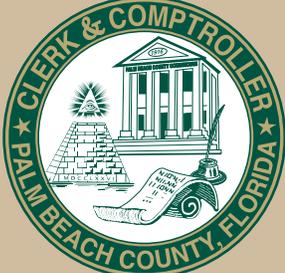


38.2%: 119.29

116.71



# Annual Debt Guide

**SHARON R. BOCK**  
Clerk & Comptroller  
Palm Beach County

Palm Beach County, Florida  
Fiscal Year Ended September 30, 2015

PREPARED BY THE CLERK & COMPTROLLER, PALM BEACH COUNTY



72.48

## MESSAGE FROM CLERK BOCK



**SHARON R. BOCK**  
Clerk & Comptroller  
Palm Beach County

*Clerk & Comptroller Sharon R. Bock, Esq., holds a Juris Doctorate, has earned insurance and securities licenses Series 7, 63 and 65 and has been certified as an Accredited Investment Fiduciary®. Elected to office in 2004, one of Clerk Bock's top priorities is to educate the public about how tax dollars are managed and spent.*

Dear Residents,

I am pleased to present the *FY2015 Annual Debt Guide* for Palm Beach County, our citizens' guide to County government debt. This guide is tailored for the non-financial reader who wants to understand government debt and how it impacts the County's financial health. Just as you may gauge your own financial stability by evaluating how much you owe in the form of mortgages or loans, you can use this guide to assess the County's financial standing in the area of debt management.

Debt is a major component of the County's budget. For any bonds that are issued, principal and interest payments must be made for many years (see *Future Principal & Interest Payments*, page 7). The County has made an effort to limit its issuance of new debt over the past several years, and as a result the total outstanding debt has been reduced by nearly \$453 million from its peak in 2009 (see *Debt and the Taxpayer*, page 4).

Since my election in 2004, I have urged the County Commission to take steps to improve the County's debt issuance practices and maximize every dollar borrowed. In 2007, the County Commission adopted a debt management policy that has moved us toward meeting this goal. We can continue to improve our fiscal health by further developing and adopting comprehensive reserve and fund balance policies.

The County's ongoing obligations and continual improvements to services and infrastructure will be costly in future years. However, we will continue to engage in the process to ensure our County's fiscal health remains strong. This approach has been successful, as Palm Beach County has again received the highly sought AAA bond rating by the three primary bond rating agencies (see *Bond Credit Ratings*, page 8). We remain one of only four counties in Florida and 44 counties nationally to do so.

As your Clerk & Comptroller, it is my constitutional duty to provide an independent check and balance on County finances to ensure your tax dollars are safe. Each year, my highly skilled team of financial experts produces numerous publications to help you better understand how your tax dollars are managed, invested and spent. In addition to the *Annual Debt Guide*, my office also produces *Checks & Balances: Your Guide to County Finances*, the *Annual Investment Guide* and the *Comprehensive Annual Financial Report*. These publications provide important information about County finances and can easily be accessed online at [www.mypalmbeachclerk.com/countyfinances](http://www.mypalmbeachclerk.com/countyfinances).

I am honored to serve as your Clerk & Comptroller and remain dedicated to promoting transparency and accountability in County government.

Best regards,

A handwritten signature in black ink that reads "Sharon R. Bock". The signature is fluid and cursive, with the first letters of each name being capitalized and prominent.

Sharon R. Bock, Esq.  
Constitutional Clerk & Comptroller, Palm Beach County

# About This Guide

As the County's Chief Financial Officer, the Clerk & Comptroller is the elected public trustee responsible for auditing, accounting and reporting on Palm Beach County government's financial activities. This includes the County budget, revenue, debt and spending.

Management of the County's debt is especially important because it has decreased over the past decade, from \$1.4 billion in 2006 to \$1.2 billion as of September 30, 2015. Just as an individual may borrow money to buy a home, the County borrows money to pay for the construction of major facilities or for the purchase of equipment. A majority of the County's debt is in the form of bonds, allowing the County to spread repayment over a long period of time.

The Clerk & Comptroller, as Accountant to the Board of County Commissioners, plays a critical role and is actively engaged in the debt process by ensuring compliance with debt covenants, including timely payment of debt service obligations; pre-auditing and maintaining supporting documentation for all debt service payments; accurately accounting for all debt transactions in the general ledger for financial reporting purposes; and preparing and filing IRS arbitrage rebate reports. The performance of the County's and Clerk & Comptroller's finance professionals contributes to the County's high bond ratings.

In this guide, you'll learn why and how the County borrows money and why it is important to the future of Palm Beach County.

*For the purpose of this guide, debt includes general obligation bonds, non-ad valorem revenue bonds, business-type revenue bonds and notes and loans.*

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## Glossary of Debt Terms

**GENERAL OBLIGATION (G.O.) BONDS** are securities issued to raise funds for countywide projects that lack substantial ability to generate the income necessary to cover the project costs. These projects include recreation and cultural facilities, libraries and waterfront access projects. G.O. bonds are unique because they require voter approval and they are backed by the full faith and credit of Palm Beach County government. This means that the County commits its full resources to paying investors, including the power to collect ad valorem, or real estate taxes as security for this type of debt. In FY 2015, the County had \$142 million or 12 percent of its total debt in G.O. bonds.

