ARTICLE IV. DEBT MANAGEMENT*

***Editor's note:** Res. No. 2005-430, adopted April 13, 2005, enacted a new Art. III as set out herein. The former Art. III pertained to similar subject matter, consisted of §§ 110-41--110-45, and was derived from R.M. No. 26.

Sec. 110-41. Purpose.

(a) The purpose of this policy is to establish guidance for the issuance and management of the debt of the South Florida Water Management District (hereinafter referred to as the "District"). Debt includes short-term and long-term obligations issued by the District.

(b) This policy provides guidance when planning and evaluating alternative funding plans and decisions for capital projects. The Governing Board, District staff, and other participants are able to evaluate the impact of funding decisions on the District's debt position and credit quality. The policy and related guidelines enable the financial team to identify and address potential concerns and alternatives early in the capital planning and debt issuance process. It is important to manage the level of indebtedness in a manner which is both responsive to public trust and consistent with the District's Principles of Sound Financial Management.

(c) The District recognizes that borrowing money is at times an essential and cost-effective method of alternative financing needed to fund projects in carrying out its mission. The purpose of this policy is to adapt and implement sound debt management practices. It should aid in executing debt strategies that will continue the District's financial health and stability.

(d) Debt management helps accurately evaluate the impact of each financing decision on the District's debt position and credit quality. Sound debt issuance and management enhances credit quality and improves access to credit markets by demonstrating responsible management to credit analysts, underwriters, rating agencies and investors. Adherence to the policy should enhance the District's credit standing, improve the District's access to tax-exempt credit markets and reduce costs of debt issuance.

(e) The policy includes, but is not limited to, traditional financing vehicles such as tax, revenue and/or bond anticipation notes; capital and operating leases, general obligation bonds; revenue bonds, commercial paper and certificates of participation.

(f) This policy is designed to:

(1) Set forth a liability management structure to facilitate the sound and efficient management of District debt, addressing both practical aspects of liability management and philosophical aspects.

(2) Provide guidelines that control the overall debt management process so that all liabilities are managed in accordance with stated objectives.
(3) Encourage and require communication between staff, the Board, District staff and the District's advisors (legal and financial).
(4) Develop formalized criteria for evaluating and establishing the basis for comparing actual performance results achieved by debt management.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-42. Scope.
The scope of this comprehensive debt policy covers all District borrowings authorized by Florida Statutes, Chapter 373 (Water Resources). This includes both general obligation debt and revenue supported debt and other forms of indebtedness including certificates of participation.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-43. Permissible Debt.
Debt is an integral part of the District's ongoing financial management program. Both short-term and long-term debt helps the District accomplish its core goals. Annual operating and capital revenues are cyclical, which may require the use of short-term financings. At the same time, the useful life of new and renovated facilities is often 30 years or more. As a result, it is prudent financial management to employ short-term and long-term financings as a cash management tool and to facilitate matching assets and liabilities.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-44. Debt Consideration Factors.
(a) This debt policy is one element of the District's financial service program strategy. However it must recognize that debt is but one tool in implementing that strategy. Its use commits the District to long-term fixed cost commitments. As a result, these commitments need balancing with the commensurate reduction of future discretionary spending.
(b) All planning participants need to review a number of factors when considering debt issuance. These include:
(1) The legal constraints and authority of Florida Statutes.
(2) The nature of projects to be financed: non-recurring major projects or recurring routine projects.
(3) The demand or requirement timeline for the project.
(4) The condition of the District's water control system infrastructure and other fixed assets and their need for replacement, or expansion.
(5) The urgency of the financing need and the economic cost of delaying.
(6) The balance between pay-as-you-go versus debt financing.
(7) The impact on current and future spending flexibility.
(8) The intergenerational equity of who should pay for the capital projects.
(9) The availability of alternative funding and debt repayment sources and future uses of those revenue streams.
(10) The overall impact on the District's financial condition.

