CITY OF ORLANDO

DEBT MANAGEMENT POLICY

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I. Introduction

This Debt Management Policy is intended to (a) set forth guidelines under which the City's debt management program shall be administered, (b) set appropriate targets and boundaries for the City's current debt program, and (c) ensure that future generations of elected officials have reasonable latitude to address the financial circumstances of their tenure. This Debt Management Policy, as amended and adopted by City Council annually, sets forth the goals and objectives of the program and authorizes the City's Finance Committee to further define targets and benchmarks within these parameters. The City's original Debt Management policy was adopted by City Council on October 4, 1994.

II. Scope

This Debt Management Policy shall apply to all debt issued by the City and the Community Redevelopment Agency on behalf of the citizens, ratepayers and taxpayers of the City of Orlando.

III. Objectives

The objectives of this Debt Management Policy are as follows:

A. Balance multiple financial management objectives, including:

1. Creativity: examine new or different means to achieve established objectives at the lowest possible cost;

2. Innovation: address, consider or conceive new financing options which are either developed in the City's traditional municipal markets or adaptable from other existing financial markets;

3. Flexibility: retain the City's current and future options to meet the financing challenges of the City;

4. Responsibility: be fair, reasonable and equitable to each generation of taxpayers, ratepayers, users and other beneficiaries when distributing the debt burden or costs of government;

5. Corporate Image: act as a good corporate citizen, to maintain or enhance the City's credit worthiness and reputation and to ensure the trust of those who have or will purchase the City's debt or other forms of borrowing; and

6. Due Care: pay timely attention to and comply with each and all of the agreements, laws, contracts, covenants, policies and obligations which make up or are related to the City debt management program(s).

B. Define and categorize the City's current debt programs as governmental or proprietary within the self-supporting and non-self supporting categories.

C. Enhance the City's ability to access the credit markets and enhance or maintain the credit ratings for each of its programs.

D. Address the purpose, use and advantages of the City's Internal Loan Fund program, as it is appropriately integrated into the City's overall debt management program.

E. Evaluate each of the following in anticipation of new borrowing initiatives:

1. Appropriate final maturity (1 to 30 years);

2. Principal Amortization pattern (e.g., level principal, level debt service, etc.);

3. Use of long-term fixed, intermediate term fixed or variable rate debt pricing options, and

4. Use of risk management techniques (caps, swaps, floors, collars, etc.) to manage the City's variable rate risk exposure consistent with the City's Interest Rate Risk Management Products Policy.

F. Identify appropriate debt constraints or limits in an effort to ensure adequate flexibility for future generations of elected officials;

G. Provide for changes in targets and amendments to this Policy which can be approved by the Finance Committee and City Council, and an appropriate time frame to implement such changes.

H. Provide a framework within which the City's corporate styled Debt Management Program can effectively operate.

I. Provide for the publication of a Bond Disclosure Supplement that reports on the status of the City's debt management programs.

IV. Categorize Debt Program(s)

The City shall periodically establish standards for and classify each of the City's debt programs into one of the following:

A. Self-Supporting Debt:
1. Proprietary operations
    i) Wastewater
    ii) Parking

2. Other Governmental (Non-General Fund revenues)
    i) Community Redevelopment Agency (CRA)
    ii) Special Assessment and Tax-Increment
    iii) State Sales Tax Payments Revenues Bonds
    iv) Contract Tourist Development Tax Payments Revenue Bonds

B. Non Self-supporting Debt:
1. Proprietary operations

2. General Governmental (including the General Fund)
    i) Covenant Program
    ii) General Obligation

This distinction recognizes that self-supporting proprietary programs do not directly or indirectly place a burden on taxpayers in the form of increased taxes. As long as each system's user rates meet the needs of both operations and debt service, the debt program is not considered part of either the General Government or Tax-Supported Debt of the City.

Having made these classifications, the Mayor and City Council shall commit to:

A. Act with regard to self-supporting proprietary operations, when necessary, to increase rates to ensure that each operation maintains rate coverages (revenue to debt service ratios) as required by the higher of either City policy or related debt covenants.

B. Limit the level of annual debt service as a percentage of available annual revenues to ensure a reasonable ability to address recurring operations and maintenance and/or capital requirements on a pay-as-you-go basis for all self-supporting governmental operations.

C. Establish the annual subsidy required and compare it to the actual subsidy needed for all non self-supporting proprietary operations.

D. Adhere to debt limits established herein to ensure current and future flexibility for all Non Self-Supporting Debt.

V. Manage the Use/Commitment of Pledgable Resources

A. The City uses its Covenant Program as the primary financing mechanism and security source used to finance general government capital projects.