**NON-AD VALOREM REVENUE BONDS** are issued for the construction of County infrastructure, such as administrative buildings, criminal justice facilities and courthouses. Non-ad valorem bonds are repaid from many sources such as sales tax, gas tax and user fees. Generally, the income generated by the financed project is insufficient to make debt payments on the bonds. Therefore, additional support from fees and other taxes is necessary. Non-ad valorem bonds represent about 62 percent, or \$721 million, of the County's total debt.

**BUSINESS-TYPE REVENUE BONDS** are used to finance self-supporting projects with specific and defined revenue streams. The County currently has two self-supporting business-type enterprises: the Airports Department collects revenue through landing, parking and passenger fees; and the Water Utilities Department receives payments through utility billings. As of the close of the FY 2015 reporting period, the departments had a combined \$261 million in debt outstanding (Airports, \$86 million; and Water Utilities, \$175 million).

**NOTES AND LOANS** are used by the County to fund the initial stages of longer term projects, items with a relatively short useful life or loans to businesses for revitalization projects. At the end of FY 2015, the County had \$35 million outstanding in this type of debt.

**REFUNDINGS** of any of the existing debt are often done to take advantage of favorable changes in interest rates or to escape onerous debt covenants. Much like you might decide to refinance your mortgage, the County may decide to issue new debt to refinance existing (old) debt. In the case of a current refunding, the proceeds of the refunding debt are applied immediately to redeem the old debt. In the case of an advance refunding, the proceeds of the refunding debt are placed into an escrow account pending the call date or maturity of the old debt.

# Palm Beach County Debt Overview

## AS OF SEPTEMBER 30, 2015

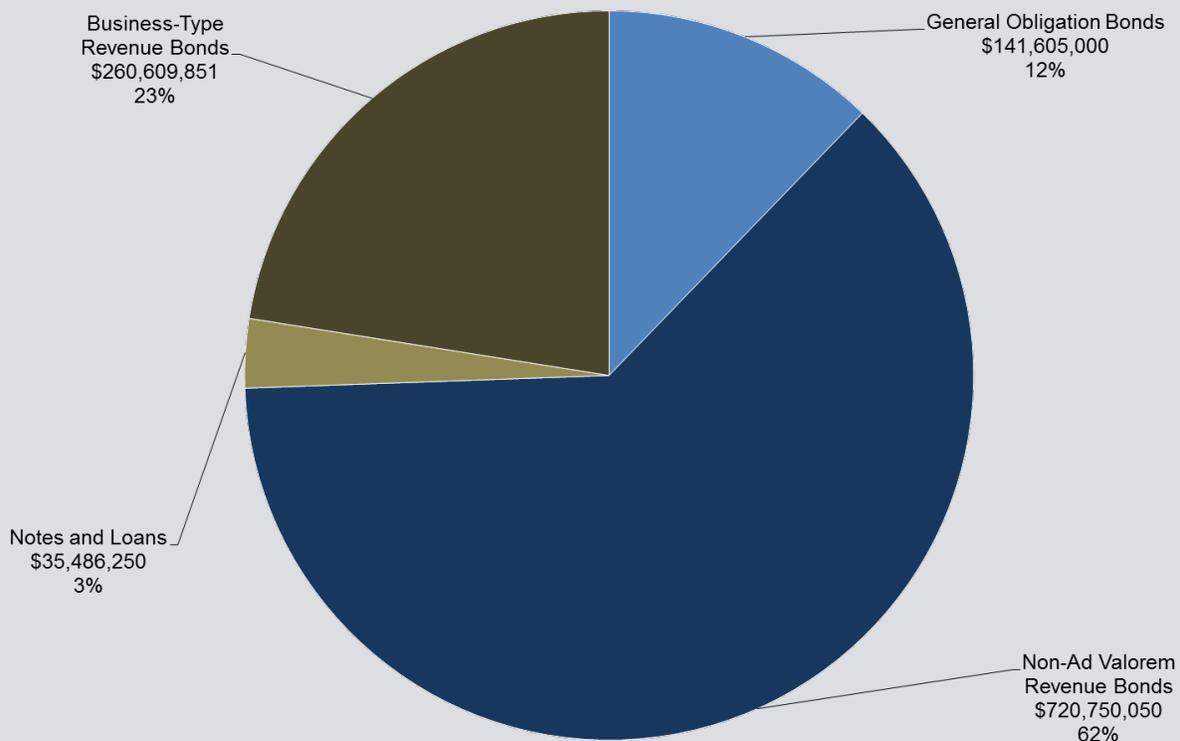
Palm Beach County's outstanding debt totaled \$1.2 billion as of September 30, 2015. During this fiscal year, Palm Beach County paid \$335 million in principal and interest on outstanding debt. The total debt for fiscal year 2015 decreased by \$56 million. This decrease includes an additional \$228 million of issued debt, which was offset by \$169 million of refunded debt and principal payments of \$115 million.

