

## **Charlotte County Financial Reserve Policy**

### **General Policy Statements:**

- 1.) The Charlotte Board of County Commissioners realize that it is essential for governments to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, natural disasters, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen situations after exhausting all other funding options .
- 2.) Charlotte County's reserve policies are based on sound fiscal principles designed to allow the County to maintain continuity of operations in adverse conditions while being mindful of our fiduciary responsibility to taxpayers, both current and future generations.
- 3.) The County realizes that adequate fund balance levels are an essential component of the County's overall financial management strategy and a key factor in external agencies' measurement of the County's financial strength.
- 4.) Various bond rating agencies recognize that the best reserve policies provide both specificity and flexibility, accomplishing one or more of at least three main criteria: establishing a target level of reserves, or a reserve floor; specifying the appropriate circumstances for drawing down reserves; and directing the replenishment of reserves.
- 5.) The Government Finance Officers Association of the United States and Canada (GFOA) recommends a minimum general fund reserve of no less than five to fifteen percent of operating revenues, or no less than one to two months of regular operating expenditures.
- 6.) Charlotte County lies within a coastal zone highly susceptible to hurricane and storm damage.
- 7.) There exists uncertainty in the economic markets around the world, in regards to the cost of construction materials, interest rates, personnel costs, medical insurance costs, and general inflation.
- 8.) Each sizable fund has been analyzed to determine the type of risk it may be exposed to, the duration of the risk, methods to mitigate that risk and the amount of funds needed to mitigate against that risk.
- 9.) The County's aging infrastructure will require increasing repair and replacement.
- 10.) The County wishes to mitigate other forms of uncertainty such as:
  - Unanticipated changes in the tax and spending policies of federal and state governments;
  - Imposition of mandates by federal and state governments or the courts;
  - Financial impacts of labor agreements, particularly those stemming from collective bargaining; and,

- Unforeseen increases in energy costs.

11.) The fund balance definitions will be reported in accordance with generally accepted governmental accounting principals

**SECTION 1.** The Charlotte County Board of County Commissioners hereby establishes the following Financial Reserves Policy that includes guidelines for the use of reserve funds, the level of funding (minimum and maximum) for reserve funds and the time period over which reserve funds should be accumulated, and procedures for reporting and managing reserve funds.

## **SECTION 2. Ad Valorem Reserves**

The components of the Ad Valorem Reserve are the combined reserves of the General Fund, Capital Projects Fund, and Law Enforcement Fund and should include, but not be limited to the following:

### **a.) Reserve for Contingencies**

The purpose of Reserve for Contingencies is to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen financial situations after exhausting all other funding options. The County should strive to maintain a balance not less than 5% and not greater than 10% percent of the total of the budget. Budget is defined as the amount available to spend to include beginning balance and revenues.

### **b.) Cash Carried Forward**

A reserve amount for the purpose of paying expenses from October 1 of the ensuing fiscal year until the time when the revenues for that year are expected to be available. The County should strive to maintain a balance not less than 5% nor greater than 10% percent of the total revenue receipts and balances (beginning balance) of the budget.

### **c.) Fiscal Stabilization Reserve**

The County should strive to maintain a balance not less than 15% percent of the total of the budget. Budget is defined as the amount available to spend to include beginning balance and revenues to meet unexpected immediate increases in service delivery costs, or to maintain service levels in the event that an economic downturn should cause a shortfall in revenues or for expenditures associated with a major storm or other unforeseen disaster that fundamentally alters the current tax base.

## **SECTION 3. Other General Government Operating Funds**

### **I. Tourism Development Budget**

The components of the Tourism Development Reserves should include, but not be limited to the following:

### **a.) Reserve for Contingencies**

The purpose of Reserve for Contingencies is to maintain adequate levels of fund balance to mitigate current and future risks such as revenue shortfalls, unanticipated expenditures, and to ensure stable tax rates; and other unforeseen financial situations after exhausting all other funding options. The County should strive to maintain a balance not less than 5% and not greater than 10% percent of the total of the budget. Budget is defined as the amount available to spend to include beginning balance and revenues.