B. The City recognizes that pledgable revenue sources are limited. The City will treat the use of each as a deployment of a scarce resource, and careful attention will be focused on balancing future flexibility with the need to consume scarce resources. The use of scarce resources as a secondary pledge should be thoughtfully addressed, used strategically, and, wherever possible, be:

1. Limited to specific dollar amounts, and

2. Subject to recapture, if and when the primary revenue pledge demonstrates sufficient strength on its own.

VI. Measuring Interperiod Equity

When measuring its commitment to its infrastructure and related service delivery potential, the City shall address both its capital and operating and maintenance requirements. For purposes of this policy, the City shall focus on its capital portion. When measuring interperiod equity, the City must consider the need to allocate the burden between generations and, more specifically, fiscal periods. The City will seek to measure the impact of proposed capital funding sources (debt and Pay-As-You-Go) for both a single year and longer-term forward forecasts. This future capacity analysis

shall consider debt service maturities and payment patterns as well as the City's commitment to a Pay-As-You-Go budgetary capital allocation.

VII. Maintaining/Improving Credit Ratings

The City shall strive to maintain its Ratings and enhance the overall credit standing of not only its general credit, but also, each of its specific debt programs. When addressing efforts to enhance its current ratings, the City will seek to balance its current flexibility (and related ability to meet the challenges facing the community) with potential limitations or restrictions which may be required to enhance a bond rating. In light of the then current market conditions, the City will have to judge the enhanced market advantage of a projected rating by program against the potential loss of flexibility which may be necessary to achieve the rating enhancement. The City's current ratings are regularly published by the Rating Agencies and are summarized annually in the City's Bond Disclosure Supplement.

The need for three ratings and merit of various rating services' ratings may be judged (a) at the time and in the circumstances of the contemplated issue and (b) in the perspective of the City's overall programs.

VIII. The Internal Loan Fund

In 1986-87, the City created its Internal Loan (banking) Fund as a conduit device to distribute the debt proceeds which it initially received from the Sunshine State Governmental Financing Commission (SSGFC) into loans to various operating funds of the City. In 1991, the City established its current Covenant Program, which is used as the primary funding source for the Internal Loan Fund and incorporated the pledge associated with the SSGFC.

The goal of the Internal Loan Fund is to provide funding for various projects around the City, with flexibility of loan terms and a low, blended interest rate. The blended loan rate is achieved through a mix of variable, medium-term, and long-term Covenant backed debt instruments. In general, loan repayment schedules are established that are shorter than bond repayment provisions, in order to provide the City an internal and revolving source of capital financing without needing to access the public markets for small projects.

Loans are provided to both proprietary and non-proprietary operations. Loan repayments from proprietary operations are subordinate to revenue bond debt issued for and secured by proprietary funds.

IX. Criteria for Evaluating Debt Options

The City Council has authorized the Finance Committee to establish specific target benchmarks for potential exercise of debt options. Further, within the framework established by the goals, objectives and established target benchmarks, City Council authorizes the Chief Financial Officer to act on behalf of the City, in a manner intended to lower the effective cost of debt to the taxpayers and citizens of Orlando. With regard to this delegation of authority, both to the Finance Committee and ultimately to the Chief Financial Officer, the following criteria for evaluating debt options has been established:

A. Maturity Analysis

For self-supporting proprietary operations, the primary strategy is to use a long-term level debt service maturity structure. To the extent that shorter maturities or alternative amortization strategies are utilized in an effort to reduce the effective borrowing costs, a comparative advantage must be considered in relationship to the potential negative impacts on user rates and charges.

For all other categories of debt, the City may consider opportunities to either shorten maturities or alter amortization structures. A level principal structure may be considered versus level debt service generally as long as the structure does not increase the maximum annual debt service by more than 25%. Additionally, the City should consider a level principal maturity structure compared to shorter maturity level debt service structure when maximum annual debt service is similar.

B. Market Options

(i). Election to Issue Fixed Rate Debt

The City has available to it two separate fixed rate programs: long-term Fixed Rate Debt and Medium Term Notes. Fixed Rate Debt is the traditional way municipalities have issued debt-- debt is offered to investors with a fixed maturity schedule at rates fixed in a single offering. Long-term Fixed Rate Debt issuance should be based upon a consideration of the following factors: (a) the level of long-term rates at the time of issuance versus the last 3 to 10 years, (b) a short to intermediate range forecast for long term rates, (c) the ratio of short-term (or variable rate) debt to current program debt outstanding and/or (d) the amount of Variable Rate Debt outstanding by program.

