

Explanation of Proposed Changes to Charter Section 4.11

Section 4.11(B) currently sets forth a limitation on the amount of debt that can be incurred by the Town (the “Debt Cap”). The Debt Cap applies to all types of debt, without exception.

The proposed changes would add two exceptions to the Debt Cap. The exceptions are drafted as separate items, for ease of revision in the event that Council wants one but not both exceptions included.

1. Debt payable from ad valorem taxation which has been approved by the voters in a referendum.

Explanation: Debt payable from ad valorem taxation is typically referred to as “general obligation bonds”. Under Florida law, general obligation bonds can only be issued after approval by a majority of the voters in a referendum held for that purpose. The approval permits the Town to impose millage that is outside the general 10 mill limitation that can be imposed for operating expenses of the Town (“Debt Service Millage”). Debt Service Millage cannot be used for any purpose other than payment of debt service on the general obligation bonds. Since there is a dedicated source of revenue that is imposed to service the debt, general obligation bonds have no budgetary impact on the Town.

Thus, there are two reasons to make an exception to the Debt Cap for general obligation bonds: (a) the electors have voted to tax themselves to pay for the project, indicating widespread public support for the project; and (b) there is no impact on the Town’s budget.

2. Any type of Debt other than that described in (1), if such Debt has been approved by a majority of the Council and by a majority of the of the voters in a referendum held for that purpose.

Explanation: Debt payable from any source other than ad valorem taxation is typically referred to as “revenue bonds”. Under Florida law, revenue bonds do not require voter approval. The Council can authorize revenue bonds by ordinance. In order to issue revenue bonds, the Town needs to identify and pledge to the payment of the bonds a source or sources of non-ad valorem revenues sufficient to service the debt (“Pledged Revenues”). The Pledged Revenues will thereafter not be available to use for other Town purposes, which will have a direct impact on the budget.

The reason to make an exception to the Debt Cap for revenue bonds approved by a majority of the Council and by a majority of the of the voters in a referendum held for that purpose is that such approvals indicate widespread public support for the project to be financed with the bonds, regardless of its impact on the other potential budgetary items that could have been paid for from the same revenues. In other words, both the Council and the voters have indicated that the proposed project is a high priority item for the Town.