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A reserve amount for the purpose of paying expenses from October 1 of the ensuing fiscal year until the time when the revenues for that year are expected to be available. The County should strive to maintain a balance not less than 5% nor greater than 10% percent of the total revenue receipts and balances (beginning balance) of the budget.

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## **II. Internal Service Funds**

Internal service funds are used to account for the financing of goods or services provided by one department or agency to other departments or agencies of the County, or to other governmental units, on a cost-reimbursement basis. These funds are generally intended to operate on a break-even basis. There shall be appropriated, in each of the internal service funds, a reserve for cash balance to be carried over in an amount necessary to ensure that balances in the fund at of the end of each fiscal year is greater than or equal to zero. This reserve shall be in addition to all other, including but not limited to amounts reserved for claims incurred but not paid. In any fiscal year when it is projected that the actual amount of balances will be less than or equal to zero at year end, it will be necessary to either increase the rates charged or reduce expenses or both. In any fiscal year when it is projected that the actual amount of balances will be greater than zero at year end, consideration will be given to reducing the rates charged, or to using the accumulated surplus for any legal purpose.

## **III. Risk Management**

Risk Management should maintain a minimum reserve equal to the 70% undiscounted confidence level of the annual actuarial study to ensure financial viability. In addition, should a claim be made against the County that is identified subsequent to the actuarial report and prior to the issuance of the Comprehensive Annual Financial Report that is financially material to the fund and highly likely to succeed, additional reserves should be established to provide adequate funds in reserve. Reserves will be funded through the premium rates charged to the covered entities.

The Risk Management Fund encompasses risk programs including automotive liability, general liability, and property claims. Additional miscellaneous liabilities include aviation, underground storage tanks, and professional liability for the Board of County Commissioners and other Elected Officials. Because of the inherent risk of catastrophic losses associated with the operation of vehicles and heavy equipment, construction work, jail operations, and others, a conservative approach should be taken when establishing the amount of reserves. Insurance and safety industry best practices will be employed to mitigate against these risks.

#### **SECTION 4. General Government Debt Service Funds**

##### **Debt Service Funds**

Debt Service reserves will be maintained as required by bond covenants or other debt obligations. Excess Debt Service Fund balances should be returned to the general or special revenue fund where the pledged revenue stream is collected.

#### **SECTION 5. General Government Capital Funds**

##### **Capital Funds**

Capital Funds should maintain fund balance budgeted in reserves if allowable by type of Fund. Many of the Capital Funds are time limited revenues, such as Infrastructure Surtax, and those funds will be expended as available and allowable. Other Capital Funds have time limitations, such as Impact Fees that are required to be spent within six years; those funds will be expended as soon as possible within allowable parameters. Excess funds should be returned to the general or special revenue fund where the appropriated revenue stream is collected.

#### **SECTION 6. Enterprise Funds**

##### **I. Charlotte County Utility**

The Utility should strive to maintain a minimum balance in the renewal and replacement fund equal to the lesser of one-twelfth (1/12) of five percent (5%) of the prior year's gross revenue or \$2,000,000. The Utility shall strive to maintain an unrestricted operating reserve fund balance equal to an average of sixty to ninety (90) days of the Utilities operating and maintenance expenses as established during its annual budget.

##### **II. Solid Waste**

The Solid Waste System should strive to maintain a reserve of sixty (60) to ninety (90) days of operating expenditures, plus fifty percent of the five year Capital Improvement Plan funding. In addition, all reserves required by Florida Department of Environmental Protection Administrative Code associated with landfill operations will be maintained.

##### **III. Sanitation District**

The Sanitation District should strive to maintain a reserve of sixty (60) to ninety (90) days of operating expenditures. The reserve will be used in the event of a major interruption to the current revenue stream due to unforeseen circumstances, such as natural or man-made disaster, or significant downturn.

### **Additional Information**

All corresponding calculations and interpretation of calculations of a definitive nature will be determined by the County Administrator or his designee.

