



MOORS & CABOT

INVESTMENTS

Banking & Advisory Group



In Consideration of a Debt Management Policy[©]

The rating evaluation process for municipal debt is comprised of five key factors: **Economy, Finances, Management, Legal Security ... and Debt.**

Debt is a long-term commitment that represents leverage against current and expected future taxable economic base of a municipality as it is an annual fixed line-item expense. Debt considerations effect all type of municipal entities: growing communities must manage the cost of expanding infrastructure demands; mature communities must plan for deferred maintenance and redevelopment costs. In addition to being its own key component of the analysis criteria for a credit rating, debt planning is also a critical component of the analysis of the Management category.

Debt may be a catalyst to economic growth by stimulating private development with initial public investment. Thus, debt financing can improve economic/social welfare ... or destabilize it. Debt should only be issued for projects that are essential but are also desired. The structure of the amortization of a debt issue is a gauge of the "willingness and ability" to repay debt. Finally, debt should be structured to provide sufficient lead time to impose debt service levy, collect the levy and make the debt service payments; or to provide institutionalized systems (e.g., debt service reserve accounts) to ensure that revenues are available when needed.

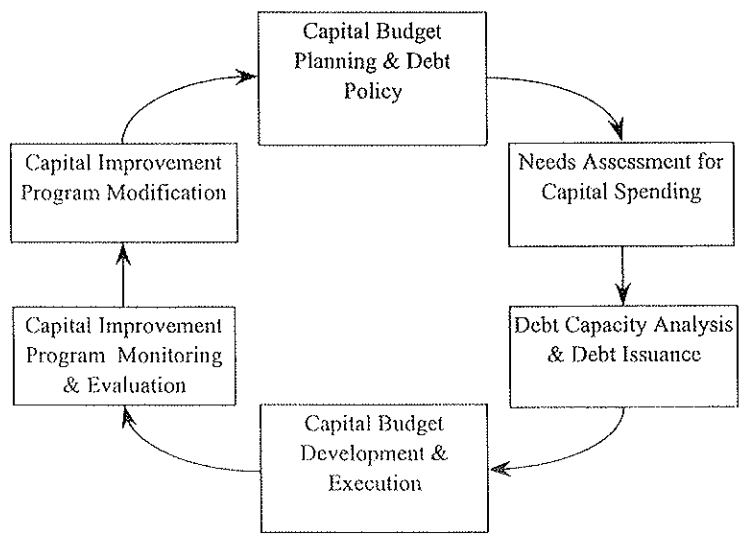
Effective debt management may be critical to the overall management of local government in accomplishing its goals and initiatives. A good *Debt Management Policy* communicates the nature of the pledged security; the debt repayment structure; the current debt burden; the future capital needs of the entity; and how these needs will be met. And, good debt planning provides bondholders with assurances that debt burdens and operating debt costs will be kept at manageable levels while simultaneously meeting capital needs on an ongoing basis.

The GFOA recommends that government "*issuers undertake an analysis of their debt capacity prior to issuing bonds. The rationale for this recommendation is that a "comprehensive and routine analysis of debt capacity provides assurance that the amount of debt issued by a government is affordable and cost-effective"*. In so doing, government officials are able to keep debt at affordable levels. Further, assessing debt on an ongoing basis is essential for effective debt management and for ensuring that debt-planning activities are integrated with the capital improvement process. Debt capacity analysis, in short, ensures that "*an appropriate balance is struck between a jurisdiction's capital needs and its ability to pay for them.*"

Debt policies should be formalized, monitored and reported on periodically, reviewed from time-to-time to ensure that it remains consistent with management and financial objectives as well as economic, social or policy changes. Formal policies provide guarantees against the concern that changes in a community's politics or elected personnel will not have material impacts on future financial operations. This provides a platform for future management teams, guidance that promotes consistency and demonstrates a "buy-in" by the entity.

Shifting from a "pay as you go" expansion or maintenance of the infrastructure tax levy to a debt service levy may create excess margins on the operating budget, providing annual financial flexibility; however, this may reduce overall financial flexibility as it could result in greater reliance on debt to fund future capital projects, thus further leveraging the tax base with long-term commitments. However, when used appropriately, debt issuance can lead to a greater equity by spreading the burden of financing of the project to the users of the project over its life (i.e., "Generational Equity"). In so doing debt policies should have a nexus to capital improvement plan policies. A regularly updated, multi-year capital improvement plan ("CIP"), with financing sources identified, is critical to good management as well as necessary to promote adherence to a Debt Management Policy. The GFOA has created a schematic that shows the nexus between CIP planning and effective debt management, as follows:

Debt Capacity Analysis and Capital Budget Planning



Source: *Benchmarking and Measuring Debt Capacity*, GFOA, 2000

Debt policies may include benchmarks such as: Ratio of tax-backed debt to equalized value of taxable property with a minimal level of approximately 2.50% but not to exceed maybe 4%; Annual total debt service to budgeted expenditures that range from 5% to 15%, depending upon the speed of the debt amortization and the pro forma of anticipated future growth; Average duration of total tax-backed debt to be approximately no greater than 10 years (i.e., approximately 50% retired within 10 years) but with certain assets, such as projects financed for water or sewer systems, the estimated useful life may be significantly greater than 20 years. Thus, a slower average duration may be acceptable; Net operating revenues to provide at least 125% (1.25x) coverage of maximum annual debt service; Debt Service Coverage must be attained with the inclusion of the new bonds before the issuance of Additional Debt.

A policy should acknowledge that off balance sheet debt, joint-venture debt and pro rata overlapping (or underlying) obligations are typically included as part of the net burden. General Obligation debt that is truly "self-supporting" (i.e., at least 1.0 times coverage) for at least three consecutive years may be excluded from the net burden.