The County's \$1.2 billion outstanding debt total consists of: \$142 million in general obligation debt; \$721 million in non-ad valorem revenue bonds; \$261 million of business-type revenue bonds; and \$35 million of notes and loans. Any additional debt issued will alter the future debt service payment schedule (see *Future Principal & Interest Payments*, page 7) and may further extend debt payments.

Since September 30, 2006, the County's total debt has decreased approximately \$237 million, or 17 percent. This decrease in total debt is due to lower G.O. bonds, notes and loans and business-type revenue bond issuance.



## Debt Outstanding As of September 30, 2015 Total Debt \$1,158,451,151



# Palm Beach County Debt History



A bond is a type of debt security in which an investor loans money to an entity (corporate or governmental) for use in financing a project or activities. The investors and the borrowing entity, in this case Palm Beach County, enter into an agreement that the investors will receive periodic principal and interest payments.

County government issues these bonds to pay for capital improvement projects such as new public buildings, building renovations, roads, water-treatment plants, airports or jails. Bonds – also referred to as tax-exempt bonds, municipal bonds, or “munis,” when issued by a local or state government – can vary in duration or “maturity” from days to decades. In Palm Beach County, a bond typically takes approximately 20 years to mature. The County also incurs debt in the form of notes and loans, which are paid back over a shorter period of time, usually less than five years. The type of debt issued is determined by the project type, duration and repayment considerations.

## BOND INDEBTEDNESS FY 2015

**Governmental Activities Debt:**

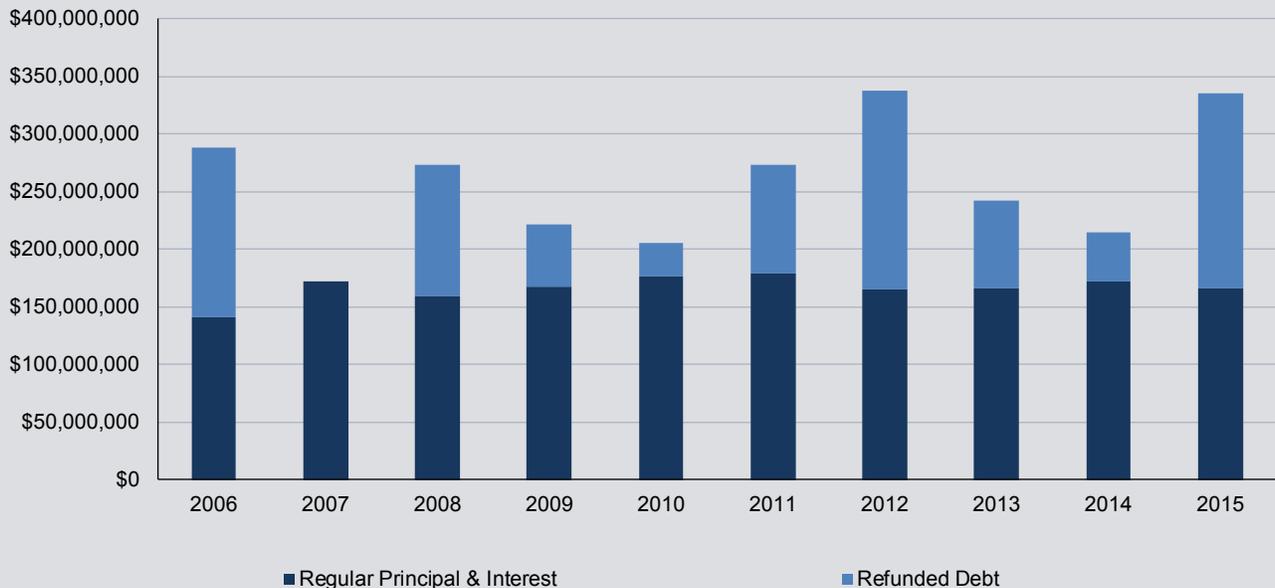
*General Obligation & Non-Ad Valorem Revenue Bonds*  
**\$862,355,050**

**Business-Type Activities Debt:**

*Revenue Bonds*  
**\$260,609,851**

*For the complete schedule, visit the Public Funds section of [www.mypalmbeachclerk.com](http://www.mypalmbeachclerk.com).*