Reserve funds will be accumulated over a period that is deemed appropriate by the Board of County Commissioners given the complexity and consideration of a variety economic conditions.

Reserve funds will be reported and approved by the Board of County Commissioners annually during the budget process. Related to the management of reserve funds, all uses and transfers from reserve accounts must be approved by the Board of County Commissioners.

## CHARLOTTE COUNTY DEBT POLICY

### General Policy Statements:

Debt Policy:

The objective of Charlotte County's (hereinafter "Charlotte County" or "County") Debt Policy is to maintain the County's ability to incur present and future debt at the most advantageous circumstances to the County and its citizens, for purposes of financing or refinancing approved elements of its capital improvements program and other County projects.

Several guiding principles which are incorporated into the County's Debt Policy are as follows:

1. **Asset Life:** The County will consider long-term financing for the acquisition, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years. Debt will be used only to finance capital projects and equipment, except in case of emergency. County debt will generally not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.
2. **Capital Financing:** The County will normally rely on specifically generated funds and/or grants and contributions from other governments to finance its capital needs on a pay-as-you-go basis. To achieve this it may become necessary to secure short term (not exceeding 5 years amortization) construction funding. Such financing is anticipated and allows maximum flexibility in Capital Improvement Plan (CIP) implementation. Debt of longer amortization periods (long-term debt) will be issued for capital projects when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries. Debt shall not, in general, be used for projects solely because insufficient funds are budgeted at the time of acquisition or construction.
3. **Credit Ratings:** Charlotte County seeks to maintain the highest possible credit ratings for all categories of short and long-term debt that can be achieved without compromising delivery of basic County services and achievement of adopted County policy objectives.
4. **Capital Planning:** To enhance creditworthiness and prudent financial management, Charlotte County is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning is demonstrated through adoption and periodic adjustment of a Comprehensive Plan pursuant to Chapter 163, Florida Statutes, the Florida Growth Management Act and Rule 9 J 5, and the adoption of the five year CIP.
5. **Debt Affordability Measures:** The County will examine the following statistical measures to determine debt capacity and compare these ratios to the standard municipal rating agency median for counties of comparable size and historical ratios to determine debt affordability:
  - Debt per capita;
  - Debt to personal income;
  - Debt to taxable property value; and/or

- Debt service payments as a percentage of revenues.

6. **Debt Limits:** The County will keep outstanding debt within the limits prescribed by State Statute at levels consistent with its creditworthiness, best practices, needs and affordable objectives.
7. **Debt Structure:** Debt will be structured to achieve the lowest possible net cost to the County given market conditions, the urgency of the capital project, and the nature and type of security provided. Moreover, to the extent possible, the County will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use.
8. **Length of Debt:** Debt will be structured for the shortest amortization period consistent with a fair allocation of costs to current and future beneficiaries or users.
9. **Backloading:** The County will normally seek to structure debt with level principal and interest costs over the life of the debt. "Backloading" of costs will be considered when natural disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive, when the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present, when such structuring is beneficial to the County's overall amortization schedule, or when such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.
10. **Refundings:** The Clerk of the Circuit Court as Chief Finance Officer of the County, County's staff and advisors will undertake periodic reviews of all outstanding debt to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants essential to operations and management. In general, advance refundings for economic savings will be undertaken when a net present value savings of at least three percent (3%) of the refunded debt can be achieved. Current refundings that produce a net present value savings of less than three percent (3%) will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy or legal objective.
11. **Credit Enhancements:** Credit enhancement, including letters of credit and bond insurance, may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancement.
12. **Methods of Sale:** The County will issue debt obligations either through competitive or negotiated sale or through a private placement.
  - a) **Competitive Sale:** A competitive sale is the common method for selecting underwriters for general obligation bonds, which are backed by the full faith and credit of the County. In a competitive bid process, the County, with the assistance of the County's Financial Advisor, will structure the bond issue and publish a Notice of Sale requesting bids from underwriters. After the bids are received, the bonds are awarded to the underwriting syndicate that submitted the best bid, i.e. the lowest true interest cost to the County.
  - b) **Negotiated Sale:** In a negotiated sale, the County works with a single underwriting syndicate. The selection of a syndicate usually is based on factors such as past relationships, special expertise, and the size and nature of the