In conduit financings (i.e., non-recourse debt where the governmental entity is the issuer) the policy may include various covenants or caveats such as: To have final approval of the conduit borrower's choice of underwriter; or have a list of "acceptable" underwriters that allow the conduit borrower to select from the list; To establish minimum guidelines for credit ratings on publicly sold financings, have credit enhancements acceptable to the governmental entity or be sold as a private placement with no public distribution; and May require the conduit borrower to undertake responsibility for SEC Rule 15c2-12 continuing disclosure requirements.

Additionally, a policy may address mode of sale (i.e., sealed bid, negotiated or private placement); criteria for refundings; current or advance (e.g., acceptable PV savings, net of costs of issuance and cash contributions, if any for economic refundings; PV savings may not apply to defease covenants or to restructure debt). The policy should also affirm compliance with federal (e.g., SEC Rule 15c2-12) or state regulations but also identify (a) person(s) designated to be responsible for compliance; (b) establish procedures to be followed; and (c) periodically audit the filings to assure continued compliance.

A brief summary (but not an all-inclusive list) of various considerations that should be included in a Debt Management Policy are:

Elements of a Debt Policy

- Purposes for which debt can be issued;
- Legal debt limitations, or limitations established by' policy;
- Use of moral obligation pledges;
- Types of debt permitted to be issued and criteria for issuance .Structural features that may be considered;
- Credit objectives;
- Method of sale;
- Selection of external financial professionals;
- Refunding of debt;
- Disclosure (primary and secondary market);
- Compliance with federal tax law provisions, including arbitrage requirements;
- Integration of capital planning and debt financing activities;
- Investment of bond proceeds where otherwise not covered by explicit written law or written investment policy.

Source: *Development of a Debt Policy*, GFOA, 1995.

Finally, it is imperative to form a policy consistent with existing regulations and commitments as well as with current or desired policy objectives. The following factors should be considered in establishing a policy that "works":

FACTORS TO CONSIDER IN EVALUATING DEBT CAPACITY

- Statutory or constitutional limitations affecting the amount that can be issued, such as:
 - legally authorized debt limits; and
 - tax or expenditure ceilings;
- Other legal limitations, such as coverage requirements or additional bonds tests imposed by bond covenants;
- Measures of the tax and revenue base, such as:
 - projections of key, relevant economic variables (e.g., assessed property values, employment base, unemployment rates, income levels and retail sales);
 - population trends;
 - utilization trends for services underlying revenues; and
 - factors affecting tax collections, including types of property, goods or services taxed, assessment practices and collection rates;
- Evaluation of trends relating to the government's financial performance, such as:
 - revenues and expenditures;
 - net revenues available after meeting operating requirements;
 - reliability of revenues expected to pay debt service; and
 - unreserved fund balance levels;
- Debt service obligations, such as:
 - existing debt service requirements; and
 - debt service as a percentage of expenditures, or tax or system revenues;
- Measures of debt burden on the community, such as:
 - debt per capita;
 - debt as a percentage of personal income;
 - debt as a percentage of full or equalized assessed property value and -overlapping or underlying debt; and
- Tax-exempt market factors affecting interest costs, such as:
 - interest rates;
 - market receptivity; and
 - credit rating

Source: *a guide for preparing a debt policy*, GFOA, 1998

In summary, a formalized Debt Management Policy is an indication of "good" Management. It also exists as a positive discipline ... that may be politically hard to implement when most needed!

TEMPLATE DEBT MANAGEMENT POLICY

I. (CITY/TOWN/DISTRICT)'S DEBT POLICY

A. Purpose

The (City/Town/District) recognizes the foundation of any well-managed debt program is a comprehensive debt management policy. A debt management policy sets forth the parameters for issuing debt and managing the outstanding debt portfolio and provides guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that government maintains a sound debt position and that credit quality is protected.

It is the intent of the (City/Town/District) to establish a debt management policy to:

- Ensure high quality debt management decisions
- Impose order and discipline in the debt issuance process;
- Promote consistency and continuity in the decision making process;
- Demonstrates a commitment to long-term financial planning objectives, and
- Ensure that the debt management decisions are viewed positively by rating agencies, investment community and taxpayers.

B. Implementation

The (City/Town/District)'s debt policy shall be implemented by the (City/Town/District)'s Debt Committee when developing comprehensive debt management guidelines that provides for the following:

- Full and timely payment of principal and interest on all outstanding debt;
- Debt shall be incurred only for those purposes as provided by State statute;
- Capital improvements should be developed, approved and financed in accordance with (City/Town/District) Ordinances and the capital improvement budgeting process;
- The payment of debt shall be secured by the full faith, credit and taxing power of the (City/Town/District), in the case of General Obligation Bonds, and by the pledge of specified, limited revenues in the case of revenue bonds. The (City/Town/District) shall not pledge any (City/Town/District) revenues to its conduit bond financings. Furthermore, the (City/Town/District) has no moral obligation to repay bondholders of conduit financings issued under its authority;
- Principal and interest retirement schedules shall be structured to: (1) achieve a low borrowing cost for the (City/Town/District), (2) accommodate the debt service payments of existing debt and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
- Debt incurred shall generally be limited to obligations with serial and term maturities but may be sold in the form of capital appreciation bonds or other structures if circumstances warrant;
- The average life of the debt incurred should be no greater than the projected average life of the assets being financed;
- The (City/Town/District) shall select a method of sale that shall maximize the financial benefit to the (City/Town/District). Such sales can be competitive or negotiated, depending upon the project and market conditions. All methods of sale shall be subject to (Council/Board) approval.

- Underwriters should be selected in accordance with the (City/Town/District) Purchasing Ordinance and the Debt Management Policies and Guidelines developed by the Debt Committee. The selection should maximize the quality of services received while minimizing the cost to the (City/Town/District). Any additions to the underwriting teams shall be subject to (Council/Board) approval. Selected underwriters shall adhere to the Municipal Securities Rule-making Board (MSRB) and the Securities and Exchange Commission (SEC) rules and regulations;
- The (City/Town/District) shall maintain good communications with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the (City/Town/District); and
- Every financial report, bond prospectus and Annual Information Statement (AIS) shall follow a policy of full, complete and accurate disclosure of financial conditions and operating results. All reports shall conform to guidelines issued by the Government Finance Officers Association (GFOA), Securities and Exchange Commission (SEC) and the Internal Revenue Service (IRS) to meet the disclosure needs of rating agencies, underwriters, investors and taxpayers.

