Debt Issuance Policies 3
Purpose and Evaluation of Proposed Financings 3
Committing State Resources for Debt Not Issued by State 4
Credit Ratings 4
Tax Status 4
Security Features 4
Structural Features 5
Interest Accrual Features 6
Other Types of Financings 8
IV. METHOD OF SALE AND USE OF PROFESSIONALS 10
Method of Sale 10
Selection of Financing Professionals 11
VI. POST-ISSUANCE POLICIES 12
Investment of Bond Proceeds 12
Continuing and Voluntary Disclosure 12
Arbitrage Compliance 13

I. Introduction

Proper management of debt is fundamental to sound financial management practices and protecting the financial condition of the State. The Governor and Cabinet, sitting as the governing board of the Division of Bond Finance, recognize that the foundation of managing debt is a comprehensive debt management policy. The State Debt Management Policy (the policy) sets forth parameters and provides guidance regarding State debt to facilitate the management, control, and oversight of the State's debt function. However, exceptions to the general principles set forth may be appropriate under certain circumstances.

The policy applies to all debt or debt-related obligations issued by the Division of Bond Finance. In addition, it is recommended that other State agencies and instrumentalities, including quasi-public corporations encumbering State resources, follow principles set forth in the policy.

II. Annual Debt Affordability Analysis

The State’s debt affordability analysis is required by Section 215.98, Florida Statutes and prepared by the Division (the “Debt Report”). The debt affordability analysis prepared annually in December is based on the State’s designated benchmark ratio of debt service to revenues available to pay debt service. Legislative policy guidelines establish a 6% target and a 7% limit for the State’s benchmark debt ratio. The Debt Report reviews the State’s debt position and how projected debt issuance, future debt service payments, and revenue projections will affect the State’s benchmark debt ratio. The Debt Report also provides comparative data on debt metrics and information on matters important to the State’s credit ratings as well as developments in alternative financing techniques.

III. Debt Issuance Policies

Purpose and Evaluation of Proposed Financings

Bonds can only be issued to finance or refinance capital assets. Projects being financed through any form of contractual arrangement including, but not limited to the issuance of bonds, certificates of participation, long-term leases, bank loans, federal government loan programs, public private partnerships or any other contracted arrangement requiring payments by the State in future years are considered debt covered by the policies herein and must provide tangible, demonstrable benefits to the State. The use of available cash to fund all or a part of the cost of capital improvements should be explored before proposing the issuance of long-term debt.

Self-supporting debt should be issued for system improvements or expansion, as system needs warrant, and at levels which can be supported from operating revenues within the existing credit rating category, when applicable. Refunding bonds may be issued to achieve debt service savings. Refunding bonds may also be issued to restructure outstanding debt service or to revise provisions of bond documents if it can be demonstrated that the refunding serves a compelling State interest.

Committing State Resources for Debt Not Issued by State

On occasion, the State may consider committing or creating a mechanism which allows another entity to commit State financial resources on a long-term basis in support of debt not issued by the State, such as debt sold by quasi-governmental entities, not-for-profit corporations, or local governments. While the nature of the commitment may not constitute a legal debt obligation of the State, it impacts the State's debt position and its available financial resources. Therefore, it is recommended that the State not obligate its resources, directly or indirectly, through any debt-related commitment without assessing the long-term impact on the State's debt position and available resources. To the extent practicable, this debt management policy should be followed in the issuance of debt when the State's financial resources are being utilized.

Credit Ratings

In order to access the credit markets at the lowest possible borrowing cost, it is recognized that credit ratings are critical. Therefore:

a) the State shall strive to maintain or improve current credit ratings without adversely impacting levels of debt which may be issued for any particular program; and,

b) the State shall seek to structure any new bond program to achieve a minimum rating of "A" from at least two nationally recognized rating agencies. Credit enhancement may be used to achieve this goal.