## Historic Debt Payments FY 2006-FY 2015



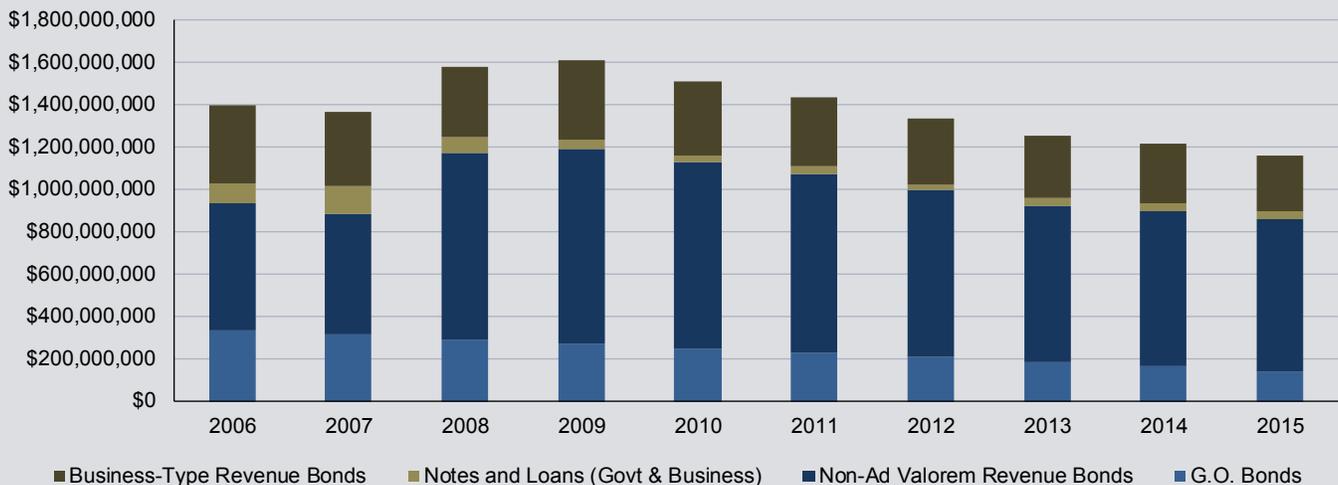
## Debt & The Taxpayer

In 2006, Palm Beach County's debt totaled \$1.4 billion. Since that time, the yearly debt level has fluctuated due to changing political and economic conditions. The most significant growth, between 2007 and 2009, was accompanied by an increase in land acquisition, infrastructure and capital projects. As of September 30, 2015, the County's debt totaled \$1.2 billion.

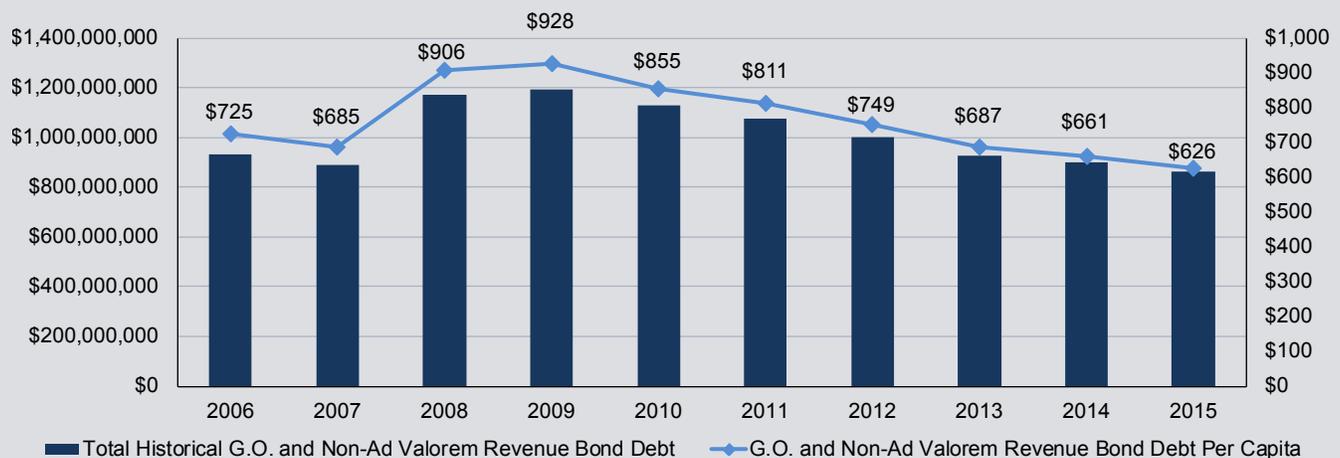
Of the County's \$1.2 billion debt, general obligation (G.O.) and non-ad valorem revenue bonds totaled \$862,355,050 million, or 74 percent of the County's outstanding debt. These bonds are of particular interest to taxpayers as they represent the County's commitment to pay the debt from future real estate taxes or other fees and taxes paid by residents or visitors to Palm Beach County.

The second chart below shows the growth of general obligation and non-ad valorem debt over the last 10 years and the per capita cost of this debt.