II. DEBT COMMITTEE

A. Purpose

It is the role of the Debt Committee to develop and maintain a debt management policy that shall be subject to the approval of the Chief Administrative Officer; and to review and recommend to the Finance Director both the underwriting teams and structuring plans for all capital financings prior to the introduction of such legislation to the (City/Town/District) (Council/Board).

B. Responsibilities

The responsibilities of the Debt Committee shall be to:

- Develop and maintain comprehensive debt management guidelines in accordance with the (City/Town/District)'s Debt Policy.
- Review and evaluate results of debt financing operations including, but not limited to:
- Issuance of long-term and short-term debt obligations;
- Selection of bond type, structure, methods of sale and marketing of bonds, and
- Investor and rating agency communications;
- Review expenditures of bond proceeds and the status of various projects being financed, including the Capital Improvement Program (CIP) for timeliness of spent bond proceeds;
- Review and evaluate services provided by Bond Counsel, Disclosure Counsel, Tax Counsel, Underwriters and other service providers in bond transaction for effectiveness and quality of service;
- Review and revise annually, with approval of the CAO, the Debt Management Policies and Guidelines based upon the Debt Committee's review of operations;
- Prepare an annual report to (Council/Board) on the following:
 - Outcomes of previous year's financings;
 - All bond financings in progress or anticipated for the subsequent fiscal year, and
 - Any changes to the Debt Management Policies and Guidelines;

- Develop and maintain the selection criteria for underwriters, act as the Ad-Hoc Committee on all underwriting RFP's and recommend to the Finance Director the underwriting team for all (City/Town/District) credits, pursuant to the (City/Town/District)'s Purchasing Ordinance.

C. Membership

A permanent committee composed of the Finance Director; the _____ department, the _____, and the (City/Town/District) Manager. The (City/Town/District) Attorney shall serve on the committee in an ex-officio status. Other ex-officio participation, as deemed appropriate by the committee is encouraged. The committee shall be chaired by the Finance Director.

III. FINANCING ALTERNATIVES

The (City/Town/District) shall assess all financial alternatives for funding capital improvements prior to issuing debt. Pay-as-you-go financing should be considered before issuing any debt. Pay-as-you go financing may include: intergovernmental grants from federal, state and other sources, current revenues and fund balances; private sector contributions; public/private partnerships; leasing payments. Once the (City/Town/District) has determined that "pay-as-you-go" is not a feasible financing option, the (City/Town/District) may use Short-term or Long-term debt to finance capital projects.

A. Short Term Debt and Interim Financing - Maturity of one (1) year or less

Short term obligations may be issued to finance projects or portions of projects for which the (City/Town/District) ultimately intends to issue long term debt (i.e., it shall be used to provide interim financing which shall eventually be refunded with the proceeds of long term obligations). Short-term obligations may be backed with a tax or revenue pledge, or a pledge of other available resources.

1. Lines and Letters of Credit

Where their use is judged to be prudent and advantageous to the (City/Town/District), the (City/Town/District) has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the (City/Town/District) with access to credit under terms and conditions as specified in such agreements. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by the (City/Town/District) (Council/Board). Lines and letters of credit entered into by the (City/Town/District) shall be in support of projects contained in the approved Capital Improvement (CIP) Plan.

2. Commercial Paper

The (City/Town/District) may choose to issue Commercial Paper as a source of interim financing for projects contained in the (City/Town/District)'s approved CIP plan only after the Finance Director's office, in consultation with the Department of Finance, determines that such a financing represents the least cost interim financing option for the (City/Town/District). Furthermore, Commercial Paper shall not be issued for (City/Town/District) capital programs unless it is of sufficient economic size as determined by the Finance Director's office and approved by the (City/Town/District) (Council/Board)

B. Long Term Debt (Bonds) - Maturity over one (1) year.

Long-term general obligation or revenue bonds shall be issued to finance significant capital improvements for purposes set forth by voters in bond elections and the Capital Improvement Program (CIP). Additionally, revenue bonds may be issued in response to public need without voter authorization. Long-term debt may be incurred for only those purposes as provided by State statute.

IV. ISSUANCE OF LONG TERM DEBT OBLIGATIONS

A. Issuance Policies:

All (City/Town/District) debt shall be issued in accordance with the following policies, which have been recommended by the Debt Committee and approved by the (City/Town/District) (Council/Board):

Conditions of Sale

Unless otherwise justified, the issuance and sale of all (City/Town/District) bonds, notes, loans and other evidences of indebtedness shall be subject to the following conditions:

- Principal and interest on all outstanding debt shall be paid in a full and timely manner;
- Debt shall be incurred only for those purposes as provided by State statute;
- Capital improvements should be developed, approved and financed in accordance with (City/Town/District) Ordinances and the capital improvement budgeting process;
- The payment of debt shall be secured by the full faith, credit and taxing power of the (City/Town/District), in the case of General Obligation Bonds, and by the pledge of specified, limited revenues in the case of revenue bonds. The (City/Town/District) shall not pledge any (City/Town/District) revenues to its conduit bond financings. Furthermore, the (City/Town/District) has no moral obligation to repay bondholders of conduit financings issued under its authority;
- Principal and interest retirement schedules shall be structured to: (1) achieve a low borrowing cost for the (City/Town/District), (2) accommodate the debt service payments of existing debt and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
- Debt incurred shall generally be limited to obligations with serial and term maturities but may be sold in the form of capital appreciation bonds or other structures if circumstances warrant;
- The average life of the debt incurred should be no greater than the projected average life of the assets being financed;

Methods of Sale

Debt obligations of the (City/Town/District) may be sold by competitive and negotiated sale methods unless otherwise limited by state law. The selected method of sale shall be the option which is expected to result in the lowest cost and most favorable terms given the financial structure used, market conditions, and prior experience (see ADDENDUM A, herein).