Tax Status

All State debt should be issued to take advantage of the exemption from federal income taxes unless prohibited by federal law or regulations. Taxable debt may be issued if there is a compelling reason to justify the use of what is typically, a higher cost of borrowing. The issuance of tax-exempt debt results in significant interest cost savings compared with the interest cost on taxable debt.

Security Features

Pledge:

To the extent permitted by law, there should be a nexus between the revenue pledged and the specific purpose for which the debt is issued. For example, a pledge of gasoline taxes should be used to support debt issued for transportation purposes.

In certain circumstances, the security pledged to repay debt may be subject to annual appropriation by the legislature. However, failure by the legislature to appropriate moneys required to fulfill its obligations would severely damage the State's reputation in the credit markets. Therefore, the State should not fail to appropriate amounts necessary to satisfy the State's obligations on any debt or to fulfill any covenants made in connection with the sale of bonds.

Lien Status:

All bonds of a particular program should be secured by a first lien on specified revenues. Additionally, bonds should generally be equally and ratably secured by the revenues pledged to the payment of any outstanding bonds of a particular bond program. However, the creation of a subordinate lien is permissible if a first lien is not available, or circumstances require.

Reserve Fund:

A debt service reserve fund for any particular bond issue or program may be funded and maintained to achieve desirable credit ratings or mitigate the impact of volatility in a pledged revenue stream. Funding of the reserve requirement can be by deposit of bond proceeds, purchase of a reserve fund credit facility, or funding from available resources over a specified period of time.

Credit Enhancement:

Credit enhancement is used primarily to achieve interest cost savings. The purchase of credit-enhancement products is permissible provided the purchase is done in a cost-effective manner. Therefore, if it is determined by the Director of the Division of Bond Finance that the use of credit enhancement should be considered, the following practice should be observed to the extent practicable:

a) Bonds sold through competitive sale: the bonds should be qualified for credit enhancement and the syndicates bidding on the bonds should be permitted to decide whether to use credit enhancement and to choose the provider of the enhancement.

b) Bonds sold through negotiated sale: bids should be solicited from providers of credit enhancement and a determination made whether the enhancement would provide appropriate debt service savings.

c) Unrated bonds: bids should be solicited from providers of credit enhancement and a determination made whether the enhancement would provide appropriate debt service savings.

Capitalized Interest:

Capitalized interest from bond proceeds is used to pay debt service until a revenue producing project is completed or to manage cash flows for debt service in some circumstances. Since the use of capitalized interest increases the cost of the financing, it should be minimized and only used when circumstances warrant such as when other resources are not available from the enterprise or when necessary for the financial feasibility of the project.

Structural Features

Maturity Structure:

In addition to restrictions on the final maturity imposed by the constitution or laws of the State, there is a preference that the final maturity on bonds do not exceed thirty years from the issuance date. Additionally, the duration of the debt should be shortened to the extent practicable to minimize the interest cost on the financing. Lastly, the final maturity of the debt should not exceed the estimated useful life of the assets being financed unless it serves a compelling State interest.

Debt Service Structure:
All debt should be structured on a level debt basis, i.e., so that the annual debt service repayments will, as nearly as practicable, be the same in each year. Debt structures that defer principal amortization should be avoided including debt structures that "wrap around" existing debt service requirements. Although a different debt service structure is permissible, under extraordinary circumstances, the strong preference is that any deviation from the level debt structure should be for debt service payments to be larger in the early years and lower thereafter and not to have the payments lower in the early years and higher thereafter. A deviation from a level debt service structure is permissible if it can be demonstrated to serve a compelling State interest.

Redemption Prior to Maturity:
Bonds can be callable after a certain period of time has elapsed after issuance. There is a strong preference that State bonds be structured with the least onerous call features as may be practical under then prevailing market conditions. This provides the flexibility to prepay debt prior to its maturity which enables refinancing of bonds at a lower interest rate to achieve savings. Although the ability to refund bonds for savings is advantageous, there may be situations where the State may realize greater benefit of lower interest rates by issuing the bonds as non-callable. The Director of the Division of Bond Finance may make a determination that bonds of a particular issue be sold as non-callable if circumstances warrant.