(11) The current debt interest rates and the tax-exempt bond market.
This policy is set forth to provide a framework to apply the foregoing factors while assuring access to debt markets.
(c) The District shall project debt requirements on a five-year basis to facilitate better short-term decisions in light of other priorities that may arise and to examine the longer-range implications and effects of debt issuance. Debt plans and targets shall be reviewed annually in conjunction with the capital projects plan.
(d) In an effort to conserve debt capacity, the District shall borrow only when necessary and weigh pay-as-you-go capital financing to the extent practical. Financing alternatives other than debt financing shall be explored. Funding priorities should determine the validity of funded projects. Long-term borrowing shall not be used to finance current operations or normal maintenance.
(e) Ensuring adequate funding sources rests with the District's Executive Director (or Chief Financial Officer). This will be accomplished through the Executive Director's presentation of the District's annual budget to the Governing Board. Upon Governing Board approval of an annual budget in which borrowing has been determined to be a viable funding source, the District Treasurer is responsible for implementing a debt management plan.
(f) Failure to comply with any part of this policy shall not affect the validity of any indebtedness of the District. As a framework for debt issuance, deviation from the policy will be allowed based on the recommendation of the Chief Financial Officer and with Governing Board approval. However, every effort shall be made to comply with the policies and practices set froth herein. Any deviation from such policies and practices shall be justified due to extraordinary circumstances.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-45. Short-Term Debt.
(a) The District may issue obligations with a maturity of not more than one year ("Notes") to fund anticipated short-term cash flow needs. Short-term borrowing may be used for the purposes authorized by law. Short-term debt, such as commercial paper, lines of credit with financial institutions, tax anticipation notes, or bond anticipation notes, may be used when it provides immediate financing and an interest cost advantage or the advantage to delay long-term debt until market conditions are more favorable.
(b) The following may be a factor for consideration when issuing short-term debt:
(1) Short-term debt is a vehicle to deal with temporary cash flow needs. This arises when cash receipts do not follow the same pattern as cash outlays.
(2) Short-term debt is also used to handle unexpected costs resulting from natural emergencies or other significant unexpected events.
(3) Short-term debt may be used in anticipation of issuing a long-term bond for capital financing. This form of financing offers an opportunity to borrow for short periods until the true, final costs of a project (e.g., a new field station facility or reservoir) are known or to accumulate capital costs until permanent financing is implemented by issuing long-term debt or to minimize negative arbitrage during construction.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-46. Long-Term Debt.

(a) Long-term borrowing shall not exceed the estimated life of the capital assets financed and shall not finance current operations or normal maintenance. Long-term financing is used to generate capital for financing the construction, purchase, or improvement of major fixed assets, and land.
(b) The District will not issue long-term debt obligations or use long-term debt proceeds to finance current operations (except when using excess proceeds to make debt service/lease payments as provided for in the financing documents). For purposes of this policy, long-term debt includes bonds, leases, certificates of participation and other similar obligations. The District may utilize long-term debt for the acquisition, construction or renovation of facilities or the acquisition of land or equipment that cannot be funded from current revenue sources or in such cases where it is more equitable to finance the facility or equipment over its useful life. The District may also issue long-term debt to refund all or a portion of its outstanding debt subject to limitations detailed in this policy. When debt is used to finance capital improvements, the financing term will be for a period not to exceed the useful life of the facilities or equipment with a preference that the final maturity not exceed 30 years from the issuance date.
(Res. No. 2005-430, 4-13-2005)

Sec 110-47. Measures of Debt Levels and Debt Issuance Limits.
The District's debt burden shall not exceed the benchmark levels, set forth below, and no additional debt shall be authorized if the projected debt burden would exceed such levels:
(1) The net debt-per-capita shall not exceed $250.
(2) Debt service (including payments required on certificates of participation to accelerate the Comprehensive Everglades Restoration Plan - Acceler8) shall not exceed 20% of the available ad-valorem revenues, related interest income thereon and permit fee revenue.
(3) The debt-to-assessed value shall not exceed .30% of the assessed value of property within the District.
(Res. No. 2005-430, 4-13-2005)