Competitive Sale

All (City/Town/District) debt, except those credits enumerated immediately below, shall be sold through a competitive bid process unless otherwise recommended by the Debt Committee and approved by (City/Town/District) (Council/Board).

- All Types of Refunding Bonds;
- All Taxable Bonds;
- Airport Revenue Bonds;
- Real Estate Revenue Bonds;
- Refuse Disposal Revenue Bonds;
- Water or Sewer Revenue Bonds;
- Golf Course Revenue Bonds;
- Variable Rate Demand Obligations

(1) Bid Verification

All bond prices shall be computed based on True Interest Cost (TIC). TIC is defined as the rate at which, as of the date of the bonds, discounts semi-annually all future payments on account of principal and interest on the bonds to the price bid, not including interest accrued to the date of delivery of the bonds (see ADDENDUM B, herein).

(2) Award of Competitive Bids

(City/Town/District) debt priced by competitive bid shall be sold to the bidder proposing the lowest TIC to the (City/Town/District), provided the bid conforms to the official notice of sale.

(3) Method of Accepting Bids

- The (City/Town/District) shall accept bids in person or by electronic means.
- The (City/Town/District) shall not accept bids by telephone.
- The (City/Town/District) reserves the right to reject bids that are late or include calculation errors

(4) Good Faith deposits

The (City/Town/District) will accept bids without a good faith deposit so long as it has received assurances that the winning bidder will perform pursuant to the conditions of the Notice of sale.

(5) Permissible Discounts

The (City/Town/District) may permit discount bids of any given maturity when it retains sufficient flexibility to compensate for the discount by increasing the par amount of the bond issue or if bid premium is sufficient to compensate for such discount.

(6) Term Bonds

The Notice of Sale shall be designed to maximize the flexibility of the prospective purchasers and may include term bonds with mandatory sinking fund installments, and other features that may enhance the attractiveness of the offering consistent with the receipt of the lowest TIC possible.

(7) Financial Advisors shall not be permitted to bid as a syndicate manager or member of the underwriting syndicate on competitive sales for bonds for which they serve as Financial Advisors.

Negotiated Sale

(1) Conditions of Sale

When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the (City/Town/District) that would not be achieved through a competitive sale, the (City/Town/District) may elect to sell its debt obligations through a private or negotiated sale, upon approval by the (City/Town/District) (Council/Board). Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of specific financing program. The (City/Town/District) (Council/Board) may provide for the sale of (City/Town/District) debt by negotiating the terms and conditions of the sale, including prices, interest rates, credit facilities, underwriting or remarketing fees, and commissions. Examples of such sales include, but are not limited to the following:

- Variable rate demand obligations;
- A debt issue so small or large that the number of potential bidders would be too limited to provide the (City/Town/District) with truly competitive bids;

- A debt issue requiring the ability to react quickly to sudden changes in interest rates (e.g., refunding bonds in volatile or favorable market conditions);
- A debt issue requiring intensive marketing efforts to establish investor acceptance (e.g., "story bonds" or the use of proprietary or innovative financial products); and,
- An issue of debt with specialized distribution requirements (e.g., bonds sold only to State residents or private placements).

(2) Negotiation of Terms and Conditions

The negotiation of terms and conditions shall include, but not be limited to discounts or takedowns and interest rates by maturity, and underwriting risk, management, structuring, remarketing, liquidity and bond insurance fees. Guidelines shall be based on prevailing terms and conditions in the marketplace for comparable issuers on the date of issuance, including yields from secondary market trading of comparable issuers and previously issued (City/Town/District) Debt.

(3) Selling Groups Permitted

The book-running senior manager shall discuss with the (City/Town/District) the advantages and /or disadvantages of using a selling group. If utilization of a selling group is appropriate to assure the local retail distribution of a negotiated sale of the (City/Town/District)'s Debt, the selling group shall include and be limited to only those firms operating retail brokerage operations within the State.

Allocation and Designation of Bonds

The book-running senior manager shall be responsible for ensuring that the overall allocation of bonds meets the (City/Town/District)'s goals of: (a) obtaining the best price for the issue and (b) providing firms with allocations that are commensurate with work performed. The (City/Town/District) reserves the right to monitor the order-taking process and to review bond allocations prior to their release.

(1) Following the execution of a purchase contract, the book-running senior manager shall:

- (a) Provide for fair allocation of (City/Town/District) debt to underwriters and selling group members, consistent with (City/Town/District)'s goals;
- (b) Comply with all Municipal Securities Rulemaking Board (MSRB) on regulations governing orders, priorities and allocations.
- (c) Submit to the (City/Town/District), for approval, a complete and timely account of all orders, allocations, and underwriting activities related to the sale of (City/Town/District) debt under its management.

(2) Priority for assigning orders and allocation of bonds

(a) Member Orders

When practical, retail orders, especially those from the State, are to be assigned the highest priority by the book-running senior manager. Net designated institutional orders shall be given second priority. Allocations shall be assigned only to those firms that place orders, which place their firm's capital at risk. Group net and stock orders shall receive the lowest priority. Member orders received after over subscription shall not be filled unless earlier orders are canceled or bonds otherwise remain unsold.

(b) Designated Orders

- (i) Whenever practical the (City/Town/District) shall permit the use of designation methods in its negotiated bond sales which provide institutional investors some ability to direct the credit for their orders;

(ii) For syndicates with at least three firms in the management group, designations shall be distributed between a minimum of three firms with no manager receiving more than 50% of the credit.

(c) Selling Group Orders

(i) Selling group members may place orders for bonds and receive credit on the basis of the priorities established above;

(ii) Selling group members are ineligible to receive management and structuring fees and shall be compensated only on the basis of the takedown paid on their contingent sales.

(d) Stock Orders.

Orders placed during the pricing period for which there is no identifiable retail or institutional customer shall only be filled from under-subscribed maturities.