Interest Accrual Features

Fixed Rate, Current Interest Debt:
Debt should generally be issued with a fixed interest rate, conventional terms, and with interest payable semi-annually to bondholders. Fixed-rate debt provides certainty over the long term by locking in the interest cost and eliminating the possibility of increased cost due to interest rate or tax law changes. However, there may be limited circumstances where variable-rate debt is more appropriate, in which case an exception may be made in accordance with the policies governing variable-rate debt herein. In some cases, it might not be possible to secure debt at a fixed rate for the full term of the financing, which is fairly common when using a bank loan to finance long-term projects, creating a need to secure additional financing for the full term or to adjust the interest rate at a later date. This should be avoided whenever possible as it creates substantial market risk and eliminates the ability for predictable budgeting to cover debt service payments for the full term of the financing. If unavoidable, plans must be made to account for the risk associated with a potential higher cost of financing in the future or inability to access credit when the initial financing terms are reset. Plans to address the contingencies may include establishing an internal reserve or identifying assets that are available to pay the debt, if needed.

Derivatives:
Alternative financing arrangements, generally referred to as derivatives or swaps, are alternatives to traditional bonds. Under very limited market conditions, the use of alternative financing arrangements

may be more cost effective than the traditional fixed income markets. However, these alternative financing instruments, such as fixed-to-floating swap agreements, carry significant risks and should be used with extreme caution. The State may consider deploying alternative financing instruments when the inherent risks and potential additional costs are identified, and proper provision is made to protect the State from all known risks. Analyzing and managing alternative financing arrangements requires specific technical expertise, the ability to analyze and manage the associated risks and additional administrative costs. These debt instruments should be used with extreme caution and only when specific circumstances warrant, and State leadership is cognizant of the inherent risks associated with alternative financing arrangements.

Capital Appreciation Bonds:

Capital appreciation bonds and other similar debt instruments pay no interest until their stated maturity. Although there may be extraordinary circumstances in which the use of capital appreciation bonds is necessary or desirable, in almost all cases, the debt service deferral associated with these debt instruments is not appropriate or fiscally prudent. Accordingly, only when a compelling State interest is demonstrated should capital appreciation bonds be issued, or principal payment deferred.

Variable-Rate Bonds:

Although fixed-rate bonds are preferred, bonds may be issued with variable rates of interest. The interest rate on variable-rate bonds changes periodically, e.g., daily, weekly, or monthly. Variable-rate bonds typically carry an initial interest rate lower than that of a fixed-rate bond issued at the same time. However, interest rates may rise and the interest rate on variable-rate bonds may increase to levels higher than the rate which could have been obtained on fixed-rate bonds. Variable-rate bonds also interject uncertainty into the State budget requirements for debt service and the total cost of the financing over the life of the bonds. Variable-rate bonds may be issued where, considering the totality of the circumstances, such bonds can reasonably be expected to reduce the total borrowing cost to the State over the term of the financing. The availability of the requisite technical expertise to properly manage the risks and execution of a variable-rate transaction should be evaluated along with any additional ongoing monitoring costs. The following guidelines apply to the issuance of variable-rate debt:

a) *Expected reduction in total borrowing cost*. In determining expected savings, a comparison should be made between a fixed-rate financing at current interest rates and a variable-rate transaction, based on an appropriate floating rate index, as determined by the Director of the Division of Bond Finance. The cost of the variable-rate transaction should consider all fees associated with the borrowing which would not typically be incurred in connection with fixed-rate bonds, such as tender agent, remarketing agent, or liquidity provider fees.