### Total Debt Outstanding FY 2006-FY 2015



### General Obligation & Non-Ad Valorem Revenue Bond Debt FY 2006-FY 2015



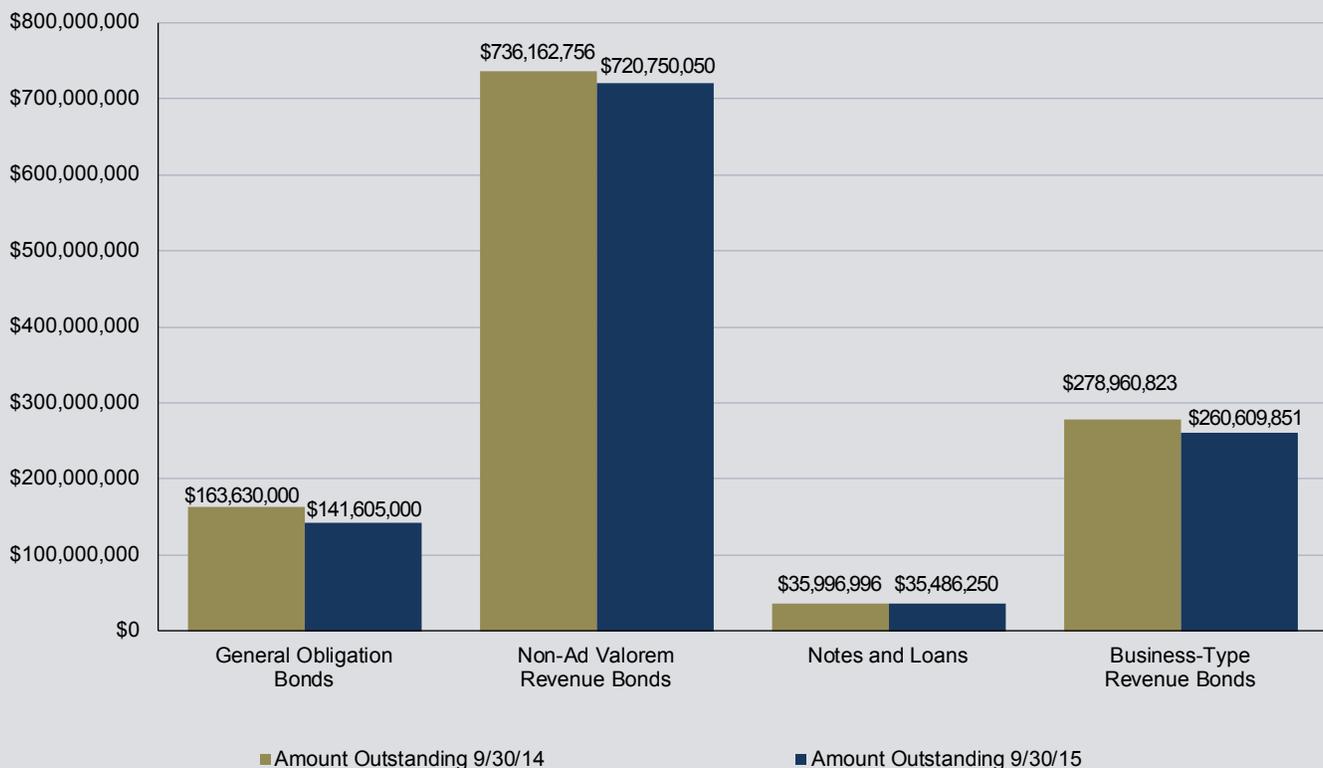
# Debt Management



The County's total debt decreased by \$56 million, or 4.6 percent, between FY 2014 and FY 2015.

- General obligation bonds were reduced by \$22 million through regularly scheduled debt service payments.
- Non-ad valorem revenue bonds were reduced by \$15 million. This included a reduction of \$71 million through regularly scheduled debt service payments that was offset by the issuance of a \$63 million non-ad valorem revenue bond. The \$63 million was to finance the Convention Center garage and airport building renovation. In addition, there was also the refunding of old debt for \$143 million, replaced by new debt of \$136 million.
- Business-type revenue bonds were reduced by \$18 million. This was due to \$20 million of regularly scheduled debt service payments and the refunding of old debt for \$25 million, replaced with new debt of \$27 million
- The County decreased its debt in the form of notes and loans by \$510,000. This includes a reduction of \$2.5 million through regularly scheduled principal payments. This reduction was offset by the issuance of one Housing and Urban Development (HUD) loan totaling nearly \$2 million.