Sec 110-48. Financing for Acceler8; the Accelerated Comprehensive Everglades Restoration Plan Projects.
The goal of financing the Acceler8 projects will include the following principles:
(1) The acceleration of Comprehensive Everglades Restoration Plan projects shall not result in an increase in State funding or millage rates levied by the South Florida Water Management District.
(2) As part of the annual statutory water management district budget review, or as needed, each project to be accelerated (and not previously approved) and the related funding (including debt issuance) shall be subject to review and approval by the Executive Office of the Governor. Additionally, the finance plan and sale of each series of Certificates of Participation shall be subject to review by the Executive Office of the Governor.
(3) The finance plan for accelerating the Comprehensive Everglades Restoration Plan shall be flexible so that the amount and timing of any borrowings can be adjusted as circumstances warrant. For example, the finance plan may require modification for

changes in estimated project cost, assumptions for the growth in the tax base or construction schedules.
(4) The borrowing for each accelerated Comprehensive Everglades Restoration Plan project shall be consistent with the District's debt management policies that are effective from time to time.
(5) Bond financing professionals will be selected through a Request for Proposals process and that debt be sold by competitive sale unless a negotiated sale of bonds is supported by an analysis and recommendation that it would be more cost-effective.
(6) Consideration shall be given but not limited to the level of interest rates, duration of the debt and prepayment penalties in order to minimize the interest cost for accelerating the Comprehensive Everglades Restoration Plan.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-49. Selection of Professionals.
Underwriters and other financing professionals will be selected through a Request for Proposals process. In addition, during the selection process, the following should be observed:
(1) All proposals should be evaluated by a selection committee;
(2) Each proposal should be evaluated independently by each selection committee member with no communication among grading committee members regarding the merits of any proposal;
(3) There shall be no lobbying of or communication with any Board member, employee of the District or selection committee member by any respondent to a Request for Proposal, its representative or lobbyist for such respondent, regarding the merits of the respondent's proposal. Each Request for Proposal shall include, but not be limited to, the following applicable provisions:
a. Each underwriter or other financing professional shall provide information on the outcome of any litigation or administrative proceeding, during the last two years prior to the date of the Request for Proposal, adverse to the underwriter or other financing professional in any matter related to the professional activities of the underwriter or other financing professional;
b. Each underwriter shall provide an estimate of the amounts for each component of the gross underwriting spread;
c. Each underwriter shall certify in their proposal that all information provided in the proposal is true and accurate and that they have complied with the prohibition on lobbying or communication with any Board member, employee of the District or member of the selection committee.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-50. Selecting Debt Sale Methods.
(a) Issuance of debt will be through a competitive sale unless a negotiated sale of bonds is supported by an analysis and recommendation that it would be more cost effective. The Following Method of Sale Guidelines shall be used. These guidelines apply to the sale of bonds, certificates of participation, loans, notes, lines of credit or any other form of indebtedness of the District.
TABLE INSET:

	Conditions Favoring a Competitive Sale	Conditions Favoring a Negotiated Sale
Debt Structure		
Pledged Revenues	G.O. or Strong Revenue Stream	Non-Tax based or Project Supported Revenue
Security Structure	Conventional Resolution and Cash Flow; Rate Covenant and Coverage	Unusual or Weak Covenants
Debt Instrument	Traditional Serial and Term Bonds	Innovative, complex issues requiring special marketing, or refunding issues
Size	A smaller transaction size which can be comfortably managed	A larger size which the market cannot readily handle
Credit Quality		
Rating	"A" or Better	Below single "A"
Outlook	Stable	Uncertain
Issuer		
Type of Organization	Well Known, General Purpose	Special Purpose, Independent Authority
Frequency of Issuance	Regular Borrower in Public Market	New or Infrequent Issuer
Market Awareness	Active Secondary Market	Little or No Institutional Awareness
Market Conditions		
Interest Rates	Stable; Predictable	Volatile
Supply and Demand	Strong Investor Demand, Good Liquidity	Oversold, Heavy Supply
Changes in Law	None	Recent or Anticipated

(b) If a decision is made to incur debt on a negotiated basis, the following shall be observed in the execution of the transaction:

(1) A Financial Advisor knowledgeable and experienced with the type of transaction contemplated shall be retained to provide, at a minimum, advice and a written opinion as to the reasonableness of interest rate on the debt being incurred, the gross underwriting spread or any other fees and expenses on the transaction;

(2) Details of the transaction regarding gross spread and its components, participation levels for the underwriting syndicate, priority of orders that are acceptable to the District, designation policies to apply and any other provisions which determine the cost of the transaction to the District and the method of compensation for the financing professionals must be agreed to at least three days prior the execution of the transaction unless that time period is waived by the Chief Financial Officer and the Executive Director.