b) *Limitation on variable-rate debt*. Rating agencies typically suggest limiting the amount of variable-rate debt to 15% to 20% of total outstanding debt. In keeping with that range, the total principal amount of variable-rate debt should not exceed 15% of total tax supported debt outstanding at the time of the variable-rate debt issuance or 15% of self-supporting debt for any enterprise using variable rate debt. In addition, the ratio of variable to fixed-rate tax-supported debt should be monitored by the Division of Bond Finance on a monthly basis and if the amount of variable-rate debt exceeds the 15% limit or if variable rate debt is reset at a maximum interest rate, Cabinet aides should be notified to determine what, if any, actions should be taken to address the situation.

c) *Budgetary controls*. To avoid a situation in which debt service on variable-rate bonds exceeds the annual amount budgeted, the following guidelines should be followed:

   i) A principal amortization schedule should be established, with provision made for payment of amortization installments in each respective annual budget.

   ii) Provide for payment of interest for each budget year using an assumed budgetary interest rate which allows for fluctuations in interest rates on the bonds without exceeding the amount budgeted.

   iii) The amount of debt service actually incurred in each budget year should be monitored monthly by the Division of Bond Finance to detect any significant deviations from the annual budgeted debt service. Any deviations which might lead to a budgetary issue should be communicated to Cabinet aides to determine appropriate action.

   iv) The Division of Bond Finance should establish a system to monitor the performance of any service provider whose role it is to periodically reset the interest rates on variable-rate debt.

d) *Establish a hedge with Treasurer's short-term investment pool*. The amount of variable-rate debt should not exceed one-third of the amount of the State's short-term investments. This hedge mitigates the financial impact of debt service increases due to higher interest rates. The Division of Bond Finance should monitor the hedge monthly, and if the one-third target is exceeded, Cabinet aides should be notified to determine appropriate action.

e) *Liquidity*. The State should provide its own liquidity when needed for variable rate bonds. The holders of variable-rate debt can require the issuer to repurchase the debt at various times and under certain conditions. This could force the issuer to repurchase large amounts of its variable-rate debt on short notice, requiring access to large amounts of liquid assets. Issuers may establish a liquidity facility with a financial institution which will provide the money needed to satisfy the repurchase or provide their own liquidity. Liquidity facilities do not typically run for the life of long-term debt and pose a risk that the provider will not renew the agreement. Assuming the State has sufficient resources, internal liquidity is preferred to eliminate the costs and risks associated with a third-party liquidity provider.

Other Types of Financings

Refunding Bonds:

Generally, the State issues refunding bonds to achieve debt service savings on its outstanding bonds by redeeming high interest rate debt with lower interest rate debt. Refunding bonds may also be issued to restructure debt or modify covenants contained in the bond documents. The following guidelines should apply to the issuance of refunding bonds, unless circumstances warrant a deviation therefrom:

a) Refunding bonds should be structured to achieve level annual debt service savings when the debt service for the bonds being refunded is level. When the debt service on the bonds being refunded is not level, the refunding bonds should be structured to produce, as nearly as practicable, after giving consideration to current facts and circumstances, annual savings which is proportional to the debt service of the bonds being refunded;

b) The life of the refunding bonds should not exceed the remaining life of the bonds being refunded;

c) A 3% minimum target savings for refundings should be used as a general guide in consideration of the value of the call option and costs associated with a refunding transaction. The 3% savings target should not prohibit refundings when circumstances justify;

d) A maturity-by-maturity savings analysis should be evaluated to ensure that each maturity of bonds being refunding is producing positive PV savings, and,

e) Refunding bonds which do not achieve debt service savings may be issued to restructure debt or provisions of bond documents only if such refunding serves a compelling State interest.

f) Refundings done to provide budgetary relief should be avoided unless it can be demonstrated to serve a compelling State interest.