underwriters' sales efforts. The senior manager of the syndicate will assist the County with structuring the bond issue, preparing the official statement, and obtaining a bond rating. The syndicate will engage in pre-sale marketing, and then will negotiate interest rates with the County. Negotiated sales are common with revenue bond offerings, especially when they involve complex features.

- c) Private Placement: When determined to be beneficial and appropriate, the County may elect to sell its debt obligations through a private placement or limited public offering.

13. **Long Term Debt**: The County will consider the issuance of long-term debt under the following conditions:

- One time capital projects or capital improvement projects, when the project is included in the County's Capital Improvement Program and appropriated in the budget;
- An unusual equipment purchase for which it is determined to be economically beneficial for the County to purchase through financing;
- When a project is not included in the County's Capital Improvement Plan, but it is an emerging critical need whose timing was not anticipated or it is a project mandated immediately by State or Federal requirements. An analysis of the project's impact on the County's Capital Improvement Plan and future budget forecasts will be presented at the time of approval; or
- To finance the acquisition or implementation of a self-supporting proprietary or governmental program/activity.

14. **General Obligation Bonds**: When determined to be the most appropriate method of debt issuance, the County will seek approval through voter referendum to issue general obligation bonds. The full faith and credit of the County secure general obligation bonds. The County makes a pledge to levy the necessary ad valorem tax rate to meet the debt service requirements of the bonds.

15. **Revenue Debt**: As part of the County's financing activities, specific General Fund revenue sources may be identified to pledge for repayment of revenue debt. Before such General Fund commitments are made, specific policy goals and objectives that determine the nature and type of projects qualifying for such support and specific limitations to be placed on the maximum amount of General Fund resources pledged to such projects shall be developed. Key factors that will be considered in determining whether or not the General Fund should be used to secure a particular debt obligation will include the following:

- Demonstration of underlying self-support, thus limiting potential General Fund financial exposure
- Use of General Fund support as a transition to a fully stand alone credit structure, where interim use of General Fund credit support reduces borrowing costs and provides a credit history for new or hard to establish credits.
- General Fund support is determined by the County Commission to be in the County's overall best interest.

The County will finance the capital needs of its revenue producing proprietary activities through the issuance of revenue-secured debt obligations. Prior to approval of such debt, the County Commission will evaluate financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers, property owners, County revenues, and other affected parties. The amount of the debt obligations issued by a County will be limited by the feasibility of the overall financing plan on the proprietary activity.

16. **Leasing:** When determined to be advantageous to the County, the County may lease equipment and facilities rather than purchase them outright. Leasing may be appropriate for assets that will be needed for only a short period of time, or which are subject to rapid technological obsolescence. Leasing may also be determined to be appropriate for procuring assets that are too expensive to fund with current receipts in any one year, but with useful lives too short to finance with long-term debt. The decision to lease will be supported by an analysis of lease vs. purchase.
17. **Interfund Borrowing:** Interfund borrowing will be considered to finance high priority needs on a case-by-case basis, only when planned expenditures in the fund making the loan would not be affected. Interfund borrowing may be used when it would reduce costs of interest, debt issuance, and/or administration. Interest charged will be at the current earnings rate of other County funds.
18. **Taxable Debt:** The cost of taxable debt is higher than tax-exempt debt. The issuance of taxable debt is mandated in certain circumstances, and may allow valuable flexibility in subsequent contracts with users or managers of the improvement constructed with the debt proceeds. Therefore, the County may issue taxable obligations when determined to be the best method for the intended purpose.
19. **Variable Rate Debt:** The County may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions. The County will limit its outstanding bonds in variable rate form to reasonable levels in relation to total debt.
20. **Subordinate Debt:** The County may issue subordinate debt only if it is financially beneficial to the County or consistent with creditworthiness objectives.
21. **Short Term Debt:** Use of short-term borrowing, such as bond anticipation notes and tax-exempt commercial paper, will be undertaken only if the transaction costs plus interest on the debt are less than or equal to the cost of internal financing, or available cash is insufficient to meet working capital requirements as with the implementation of the infrastructure surtax programs.
22. **State Revolving Fund Program:** This program provides funds for projects involving water supply and distribution facilities, stormwater control and treatment projects, air and water pollution control, and solid waste disposal facilities. Whenever possible, this program will be utilized since the costs associated with issuing the notes are low and local agencies benefit from the strength of the State's credit.
23. **Other Borrowing Facilities:** The County may maintain or procure a special facility that