(Res. No. 2005-430, 4-13-2005)

Sec. 110-51. Financing Structure.

(a) The financing structure-consisting of principal amortization, call provisions, coupons/yields, credit enhancement, use of derivative products, etc-will be developed for each financing after considering relevant market conditions and then current practices. Each structure will be developed to provide the lowest long-term effective financing cost while considering all relevant risk factors and providing the greatest flexibility to extract additional value as market conditions change over time, i.e., refund debt, terminate swaps, etc.

(1) *Amortization Structure.* Principal should be structured to provide level debt service payments for the life of the transaction. "Wrapped debt service" and "bullet maturities" that defer the amortization of principal may be appropriate for certain financings, but should only be employed when deemed absolutely necessary.

(2) *Issuing Variable Rate Debt.* The District may issue variable rate obligations in amounts and in proportion to its fixed rate debt that meet with rating agency guidelines, the risks can be effectively managed, and the District and its Financial Advisor determine are appropriate to achieve the District's goals. In determining the proper amount of variable rate debt, the risks associated with variable rate debt must be carefully evaluated. Accordingly, the following risk factors shall be evaluated and taken into consideration or implemented prior to incurring variable rate debt:

a. Interest rate risk. This is the risk that short-term interest rates will increase and remain high over an extended period causing the District's cost of funds to increase over time or creating budgetary challenges if the interest cost exceeds the amount budgeted for debt service. Ways to manage the interest rate risk include limiting the amount of variable rate debt to a set percentage of total debt and establishing a limit on the amount of variable rate debt to a certain percentage of the District's short-term investments, thereby providing a hedge for the interest rate risk associated with variable rate debt. Ways to manage the effect on the budget include, but are not necessarily limited to, budgeting for debt service at an estimated high rate of interest or budgeting based upon a one-year historical average of short-term rates plus an additional amount of interest rate to provide for possible increases in short-term rates during the budget year. A system to monitor variable rates must be implemented in order to assess the effect on the budget, the overall and cost of capital and to ensure that interest rate resets are at market rate.

b. Renewal risk of external liquidity. Because short-term variable rate instruments typically have a feature which allows the investors to put the securities back to the District, a liquidity facility is normally used which provides sufficient money to satisfy the put in the event that the bonds cannot be remarketed to other investors. The duration of liquidity facilities are typically much shorter than the maturity of the variable rate debt creating the need to renew an existing liquidity facility or obtain a new liquidity facility. Relatively frequent renewal of a liquidity agreement creates the risk that liquidity costs will increase over time. The availability, terms and cost of liquidity facilities are also uncertainties which should be considered when evaluating the use of variable rate debt.

c. Tax risk. This is the risk of change in Federal tax rates which would cause tax-exempt variable interest rates to increase permanently relative to taxable interest rates.

d. When evaluating a variable rate debt, there are costs in addition to those normally incurred with fixed rate bond issues which must be evaluated. Those additional costs include, but are not necessarily limited to, fees for remarketing agents, tender agents and liquidity providers.

(b) Credit Ratings. The credit review process incorporates both quantitative analysis (fund balance, debt levels, and wealth levels) and qualitative factors (management experience, political climate and policies/procedures). As a result, credit ratings provide an indication of both the short-term and long-term financial health of the District. Higher credit ratings also result in reduced borrowing costs and decreased cost of bond insurance.

(c) The District will exercise prudence and diligence in preparing its budget and managing its finances to maintain its current ratings and obtain rating upgrades that reflect the District's commitment to conservative financial management practices and will strive to achieve and maintain a superior investment grade bond rating for its obligations.

(d) Credit Enhancements. Credit enhancements (insurance, letters of credit, etc.) will be used only in those instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement.