## Total Debt Outstanding FY 2014-FY 2015



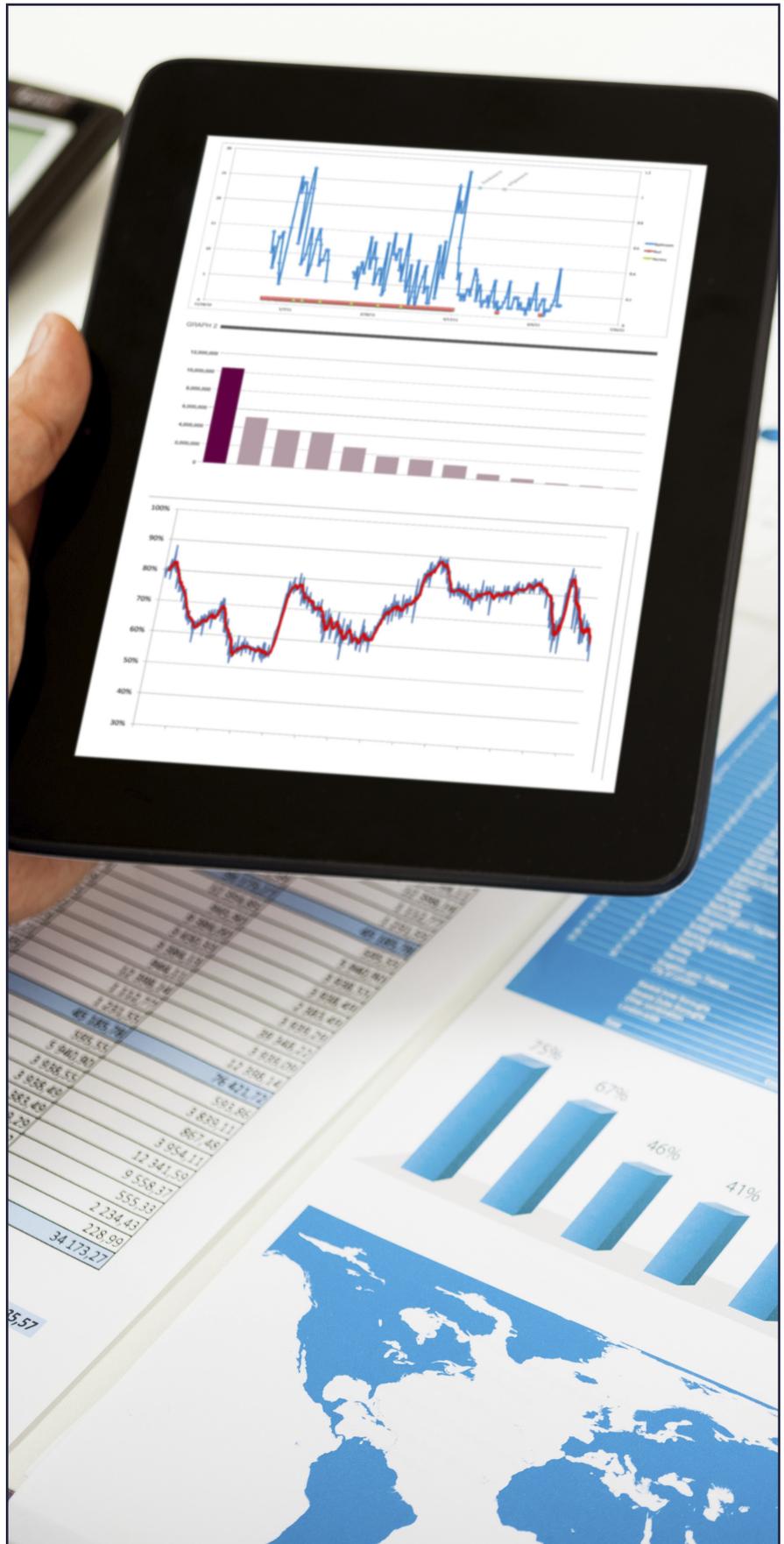
# Debt Planning

Bond issuance is an important aspect of thoughtful fiscal planning. While neither the Florida Constitution nor Florida Statutes sets a limit on the amount of debt that the County can incur, debt must be carefully planned to maintain the County's financial health. Expenditures in today's County budget arising from bond debt repayment (both principal and interest) are obligations on present taxpayers that were decided in the past, and debt incurred today will affect the taxpayers of the future.

The Government Finance Officers Association (GFOA), an organization that recommends and supports best practices to enhance and promote professional management of governments, recommends that a formal debt policy include debt management and debt issuance guidelines. Although a debt policy is not a "one size fits all" tool, issues involving priority setting for capital needs, debt affordability, lowering the cost of borrowing and increasing accountability to taxpayers are universal goals that may assist policy makers in their financial decision-making.

County Policy and Procedural Manual Number CW-F-074, Debt Management Policy, effective June 27, 2011, provides guidance for managing the issuance of the County's debt obligations and for maintaining the County's ability to incur debt and other long-term obligations at favorable interest rates for capital improvements and equipment.

The Debt Management Policy identifies debt management goals and standards that the County Commission must consider in committing to fund capital improvements, while making every effort to maintain the County's bond rating and reputation in the investment community. Once the Board of County Commissioners determines that a negotiated sale of bonds is appropriate and authorizes new debt to be issued, PPM# CW-F-078, effective November 7, 2014, establishes parameters and guidance for the competitive selection of bond underwriters.