(e) Group Net Orders

The sale of an entire issue on a group net basis is to be avoided in order to encourage competitive pricing dynamics during the order period.

d) Private Placement

The (City/Town/District) may choose to privately place debt with a sophisticated investor if the cost to the (City/Town/District) is less than selling bonds in the open market.

e) Pricing Procedures

On both the week and business day prior to the day of pricing, the book-running senior manager shall initiate a pre-pricing conference call with the (City/Town/District) Finance Department and the underwriting team to discuss the proposed pricing terms, order period, underwriting spreads components, market conditions, priority of orders and allocations and other necessary pricing information.

f) Post-Sale Evaluation

The book-running senior manager shall provide the (City/Town/District) with a final pricing book. The final pricing book shall include, but not necessarily be limited to, the following information; plan of finance, financing schedule; the distribution list; a discussion of market conditions leading up to and during the pricing; the final pricing; comparable issues in the market; any media coverage; rating agency reports; a full set of final computer debt service runs; a list of selling group members; a table identifying orders and allocations; a table identifying management fee and liability; a table identifying takedown and designation by dollars; and a table identifying designations on net designated orders. The final pricing book shall be provided to the (City/Town/District) by the day of closing.

V. APPOINTMENT OF UNDERWRITERS/FINANCIAL ADVISORS

A. Intent

To provide systematic technical advice and support to issuing departments and for the efficient, negotiated sale of (City/Town/District) debt when the solicitation of competitive bids would otherwise lead to a higher cost to the (City/Town/District), the (City/Town/District) (Council/Board) shall approve the selection of qualified underwriters to serve as financial advisors for competitive sales of specific (City/Town/District) credits or, in the alternative, as the lead underwriter for negotiated sales of such assigned (City/Town/District) credit when it has been determined by the Debt Committee that a competitive sale would otherwise lead to a higher cost to the (City/Town/District). Such selection shall be based on an evaluation of competitive proposals for a combination of advisory and underwriting services, as recommended to the (City/Town/District) (Council/Board) by the (City/Town/District) Finance Director.

B. Term of Appointments

Appointments shall be effective for a term of four (4) years from the date of ratification of the (City/Town/District) Finance Director's recommendation of award by the (City/Town/District) (Council/Board), unless otherwise amended by the (City/Town/District) (Council/Board) at the recommendation of or with the concurrence of the (City/Town/District) Finance Director.

C. Selection Process

1. The Debt Committee shall periodically publish a Request for Proposal (RFP) that invites proposals from individual underwriters/financial advisors to provide either underwriting or advisory services in support of each of the (City/Town/District)'s credits.
2. Technical advisory subcommittees are authorized. Ancillary subcommittees may be established to provide the Debt Committee with technical support for its assessment of the proposals it receives. Overlapping subcommittee memberships are permitted only if a sufficient number of suitable candidates for such assignments cannot be timely recruited.
 - a) Each subcommittee shall be composed of no fewer than three, preferably five members, one of whom should not be employed by the (City/Town/District) and who should be reasonably expected to have a working knowledge of underwriting practices. One member of each committee shall be assigned by the department for whom services will be rendered by the selected underwriting team. The (City/Town/District) (Council/Board) shall approve all advisory committee appointments;
 - b) All actual or potential conflicts of interest of each proposed subcommittee member must be disclosed by such member for the record, prior to submittal of said member's nomination to the Debt Committee so it may judge each individual's suitability to participate;
 - c) Advisory committees shall be staffed by the Finance and Purchasing Departments whose personnel shall not express preferences for outcomes to committee members. The (City/Town/District) Attorney assigned, as issuer's counsel, shall serve each advisory committee in an ex officio status;
 - d) The results of each subcommittee's review, if such is empanelled, shall be reported to the Debt Committee which shall, after considering the subcommittee's input, forward to the (City/Town/District) Finance Director its recommendation for the designated financial advisor/senior book running manager for each available assignment together with a rank ordered listing of the next three finalists. The (City/Town/District) Finance Director may replace the firm ranked first with either the second or third ranked firm on the Debt Committee's list when formulating his recommendation to the (City/Town/District) (Council/Board);
 - e) The remaining three finalists shall then be designated as co-managers for negotiated sales of the respective credit during the term of the assignment. Each co-manager shall receive at least a 15 percent allocation of underwriting risk and related fees. Discounts and fees shall be based upon the rates proposed by the senior book running manager (lead underwriter);
3. Blackout Periods Imposed
 - a) Communication about an RFP or the selection process with members of an underwriting proposal review committee, (City/Town/District) employees, or elected officials of the (City/Town/District), except for designated Purchasing Department staff, by any employee or representative of an underwriting team under consideration for selection is explicitly prohibited from the date of publication of such RFP until recommendation of award by the (City/Town/District) Finance Director;

b) Failure to comply with this requirement shall result in the applicant's disqualification

D. Selection Criteria

In order of priority, criteria to be used in the appointment of qualified underwriters shall include, but are not limited to:

1. Demonstrated ability of the firm to structure & market an issue of debt utilizing the contemplated credit structure(s) efficiently and effectively;
2. Experience of assigned personnel;
3. Approach to proposed scope of work, including quality and applicability of proposed financing ideas;
4. Demonstrated capability to sell bonds to retail investors, especially to investors located in the State;
5. Demonstrated commitment and capacity of the firm to put its firm's capital at risk, especially as evidenced by having successfully bid on prior competitive sales of (City/Town/District) debt or by having underwritten the (City/Town/District)'s debt in adverse markets;
6. Demonstrated secondary market support for debt, which the firm underwrites, especially if for the specific credit which is to be pledged;
7. Fees and expenses;
8. Weights for the above criteria may vary and shall reflect the unique requirements of the proposed engagement;
9. Preference for local and state businesses may be granted.
10. Other factors. Other Factors are defined as those factors that have not been included as technical selection criteria, but are factors that in some instances must be considered in making the final selection. Their nature does not permit a meaningful numerical predetermination of relative significance of impact on the selection decision, and therefore, they are not numerically scored.