(e) Investing Debt Proceeds. Safety of capital is regarded as the highest priority in handling of investment of debt proceeds. All other investment objectives are secondary to the safety of capital. District staff and the Financial Advisor will develop investment strategies that are consistent with the investment policy and provide the maximum return while complying with this policy of safety and security being of paramount importance. Additionally, District staff, and the Financial Advisor will attempt to structure investments that allow the District to meet exceptions to the arbitrage rebate requirements in the Code. Debt proceeds are only to be invested in permitted investments, as defined in financing agreements, escrow agreements, resolutions, law and the District's written investment policy. Neither the District nor any other person under its control or direction will make any investment of bond proceeds in any manner that would cause the bonds to be deemed arbitrage bonds by the Internal Revenue Service. The District will comply with all federal tax arbitrage regulations.

(Res. No. 2005-430, 4-13-2005)

Sec. 110-52. Debt Refundings.

The District will monitor outstanding debt in relation to existing conditions in the debt market and may refund any outstanding debt when sufficient cost savings can be realized.

Debt may be refunded as long as the net present value savings meets District targets for refunding considering the then level of interest rates on historical basis and the term of the bond to be refunded. A target of 5% savings on the refunded obligations par amount is appropriate with minimum of at least 3% savings where market conditions, historical interest rates, and bond maturities make a lower threshold appropriate for consideration by the Chief Financial Officer. Initial evaluation and documentation may be commenced at the three percent savings level. Additionally, unless circumstances warrant a deviation therefrom, the refunding bonds should be structured to achieve level annual savings and should not exceed the remaining life of the bonds being refunded. There may be other circumstances which warrant a refunding such as to restructure outstanding indebtedness or eliminate covenants deemed burdensome but such circumstances should be considered extraordinary to justify a refunding of outstanding debt.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-53. Derivative Products.

(a) In structuring a particular financing, the District may employ the use of derivative products, which include, but are not limited to the following, interest rate swap agreements, interest rate exchange agreements, funding agreements, hedges, collars, options, puts or caps. In determining whether to apply a derivative product to a transaction, the District shall take into consideration all relevant risk factors, including, by way of example: (i) the creditworthiness of the provider of the derivative product provider (Counterparty Risk); (ii) the risk that the derivative may be terminated early and that a termination payment may be due from the District (Termination Risk); (iii) the risk that the payments received by the District under the derivative product do not correspond to the payments being made by the District on its underlying variable rate debt (Basis Risk); (iv) the risk that a change in federal tax would adversely affect the relationship between payments received under the derivative product and payments made on underlying debt (Tax Risk); and the risk that the District may not be able to assign the derivative product to another party (Liquidity Risk). Additionally, the District will work with its Financial Advisor to carefully structure a derivative product that best serves the needs of the District.

(b) The District shall adopt a comprehensive derivatives policy prior to the use of any derivative product. Additionally, the use of any derivative shall be subject to the same approval required for the issuance of debt, including review and approval by the Executive Office of the Governor, as required by the Memorandum of Agreement between the Executive Office of the Governor and the District dated October 14, 2004.
(Res. No. 2005-430, 4-13-2005)

Sec. 110-54. Compliance and Reporting.

(a) *Disclosure Policy.* The District will:

(1) Provide full and fair disclosure in connection with the initial sale and distribution of its publicly marketed debt instruments and to provide ongoing secondary market information, in compliance with the requirements of applicable Federal and State securities laws, rules and regulations, including Securities and Exchange Commission Rule 15c 2-12.

(2) Follow a policy of full disclosure in all financial reports and official statements issued for indebtedness.

(b) *Budget Debt Service Payments.* Annually the District's Chief Financial Officer will include in the proposed budget presented to the Governing Board for its consideration and approval the appropriations necessary to make the required debt service and lease payments during the fiscal year.

(c) *Compliance with Financing Covenants, Federal and State Law.* The District shall comply with all covenants and requirements of financing resolutions, and State and Federal laws authorizing and governing the issuance and administration of debt obligations including all Federal tax law requirements to maintain the tax-exempt status of interest on the District's debt.

(d) *Bond Yield Arbitrage Monitoring.* The District shall prepare or cause to be prepared annual arbitrage calculations to monitor the earnings on its debt proceeds for each debt series and determine whether a rebate is necessary.

(Res. No. 2005-430, 4-13-2005)

Secs. 110-55--110-60. Reserved.