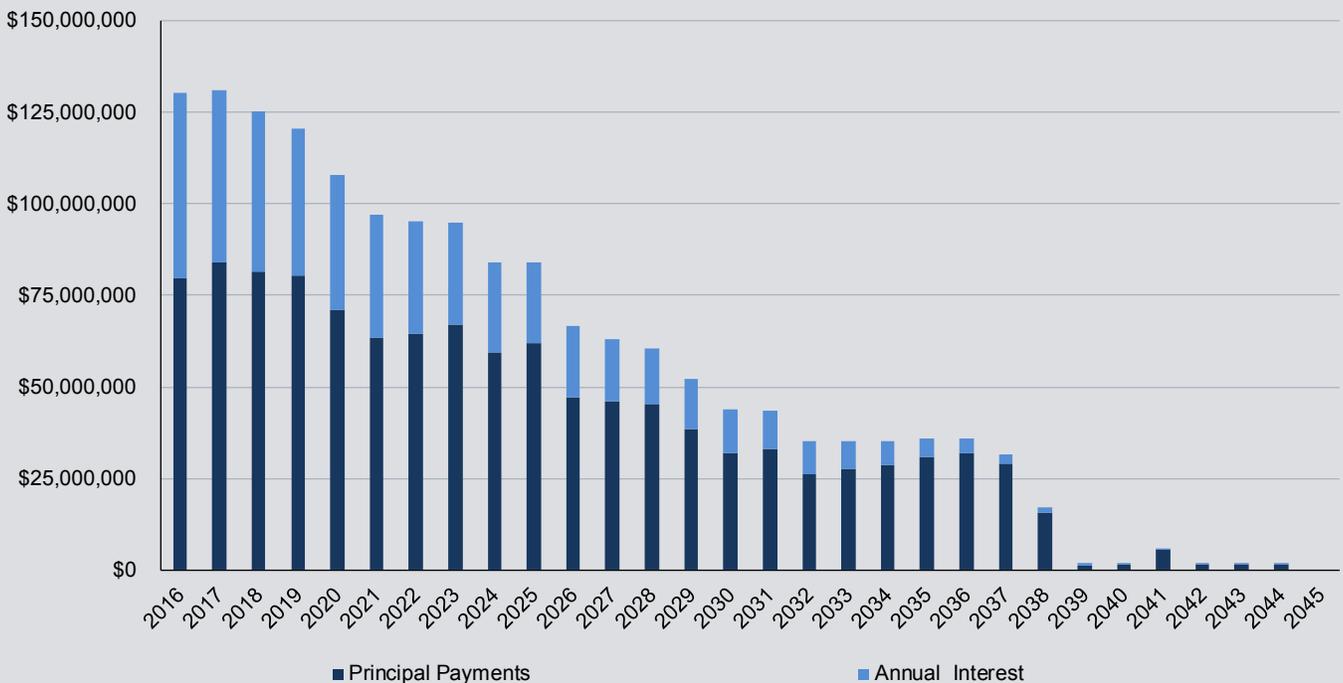
# Future Principal & Interest Payments



When Palm Beach County borrows money from investors by selling bonds, it makes a commitment to repay the principal and the interest accrued over the life of the debt. In order to fulfill its obligation of repayment, the government will need future sources of revenue. The sources of repayment are factored in through the budget process and could come from future tax collections or additional borrowing. In this sense, bond financing for public infrastructure or other forms of public spending is actually deferred taxation, which shifts the burden to future taxpayers.

The schedule of debt service payments must be carefully considered when issuing debt. As illustrated in the chart below, the current structure of debt service payments obligates the County to pay a significant percentage over the next two years. During that time, \$261 million in payments will be due.

## Scheduled Service Payments for Existing Debt\* FY 2016-FY 2045



\*Debt as of September 2015; additional future debt is anticipated

# Bond Credit Ratings

Palm Beach County's general obligation debt issues have received the coveted AAA rating\* by the three primary bond rating agencies: Moody's Investors Service, Standard and Poor's and Fitch Ratings. The AAA bond rating from all three agencies places the County in an exclusive club. Palm Beach County is one of only four counties in Florida and 44 counties nationwide that has the AAA rating from all of the major rating agencies.

Like credit scores for individuals, bond ratings are given to local governments to rate their overall creditworthiness. Just as high credit scores help you buy a new home at a lower interest rate, the County's AAA rating means lower interest rates and costs when it borrows money. To achieve AAA status, state and local governments must undergo a rigorous evaluation of several factors. The chart below shows the ratings for all current bond types.



## PALM BEACH COUNTY BOND RATINGS

Type of Debt Issue	Moody's	Fitch Ratings	S&P
General Obligation Bonds	Aaa	AAA	AAA
Non-Ad Valorem Revenue Bonds	Aa1	AA+	AA+
Water and Sewer System Enterprise Revenue Bonds	Aaa	AAA	AAA
Water and Wastewater System Enterprise Revenue Bonds	Aaa	AAA	AAA
Airport System Enterprise Revenue Bonds	A2	A	A

*\*Highest rating: AAA/Aaa, Investment grade ratings: AAA/Aaa through BBB/Baa, Lowest Rating: C*

## RATING AGENCIES CONSIDER THE FOLLOWING FACTORS TO DETERMINE A BOND RATING:

- Overall management and governance
- Expansion strategies and economic policies
- Financial operating performance, resources and flexibility
- Debt burden and liquidity
- Economic conditions
- Revenue and expenditure composition and diversity
- Risk management and contingency planning
- Investment performance



# Arbitrage

Arbitrage is the process by which profit is earned from interest on borrowed money that is invested at a higher yield. In the private sector, this profit is acceptable and is taxed as investment income. When government borrows money by the issuance of a non-taxable bond, it receives all of the money from the bondholder in a lump sum. This money is invested until it is needed. A government is permitted to keep the interest it earns if it is less than or equal to the borrowing rate on the debt. However, the interest earned on this investment often exceeds the amount of interest owed to the bondholder. In these cases, the Internal Revenue Service mandates that the excess interest be remitted or “rebated” to the federal government.