Failure to provide complete disclosure for each of the underwriting firms to the following questions or misrepresentation shall result in disqualification. The senior managing underwriter in the proposed underwriting team must certify that, to the best of its knowledge, the information submitted by itself and by its proposed co-managers in response to this section is accurate, complete and not misleading. Other factors include:

a) Capital Structure of the Firm

- (1) Offerors shall demonstrate capacity and willingness to put firm's capital at risk.

b) Conflicts of Interest

- (1) Each offeror shall list all potential conflicts of interest of which the firms have knowledge of which may arise with respect to the representation of the (City/Town/District) on this proposal, including, without limitation, any circumstances which would create the appearance of a conflict of interest.
- (2) Each offeror shall disclose any political contribution, gift or fund-raising, either direct or indirect, valued in excess of \$250.00 (singularly or in the aggregate) made by the firms or individuals at the firms to any elected official or person seeking office in the State in the last five (5) years; any current, proposed or past financial or business relationship or arrangement between a firm or any individual at the firm and any (City/Town/District) (Council/Board) member, officer or employee of the (City/Town/District); and any other actual or potential conflict which may give rise to a claim of conflict of interest.

- (3) Each offeror shall provide copies of the firms' MSRB Form G-37 filings, to date, while also separately documenting specific breaches of the Rule for which sanctions were imposed. If such data was previously submitted to the (City/Town/District) in response to a different RFP, the firms shall only be required to provide that supplementary information required to bring the (City/Town/District)'s records up to date and specify for which RFP the initial data was submitted.

c) Regulatory Action

- (1) Each offeror shall disclose any judicial or administrative proceedings of public record that have been filed against the firm during the five (5) years preceding the date of the proposal that concerned the offeror participation in a securities transaction.
- (2) Each offeror shall list and describe the current disposition or status of any litigation or formal or informal action taken by any state or federal securities commission, the MSRB, or any other regulatory body against the firm (or taken against any individuals now at the firm who will work under this contract) within the last five (5) years.
- (3) Each offeror shall disclose employment practices and describe the current disposition or status of any litigation or formal or informal action taken by the Equal Employment Opportunity Commission or any other regulatory body against the firm within the last five (5) years with respect to its employment practices.

VI. SELECTION OF BOND TYPES AND STRUCTURES

A. Bond Types

1. General obligation (GO) bonds

The following are general guidelines to be considered when issuing GO Bonds:

- a) General Obligation bonding should be used to finance only those assets which have been determined to be essential in the development of the (City/Town/District);
- b) General Obligation Bonding should be used only after considering alternative funding sources, such as federal and State grants and project revenues;
- c) The maturity of the (City/Town/District)'s GO bonds shall be limited to the maximum expected useful life of the project being financed;
- d) GO bonds shall be structured in a manner consistent to applicable State statute and the (City/Town/District)'s Charter;
- e) Reserve Fund - No reserve funds shall be funded with GO bond proceeds;
- f) At the time of the original delivery of and payment for the Bonds, the (City/Town/District) will deliver a certificate of the Finance Director which certifies that the (City/Town/District) has not exceeded its statutory debt limitations and that issuance of the Bonds will not cause the (City/Town/District) to exceed such debt limit.

2. Enterprise Debt

The use of revenue bonds may be favored as a means of insuring that the beneficiaries of a given improvement, where a direct benefit can be established, pay for a fair share of its amortized costs. Principal and interest on Revenue Bonds shall be structured to:

- (i) Achieve a low borrowing cost for the (City/Town/District);
- (ii) Accommodate the debt service payments of existing debt and;
- (iii) Respond to perceptions of market demand.

For purposes of this section "enterprise activities" means any revenue-generating project, business or activity treated by the (City/Town/District) as a separate enterprise for its internal

account purposes. Bonds: or notes issued to finance enterprise activities ("enterprise debt") may be issued as general obligation bonds or as limited obligation revenue bonds payable solely from revenues generated by the enterprise for which the project is undertaken, or any portion thereof and in either case, such bonds may be issued as serial bonds, term bonds or any combination thereof, and such bonds shall bear such date or dates, mature at such time or times and in such amounts, bear interest at such rate or rates, fixed or adjustable, be payable in such form and at such time or times and at such place or places, contain such redemption and conversion privileges, contain such provisions regarding security for the payment thereof and be sold under such terms and conditions as the (City/Town/District) (Council/Board) may determine. This section shall apply to any enterprise debt whether issued on a stand-alone basis or on a consolidated basis with other enterprises debt or general fund debt. The security for a Revenue issue would include, at a minimum, the following:

- A. *Pledge of Net Revenues.*
- B. Establishment of a *Debt Service Reserve Fund (DSRF)* pursuant to the Internal Revenue Code of 1986, as amended (the "Code") of an amount equal to the lesser of (a) the maximum amount of annual debt service payable in any current or future fiscal year or other appropriate 12-month period on the Bonds (Max Annual Debt Service); (b) 125 % of the average annual debt service payable with respect to the Bonds; or (c) 10% of the original proceeds of the bonds. This would be required only for the proposed and future issues; not for past issues. (NOTE: Greater bond-holder security is to established should the difference between Max Annual Debt Service and the above (b) or (c) (if required by the Code) be funded from non-bond proceeds.)
- C. *Pledge to Replenish the DSRF* in subsequent years should the DSRF experience draws.
- D. Establishment of *Financial Covenants*: to include:
 - (1) *Debt Service Coverage* requirement [e.g., each year's "Net Revenue" (as defined below) as a percentage certain (e.g., 125%) of overall maximum debt service];
 - (2) *Retained Earnings Requirement*; and
 - (3) *Additional Bonds Test* (e.g., that Debt Service Coverage must be attained with the inclusion of the new bonds before the issuance of additional bonds).
- E. Declaration of all *prior debt to be on parity* with the issue. Thus, past debt is not subordinated and, we expect, will rise to the higher quality level which we envision to be achieved with this structure.
- F. Bondholder security not to include a lien, perfected or otherwise, of property; nor a pledge of endowment funds as collateral security for the Issue.