The City issued its first series of Medium Term Notes in 2002. This issue of Medium Term Notes was sold to investors with an initial amortization schedule of 2 to 12 years. As the individual principal amounts come due, the City re-offers the debt on a 1 to 15 year maturity basis until the designated final maturity. The benefit of the Medium Term Note structure is that the City prices its debt in the lower interest rate portion of the yield curve. The risk to the City of this structure is primarily the risk that interest rates will rise in successive re-offerings at a level sufficient to offset the initial interest savings. Including Medium Term Notes in the City's overall debt profile is part of the goal to achieve a balanced portfolio, and the City should consider issuing Medium Term Notes under circumstances where the structure is expected to provide the City with a lower cost of capital compared to long-term fixed rate debt using a breakeven rate analysis. The City should limit the amount of Medium Term Note issuance consistent with rating agency and bond insurer guidelines. The City currently limits the amount of Medium Term Note total maturities in any one year to (a) an amount not greater than 200% of the liquidity portion of the City's investment portfolio as of April 1st, and (b) not to exceed $12 million. In addition, this limit may be raised up to $20 million if a liquidity facility is provided for 50% of the amount of total maturities in any single year.

(ii). Election to Issue Variable Rate

Issuing Variable Rate Debt permits the City to access rates on the very short end of the yield curve. The difference in short versus long-term rates varies with the shape of the yield curve and has typically ranged from 100-350 basis points (or 1.0% to 3.5%). By issuing Variable Rate Debt, the issuer is subject to interest rate risk. However, Variable Rate Debt has historically been at lower interest rate levels than recognized fixed rate indices, and is generally able to create a natural hedge against changes in the City's Short-Term Investment portfolio.

Variable Rate Debt should be used for two purposes: (1) as an interim financing device (during construction periods) and (2), subject to limitations, as an integral portion of a long-term strategy to lower the City's effective cost of capital. The City's interim variable rate program allows the City to avoid the inefficiency of borrowing for small projects and allows for an aggregation of small projects and, thus, a more cost effective debt management program. Under either circumstance, when the cycle of long-term rates moves down to or near historic lows, consideration should be given to fixing (converting to a fixed rate to maturity alternative) a portion of the then outstanding Variable Rate Debt to take advantage of the attractive long-term fixed rates.

(iii). **Hedging Election**

The City's Interest Rate Risk Management Products Policy provides guidelines for any hedging the City's Variable Rate Debt exposure.

(iv). **Debt Program Targets**

In general, the City seeks to lower its overall cost of funds through an issuance of Variable Rate Debt and Medium Term Notes since these products are generally lower than fixed rates of interest. In addition, the Variable Rate Debt would simultaneously create a hedge against its variable rate investments to protect its financial condition in lower interest rate environments. The potential savings and benefits justify interest rate exposure as long as the risk is mitigated by limiting the amount of the Net Variable Rate Debt. In considering Net Variable Rate Debt, the rating agencies generally recognize the issuer's ability to match its assets and liabilities and generally exclude or net variable rate debt equal to (i) certain variable rate assets and (ii) applied Debt Hedging Products such as interest rate caps and swaps where appropriate. The following targets are established for the overall City's debt portfolio, including all Self-Supporting Debt and Non Self Supporting Debt:

Overall City and CRA Debt

Overall City and CRA	Targets
• Fixed Rate	
• Goal	50-60%
• Unhedged or Net Variable Rate:	
• Goal	~~25~~15-~~35~~25%
• Maximum	~~40~~30%

Covenant Program

The following targets are established for the Covenant Program:

Covenant Program	Targets
• Fixed Rate	
• Goal	40-50%
• Unhedged or Net Variable Rate:	
• Goal	25-35%
• Maximum	50%
• Composite rate advantage when compared to Bond Buyer's Revenue Bond Index (measured as an average of available rates over the last three years) of at least:	50-75 b.p.

Other Debt Program Targets

In addition to the aforementioned targets for the overall City and CRA debt, and the Covenant Program, specific targets regarding the limits on unhedged or Net Variable Rate Debt exposure for the senior debt of each separate borrowing program are set forth below:

Other Debt Programs	Target Maximum Net Variable Rate Debt (1) Exposure
Wastewater	35%
Parking	15%
CRA (Downtown District)	15%
Special Assessment	N/A
State Sales Tax Payments	N/A
Contract TDT Payments	N/A
New Debt Programs:	TBD.

(1) The maximum Net Variable Rate Debt exposure limits have been established in recognition of each program's variable rate exposure associated with the Internal Loan Fund exposure. The City's Wastewater program does not currently have Internal Loan Fund exposure and therefore, a higher maximum is more appropriate compared to the Parking and the CRA (Downtown District) Programs which have Internal Loan Fund (subordinate lien) variable rate exposure.