Early Retirement:
From time to time, funds may be available to pay off bonds before their final maturity to achieve debt service savings or other goals, such as reducing the amount of debt outstanding or eliminating onerous or overly restrictive bond covenants. When evaluating the early retirement of debt, the Division will consider the following:

a) the costs associated with paying the debt early versus the cost saving associated with avoided future interest payments;

b) the future borrowing plans for the bonding program and, in general, debt defeasances or redemption of bonds should not be considered for ongoing bonding programs unless the transaction produces a net present value savings based on the estimated interest rate associated with a future financing necessary to replace the fund, or if circumstances or market conditions warrant;

c) which method of debt retirement produces the most savings (ie, redemption of callable bonds, defeasance of bonds not yet callable, debt buyback programs, or tender transactions).

Certificates of Participation and Lease Financing:
Debt service payments for certificates of participation and lease financings come from rental payments or other revenues which are subject to annual appropriation by the legislature. The holders of these

forms of debt typically have no legal recourse against the State if it fails to make the necessary appropriation. The State may utilize this financing vehicle, but it should be considered as debt of the State and, absent compelling extraordinary circumstances, non-appropriation should not be considered as it is tantamount to an intentional default on debt repayment.

Public Private Partnerships:
Sections 334.30(4) and 1013.171(1), Florida Statutes, authorize the Department of Transportation and State universities, respectively, to enter into Public Private Partnership (P3) agreements to finance infrastructure projects. The Division is required to review P3 agreements and refinancings prior to their execution by DOT or any university in accordance with Florida Statutes and/or Board of Governors P3 Guidelines. P3 agreements are complex and require a high level of expertise to adequately evaluate and determine if a P3 is the most cost-effective method for financing the desired project.

The Division's evaluation of P3 financing arrangements and any other alternative financing agreements will include, but will not be limited to, the cost of financing, the expected rate of return to equity investors, risk transferred to the private party consideration received by the State or University for property contributed, reserve or profit-sharing arrangements as well as sharing arrangements for any future operations or refinancings. The cost of the financing component of a P3 will be compared to the cost of issuing State or university bonds to fund the desired project in order to determine the most advantageous financing alternative given the risk-transfer aspects of the proposed P3 agreement.

Debt Issued with a Forward Delivery Date:
Bonds may be issued that have a delivery date significantly later than that which is usual and customary. These bonds typically carry an interest rate penalty associated with the delay in delivery. There are also additional risks that delivery will not occur. Bonds with a forward delivery date may be issued if the advantages to the State outweigh the interest-rate penalty which may be incurred.

IV. METHOD OF SALE AND USE OF PROFESSIONALS

Method of Sale
The State should sell all debt through competitive sale unless there are legitimate business reasons for negotiating the sale of bonds. In making the decision to sell through negotiated sale, the State should consider the following factors:

a) Market conditions which require the flexible pricing or the precise timing of the sale of the bonds to a degree which would not be expected through a competitive sale;

b) Credit quality of the State, the agency for which the bonds are being issued, or any source of revenue pledged to the bonds which require more extensive or aggressive marketing of the bonds than would be expected through a competitive sale;

c) Bond issue size, if sold at competitive sale, would require the formation of larger than usual underwriting syndicates resulting in the expectation of fewer bids than would be necessary for sufficient price competition;

d) New entity or a new program which would require more extensive or aggressive marketing of the bonds than would be likely through a competitive sale;

e) Innovative or unusual structure or security which would require the underwriting of the bonds in a manner not likely to be available in a competitive sale; and

f) Changes or anticipated changes in laws or regulations adversely affect the demand for municipal bonds.

g) Whether credit market conditions are conducive to the investors' commitment of capital to purchase bonds competitively.

h) Whether volatile market conditions necessitate access to credit be done more efficiently through negotiation.

In the event a negotiated sale is determined to be in the best interests of the State, the Division of Bond Finance shall select, through a competitive solicitation, an underwriter or underwriting syndicate. The Division will establish syndicate protocols that foster competition among the syndicate members and ensure that all members of the syndicate have an opportunity to receive a fair and proper allocation of bonds based upon their ability to sell the bonds.