The Debt Service Coverage Ratio is to be calculated as follows:

$$\begin{aligned}
 & \text{Operating Income} \\
 & + \text{Operating Expenses} \\
 & \text{Net Operating Income} \\
 & \text{Non-operating Income} \\
 & + \text{Depreciation} \\
 & \underline{\text{Net Revenues Available for Debt Service Ratio (Net Revenue)}} \\
 & \text{Current Debt Service} \\
 & \text{Net Revenues} \div \text{Current Debt Service} = \\
 & \mathbf{\text{Debt Service Coverage}}
 \end{aligned}$$

3. Prior Redemptions

The (City/Town/District) should consider prepaying or defeasing outstanding debt when resources are identified and available to reduce its outstanding debt.

4. Refunding Bonds

a) Purposes

- (1) The (City/Town/District) shall consider refunding outstanding debt on order to: (1) Generate interest rate savings;
- (2) Restructure principal; and/or
- (3) Eliminate burdensome bond covenants

Bonds or notes issued to refund any outstanding bonds or notes or other indebtedness of the (City/Town/District), whether refunding outstanding general fund debt or enterprise debt may be issued as serial bonds, term bonds or any combination thereof, and such bonds shall bear such date or dates, mature at such time or times and in such amounts, bear interest at such rate or rates, fixed or adjustable, be payable in such form and at such time or times and at such place or places, contain such redemption and conversion privileges, contain such provisions regarding security for the payment thereof and be sold under such terms and conditions as the (City/Town/District) (Council/Board) may determine. This section shall apply to any refunding obligation whether issued on a stand-alone basis or a consolidated basis with other enterprise debt or general fund debt.

b) Current Refundings

- (1) Requires that the refunding escrow may not exceed 90 days; and
- (2) Unless otherwise justified, an advance refunding transaction shall require a present value savings of at least three percent (3%) of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses.
- (3) Refunded maturities shall not extend beyond the final refunded maturity; each year's principal shall be equal to or greater than the refunded principal payment;
- (4) Surplus monies in debt service funds or debt service reserve funds associated with the refunded bond issue may be used as a source of funds for the refunding issue.

c) Advanced Refundings

- (1) Requires the refunding escrow duration to exceed 90 days;
- (2) Governmental bonds issued after 1985 may not be advance refunded with tax-exempt bonds more than once. Consequently, the (City/Town/District) should carefully weigh the benefits and opportunity costs of such an action; and
- (3) Unless otherwise justified, an advance refunding transaction shall require a present value savings of at least three percent (3%) of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses.
- (4) Refunded maturities shall not extend beyond the final refunded maturity; each year's principal shall be equal to or greater than the refunded principal payment;
- (5) Surplus monies in debt service funds or debt service reserve funds associated with the refunded bond issue may be used as a source of funds for the refunding issue.

5. Capital Appreciation Bonds

- a) The maximum annual accreted value at maturity of outstanding capital appreciation bonds (CABS) shall not exceed the net pledged revenues available to pay debt service during the fiscal year preceding the issuance of said capital appreciation bonds.

- b) CABS shall be used as a last resort.
- c) Accreted values shall be included in the debt service calculation.

6. Liquidity and Credit Enhancement Facilities

The (City/Town/District) may seek to use liquidity or credit enhancement when such enhancement proves to be cost effective or to improve or establish a credit rating. When their use is judged prudent and advantageous to the (City/Town/District), the Finance Director shall have the authority to enter into agreements with commercial banks or other financial entities for the purposes of acquiring lines or letters of credit, bond insurance or surety policies, etc. Selection of enhancement providers is subject to a competitive bid process developed by the underwriter and approved by the Finance Director.

- a) Prerequisite to use: The present value of the estimated debt service savings from the use of credit enhancement should be at least equal to or greater than the premium paid by the (City/Town/District) to obtain such credit support; and
- b) Criteria to be used in the appointment of credit provider include:
 - (1) An objective evaluation of responses to a request for qualifications;
 - (2) The short-and long-term credit ratings of the institution and the relative trading level of debt support by such credit provider;
 - (3) Institution's experience with providing liquidity facilities to municipal bond issuers;
 - (4) Competitiveness of fees submitted, interest charged on liquidity draws, maximum legal and administrative fees;
 - (5) Ability to agree to (City/Town/District) and state legal requirements; and,
 - (6) Number and amount of liquidity facilities currently outstanding in the market.

7. Derivative Products

- a) Derivative products may be used to reduce risk exposure or to reduce interest costs, but shall not be used for speculative purposes.
- b) Derivative products may not be used, if the effect of the commitment is to increase a credit's exposure to interest rate risk (e.g., fixed to floating rate swap) above the limit established elsewhere in this policy, (i.e., 20% of outstanding principal).

VII. INVESTOR AND RATING AGENCY COMMUNICATIONS

A. Disclosure

It is the (City/Town/District)'s policy to provide primary and secondary disclosure to all its bond investors on a periodic basis as required by the Securities and Exchange Commission Disclosure Rule 15c2-12, the SEC Antifraud Provision Rule 10b-5 and Municipal Securities Rulemaking Board Rule G-36 as stated below: SEC Disclosure Rule 15c2-12 requires that issuers of municipal securities undertake in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information to various information repositories. SEC Antifraud Provisions Rule 10b-5 requires that disclosure made by issuers of municipal securities be both accurate and complete in all material respects at the time the disclosure is provided. MSRB Rule G-36 requires filing by the broker dealer of the Official Statement within 10 days of the Bond Purchase Agreement execution. The (City/Town/District) acknowledges the responsibilities of the underwriting community and shall assist underwriters in their efforts to comply with SEC Disclosure Rule 15c2-12, SEC Antifraud Rule 10b-5 and MSRB Rule G-36.