(v). **Refunding Options**

Targets for a Fixed Rate Debt to Fixed Rate Debt refunding should include the following criteria:

1. Maximum true interest cost
2. Minimum economic present value of at least 5% of refunded bonds,
3. Minimum annual average debt service savings of at least $100,000.

Lower net present value cost savings and annual average debt service savings criteria may be appropriate for shorter term or smaller fixed rate refunding issues.

Refunding Variable Rate Debt to Fixed Rate Debt cannot provide for the similar measurable benchmarks and should be based on the aforementioned Election to Issue Fixed Rate Debt criteria.

Refunding of Variable Rate Debt to Variable Rate Debt should be based primarily on the economic or structured advantages of the new program.

Criteria and savings targets associated with Synthetic Refundings that are consistent with the provisions of the City's Interest Rate Risk Management Policy, should be established on a case-by-case basis and should generally be higher (more restrictive) than the criteria for Fixed Rate Debt refundings.

While a framework (a delegation of authority) has been established regarding the management of the City's debt portfolio, specific City Council approval is still required prior to the issuance of any new debt. Once the City Council has approved a refunding (revenue source, structure and target benchmark), the Finance Committee may act to adjust the target benchmarks, within the goals and objectives framework, to address changing market conditions.

X. Measures of Future Flexibility

As the City addresses its needs at any one period in time, the Mayor and City Council must both be prepared to ensure the flexibility of this and future generations of elected officials to meet the then present needs and challenges which face the community. Since neither State law nor the City Charter provide any fixed limits on the amount of debt which may be incurred (other than the requirement to have General Obligation debt approved in advance by referendum), the following targets or limits are established to ensure future flexibility. The following goals/targets are set to ensure the current and future flexibility, and financial vitality of the City.

Description	Targets
General Government Debt Service as a percentage of non-ad valorem General Fund expenditures:	
• Debt Limit (within the covenant program limitation)	20% max.
• Goal/Target	10% max.
Weighted Average Maturity of Debt Program(s):	
• Self-supporting Proprietary Operations	15 year max.
• Self-supporting Other Governmental	25 year max.
• Non self-supporting	20 year max.
Weighted Average Maturity of Internal Loan Program	12 year max.
General Government Direct Debt per capita	$1,375 max.
Net Direct Tax Supported Debt as a percentage of ad valorem property values:	
• General Government	2.5% max.
• Total Tax Supported	3.5% max.
Debt Service requirement as a percentage of a new governmental revenue stream that is dedicated for capital and operations	50% max.
General Fund reserve, (as a percentage of the current year's operating budget)(a)	15% to 25%

(a) Includes City's Utility Services Tax reserves.

While the City currently operates well within these targets/goals, it is appropriate to use these various common measures of debt burden as a means of setting parameters for the overall City's Debt Management Program.

XI. Monitoring, Reporting, Amendments and/or Exceptions

The Chief Financial Officer shall monitor the actual results against the targets presented in this policy and shall publish a comparison of the targets against the fiscal year end numbers in the City's Bond Disclosure Supplement. The report will include the following information, to the extent applicable:

A. Debt Program Targets, and

B. Measures of Future Flexibility Targets;

From time to time, circumstances may suggest that an exception be approved to one or more of the policy constraints established herein. Amendments and/or exceptions must be submitted through the Finance Committee to the City Council and shall become effective only after approved by the City Council.

As is established in the policy governing the Finance Committee, within the guidelines established by the goals/policies and objectives/strategies, the Finance Committee can establish and amend, where necessary, the target benchmarks which further define the aggregate guidelines within which the Chief Financial Officer operates.

XII. Debt Management Policy Review and Modification

The City's Debt Management Policy will be submitted by the Finance Committee for annual ratification by the City Council by May 1st of each year. The authority to effect any change, modification or amendment of this Debt Management Policy shall rest solely with the City Council. The Finance Committee and staff recommendations for policy changes may be submitted in conjunction with the annual ratification or more often as deemed necessary. Policy changes initiated by City Council may be made as deemed appropriate. Policy changes will become effective on the date stipulated by City Council.

XIII. Time-Line for Implementation of Amendments

Considering the then current position of the interest rate curve, recent movements and indication of possible short term direction, the City shall consider a reasonable time-line(s) to bring the then current debt program in line with amendments to this Debt Management Policy.

XIV. Effective Date

The City's Debt Management Policy was ratified and approved by the City Council on March 28, 2016.

Glossary of Key Terms

"Amortization" means the schedule of debt principal to be paid over a period of time.