will allow for borrowing on short notice, either in the form of short-term or long-term notes, for small amounts not economical to finance through a regular bond issuance. The facility can be used as an interim financing mechanism when cost effective.

24. **Derivative or Synthetic Debt Structures:** The use of derivative or synthetic debt securities to finance capital projects or to refinance outstanding debt may be an appropriate method of hedging favorable interest rates or to mitigate the risks of interest rate volatility in a variable rate debt program. The value of such derivative securities is derived from the value of an underlying or reference market. Derivatives such as interest rate swaps and interest rate caps and collars are examples of securities that are used by corporations and municipal borrowers to lower and stabilize borrowing costs. The use of derivative debt securities by the County should be considered only upon the recommendation of the Finance Committee, in conjunction with the advice of knowledgeable and experienced experts.
25. **Arbitrage Compliance:** The Clerk of the Circuit Court, as Chief Finance Officer of the County, maintains a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. Arbitrage rebate liabilities will be calculated annually and the liability will be reported in the County's annual financial statements.
26. **Financing Proposals:** Any capital financing proposal to a County Department, Agency, or Utility involving pledge or other extension of the County's credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the County's credit, may be reviewed by members of the finance Committee.
27. **Conduit Bond Financing:** Periodically, the County is approached with a request to provide conduit bond financing for qualified projects through the Charlotte County Housing Finance Authority or Industrial Development Bonds. Applications for such issues are processed pursuant to guidelines approved by the Charlotte County Board of County Commissioners. The County's Financial Advisor, Bond Counsel, and County Attorney, in coordination with Housing Finance Authority and Industrial Development Bond Citizens Advisory Committee, will review all applications to provide a funding recommendation to the Board, and will charge a reasonable fee for costs and time, to be paid for by the applicant. In addition, the applicant will reimburse the County a reasonable fee for time spent on review of the application by County staff.
28. **County Finance Committee:** The County's Finance Committee consists of the Chief Deputy of Board Services of the Clerk of the Circuit Court, the Chairman of the Charlotte County Board of County Commissioners, as seated annually by the Commission, a second representative from the Board of County Commissioners, the County Administrator or designee, the County Attorney or designee, and the Clerk of the Circuit Court. Others participating in the Finance Committee's efforts to provide technical expertise and advice include representatives from the County's Financial Advisor, Disclosure Counsel and Bond Counsel. The County's Debt Policy is jointly reviewed by the Finance Committee and the Board of County Commissioners at least once every five (5) years, and more frequently if so required.
29. **Financial Disclosure:** The County is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, agencies, other levels of government, and the general public to share clear,

comprehensible, and accurate financial and other relevant requirements on a timely and comprehensive basis. The Clerk of the Circuit Court, as Chief Finance Office of the County, is responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, and may carry out such responsibility through the engagement of an outside dissemination agent or supervision of the process by others and will provide final approval.

30. **Investment of Debt Proceeds:** Debt proceeds will be invested primarily to assure the safety and liquidity of such investments, and secondarily, to maximize investment yield. The primary goal of liquidity is to ensure that proceeds will be available to fulfill the purposes of the issue on a timely basis. Debt covenants will specifically address investment guidelines for debt proceeds.