As County Treasurer, the Clerk & Comptroller is responsible for investing the proceeds from bond sales. The process of tracking and reporting the interest on these investments in compliance with IRS rules is known as arbitrage analysis. The rebate owed to the federal government is considered a financial liability.

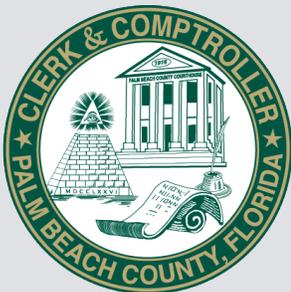
As of September 30, 2015, the County’s total arbitrage rebate liability was \$17,269. This liability figure changes from year to year and is dependent on a variety of factors including, but not limited to, market reinvestment rates, construction and debt service fund balances and the timely completion of projects for which the debt was issued. The calculation required to determine the arbitrage liability for each of the County’s bond issues is made by an outside consulting firm that specializes in public finance tax matters.

The Clerk & Comptroller’s staff of investment professionals actively manages the County’s investment portfolio to maximize investment earnings on these bond proceeds. If this results in the County owing arbitrage rebate to the IRS, then the investments successfully earned the maximum interest allowed by law.

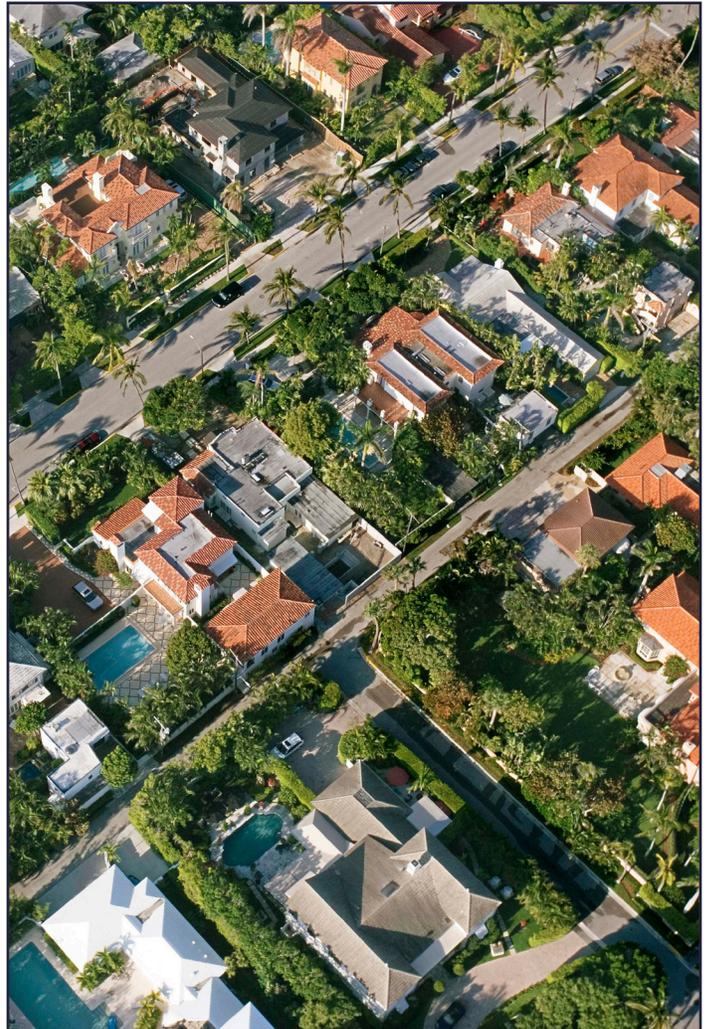
## ABOUT THE CLERK & COMPTROLLER

In addition to duties as Clerk of the Court, County Recorder, Clerk of the Board of County Commissioners, Inspector General and County Auditor, the Clerk & Comptroller is the Chief Financial Officer and Treasurer for Palm Beach County. As Treasurer, the Clerk invests and earns interest income on County funds.

As Chief Financial Officer, the Clerk monitors the County budget, revenue, debt and spending and maintains an accurate and complete set of financial records in order to produce all required financial statements and reports to comply with state and federal laws and generally accepted accounting principles.



**SHARON R. BOCK**  
Clerk & Comptroller  
Palm Beach County





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 Palm Beach County

[www.mypalmbeachclerk.com](http://www.mypalmbeachclerk.com)

The independent Clerk & Comptroller serves a local population of nearly 1.4 million residents from several locations throughout Palm Beach County and online at [www.mypalmbeachclerk.com](http://www.mypalmbeachclerk.com)

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