In executing a negotiated sale, the State should retain the services of a municipal advisor who shall, at a minimum, review and advise the Division as to the reasonableness of the timing of the sale, the gross underwriting spread and the price of the bonds. Immediately subsequent to the sale of the bonds, the municipal advisor shall provide a written opinion concerning the fairness or reasonableness of the timing of the sale, the gross underwriting spread, and the price of the bonds.

Bonds may also be sold through a private or limited placement, but only if it is determined that a public offering, through either a competitive or negotiated sale, is not likely to result in the most favorable interest rate on bonds and is therefore not in the best interests of the State.

Selection of Financing Professionals

Outside professionals may be used to the extent necessary to implement a financing. All financing professionals should be selected through an independent evaluation of proposals submitted in response to a request for proposals. To ensure the transparency and integrity of the selection process, the following should be observed:

a) During the selection process, Governing Board members and employees should avoid business solicitation communications with potential service providers. A Governing Board member who receives a prohibited business solicitation communication shall place on the record at the next available Governing Board meeting all written communications received, all written responses to such communications, and a memorandum stating the substance of all oral communications received and all oral responses made and shall advise the service provider of the record to be made.

b) All proposals should be evaluated by a selection committee;

c) The selection committee should be comprised of State employees from at least two separate State agencies;

d) Each proposal should be evaluated independently by each selection committee member with no communication among grading committee members regarding the merits of the proposals; and,

e) In connection with the request for proposals for underwriters, all financial institutions, including foreign financial institutions, shall certify that they have policies and procedures to ensure that they are not conducting, facilitating, or engaging in any investment activities prohibited by section 215.473, Florida Statutes.

In connection with the request for proposals, service providers shall be in compliance with Rule G-37 of the Municipal Securities Rulemaking Board and certify that they have not made a contribution in excess of $250 (excluding gifts to political committees not designated for receipt by a candidate for Governor or a Cabinet position) to or participated in the management of fundraising for or on behalf of any candidate for Governor or for a Cabinet position in Florida in the previous two calendar years.

VI. POST-ISSUANCE POLICIES

Investment of Bond Proceeds

Construction Funds: All construction funds received from the sale of bonds will be invested in accordance with the bond documents, which typically requires investment with the State Treasurer and consistent with the Treasurer's practices on investing. In some cases, construction funds may be invested outside of the State Treasurer at the discretion of the Director of the Division of Bond Finance, while still complying with the permitted investments provided for in the bond documents.

Sinking and Escrow Funds: All funds held for the payment of debt service should be invested by the State Board of Administration in accordance with the bond documents and consistent with the State Board of Administration's practices on investing, unless otherwise required by law.

Continuing and Voluntary Disclosure

The State is committed to providing investors with complete, accurate, and timely disclosure of financial information and other developments relating to the State.

a) The Division of Bond Finance will assist all agencies of the State for which it issues bonds in complying with continuing disclosure requirements according to SEC Rule 15c2-12, and any voluntary disclosure necessary to provide timely information on events of significance to bondholders, investors, and rating agencies; and,

b) The Division of Bond Finance website will serve as the official investor website for the State and related credits. The Division will make available information relevant to investors on its website, including interim financial information and disclosure of significant events and/or policy changes that could impact the State's financial position. The Division will also make this information available on the Electronic Municipal Market Access (EMMA).

c) See also DBF Disclosure Policy.

Arbitrage Compliance

The Division of Bond Finance is statutorily (s. 215.655, Fla. Stat.) responsible for ensuring all tax-exempt bonds it issues remain in compliance with the federal arbitrage regulations. In carrying out these responsibilities, the Division will monitor and analyze the investment and use of bond proceeds and calculate arbitrage rebate liabilities. Arbitrage rebate liabilities should be calculated annually, and funded annually when appropriate, and the Division will work with agencies to ensure that liability payments are made to the Federal government on a timely basis. (See also DBF Arbitrage and Tax Compliance Policy)