"Banking Fund" See "Internal Loan Fund".

"Bond Disclosure Supplement" The City's annual report which provides market disclosure relating to the City's debt offerings.

"Covenant Program" means the City's debt program that is secured by covenant to budget and appropriate from non-ad valorem revenues and encompasses all debt that is defined as Covenant Obligations under the City's Covenant Ordinance.

"Debt Hedging Products" means interest rate risk mitigation products such as swaps, caps, floors, collars and options in connection with the incurrence of City debt obligations.

"Debt Service" means scheduled payments of interest and principal on debt obligations.

"Fixed Rate Debt" means a debt obligation issued with a predetermined interest rate.

"General Government Debt" means all Non Self Supporting debt. These are the programs whose expenditures for debt service are in direct competition with other General Fund expenditures (salaries, utilities, supplies, etc.).

"Hedged Variable Rate Debt" total variable rate debt less any associated Debt Hedging Products and allocated Short-Term Investments.

"Internal Loan Fund" means a conduit financing device to distribute proceeds of debt into loans to various operating funds of the City. The goal of Internal Loan Fund is to provide funding for various projects around the City, with flexibility of loan terms and low, blended rate. The blended loan rate is achieved through a mix of variable, medium-term, and long-term Covenant backed debt instruments. In general, loan repayment schedules are established that are shorter than bond repayment provisions, in order to provide the City a revolving source of capital financing without needing to access the public markets for each capital need.

"Maturity" means the length of time until the principal amount of a bond must be repaid.

"Medium Term Loans" means debt issued with a fifteen year or less maturity that is Designated Maturity Debt as defined in the Covenant Program. See above, IX. Criteria for Evaluating Debt Options, B. Market Options, (i) Election to Issue Fixed Rate Debt.

"Net Variable Rate Debt" means total Variable Rate Debt less Hedged Variable Rate Debt.

"Non-Self Supporting Debt" means any indebtedness of the City other than Self Supporting Debt

"Pay-As-You-Go" refers to the payment of capital projects or other non operating projects using non-capitalized revenues.

"Present Value" means the amount that a future sum of money is worth today given a specified rate of return.

"Ratings" means ratings that are issued by Moody's Investors Service, Fitch and Standard & Poor's Corporation and any other nationally recognized rating agency, to the extent they have in effect a rating on City debt.

"Self Supporting Debt" means any indebtedness of the City for borrowed money that is either (a) secured by or payable exclusively from a source of revenues other than Covenant Revenues, or (b) primarily payable from revenues of the type described in clause (a) above and secondarily from Covenant Revenues if the Covenant Revenues have not been used (or, as provided below, deemed to have been used) to pay any portion of such indebtedness for the three Fiscal Years preceding the date of determination and if the City projects that the Covenant Revenues will not be so used during the next two Fiscal Years; and either (c) that is secured by a revenue source that has been in effect for at least three Fiscal Years and that would have provided coverage of at least 125% of the average annual debt service on such obligations secured by such revenue source in each of the three preceding Fiscal Years or, (d) if the revenue source has not been in existence for at least three Fiscal Years, that is secured by a revenue source that would have provided coverage of at least 150% of the average annual debt service on such obligations secured by such revenue source in at least the last full Fiscal Year preceding the issuance of such obligations and that is projected to provide at least 150% debt service coverage (based on revenue and debt service projections by the City) in each of the three ensuing Fiscal Years; and (e) in any such case, in the three preceding Fiscal Years, no debt service on which has been paid (or, as provided below, deemed to have been paid) from Covenant Revenues deposited in the General Fund or the Utilities Services Tax Fund. For purposes of calculating the coverage requirements described in this definition, the historical and projected receipts of a particular revenue source shall be adjusted retroactively to the initial date of the calculation period to reflect changes in rates, levies or impositions enacted prior to the date of calculation. For purposes of this definition, Covenant Revenues will be deemed to have been used to pay debt service on any debt if Covenant Revenues have been transferred in the relevant period, other than pursuant to a Capital Transfer, to a fund or account used to pay debt service on such debt.

"Synthetic Refundings" means refunding transactions that include the use of interest rate risk management products such as swaps, caps, floors, collars and options.

"Short-term Investments" means liquid investment assets of the City.

"Tax-Supported Debt" means General Government Debt programs plus Other Governmental Self-Supporting Debt. This creates two categories of debt which place direct or indirect burden on the taxpayers of the City.

"Unhedged Variable Rate Debt" means Net Variable Rate Debt.

"Variable Rate Debt" means debt obligations entered into that use a variable, auction reset, adjustable, convertible or other similar interest rate which is not fixed in percentage at the date of issue.