1. Official Statement Filing - Primary Disclosure

The (City/Town/District) shall file its official statements with the MSRB and all nationally

recognized municipal securities information repositories (NRMSIRs).

2. Comprehensive Annual Financial Report (CAFR)

The (City/Town/District) shall provide upon request, within 270 days following the end of its fiscal year, a copy of its comprehensive annual financial report and shall disseminate other information that it deems pertinent to the market in a timely manner. The (City/Town/District) shall file its CAFR with the MSRB and all NRMSIRs.

3. Annual Information Statement (AIS) - Secondary Disclosure

The (City/Town/District) shall publish its Annual Information Statement (undertaking) within 270 days following the end of its fiscal year. The (City/Town/District) shall file its AIS with the MSRB and all nationally recognized municipal securities information repositories, annually.

4. Securities disclosure policies and practices of the (City/Town/District) and administration officials

a) Purpose

In connection with the issuance of certain bonds, notes, and other municipal securities, the (City/Town/District) is required to prepare and disseminate certain disclosure information in order to comply with Rule 15c2-12 promulgated by the SEC under the Securities Exchange Act of 1934, including a requirement for continuing disclosure of annual financial information and notices of certain material events. This policy shall centralize the information dissemination process, establish appropriate controls on disclosure statements made by the (City/Town/District) and enable the (City/Town/District) and its enterprises to comply with Rule 15c2-12, in order to assure the (City/Town/District)'s access to the capital markets as a source of funds for necessary and useful public undertakings of the (City/Town/District). This policy is not intended in any way to limit any person's access to public records or information, nor to infringe upon the normal political process, in particular the right of any elected official of the (City/Town/District) to review, discuss, release, comment upon or criticize any information.

b) Policy

- (1) The Finance Director shall be responsible for reviewing and recommending, prior to release to the public, all official statements and disclosure statements relating to municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12.
- (2) No official statement relating to any municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12 shall be issued or released to the public until and unless approved in writing by the Finance Director.
- (3) No disclosure statement concerning municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12 shall be made, issued or released to the public by any employee, agent or official of the (City/Town/District) until and unless such disclosure statement and the release thereof shall be approved in writing by the Finance Director.
- (4) The (City/Town/District) shall not bind itself pursuant to an undertaking relating to securities, such as certain types of private activity bonds, as to which is not an obligated person for purposes of Rule 15c2-12. No undertaking relating to municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12 shall be binding upon the (City/Town/District) without the written approval of the Finance Director.

- (5) No disclosure statement, official statement or undertaking in respect of any municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12 that is issued or released to the public by any employee, agent or official of the (City/Town/District) without the express written approval of the Finance Director as required by this policy shall be deemed to be a statement or undertaking by or on behalf of the (City/Town/District).

c) Action

Unless otherwise required by law, prior to releasing to the public any official statement or disclosure statement intended to be made public, all non-elected employees, agents and officials of the (City/Town/District) shall report to and file with the Finance Director any such proposed disclosure statement, together with such additional information requested by the Finance Director, including certificates as to the accuracy of such disclosure statement, and each such employee, agent and official of the (City/Town/District) shall consult with the Finance Director concerning such proposed official statement or disclosure statement.

(1) Published disclosure statements

- (a) All information and documentation requested by the Finance Director that may be required to support the preparation of a disclosure statement, official statement or undertaking shall be provided by the appropriate (City/Town/District) departments, as identified by the Finance Director, on a timely, complete, and accurate basis.
- (b) All disclosure statements, official statements and undertakings shall be compiled by disclosure counsel whom, together with the Finance Director and other counsel who are parties to the documentation. They shall be afforded, by the originating department, such unobstructed access to documentation and information, as they may deem appropriate.

(2) Rating agency, investor and media communications

- (a) All communications with rating agency personnel, including responses to their periodic questions, shall be managed through and approved by the Finance Director.
- (b) In order to ensure uniform market access to information that may be relevant to the valuation of the (City/Town/District)'s securities, the release of any information, whether in response to an ad hoc question or self initiated, that may be potentially relied upon by the market to impute the credit worthiness of the (City/Town/District)'s debt, whether intended for that purpose or not, shall be reviewed by the Finance Director and Disclosure Counsel to determine whether or not: (i) The information is already in the public domain; (ii) The information is a disclosure event as defined by the SEC, requiring prompt notification of the MSRB for NRMSIR filing; and (iii) The information is full, accurate, complete and not misleading.

5. Securities disclosure policies and practices of with respect to the (City/Town/District) (Council/Board)

a) Background

In a January, 1996 a Securities and Exchange Commission report in the Orange County, California bankruptcy case, the SEC expressed its views about the accountability of governing boards and commissions for the contents of official statements, which are the primary financial disclosure documents to accompany bond issues. While governing boards are not responsible for assembling data included in the official statement, governing board members may not authorize disclosure that the official knows to be false

nor may governing boards authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading.

In the Orange County case, the SEC determined that there were certain investment practices and financial matters which were known (or could have been known upon due inquiry) to the governing board members, which threatened the security of six separate bond issues and were not described in the official statements approved by the governing board. The SEC concluded that the governing board members had acted recklessly in approving the official statements without prior review in light of the omission of this information and ordered the governing board members to cease and desist from violations of the antifraud provisions of the federal securities laws.

This policy, therefore, is promulgated in order to direct that the administration implement certain practices, which may be reasonably expected to facilitate (City/Town/District) (Council's/Board's) compliance with the antifraud provisions of the federal securities laws.

b) Policy

- (1) The (City/Town/District) (Council/Board) shall be encouraged to review and approve, prior to release to the public, all official statements of sale relating to the initial offering of municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12;
- (2) All official statements relating to any municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12 shall be forwarded to the (City/Town/District) (Council/Board) for its timely review and formal approval prior to its release to the public;
- (3) No undertaking relating to municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12 shall be binding upon the (City/Town/District) without the formal approval of the (City/Town/District) (Council/Board);
- (4) Any official statement or undertaking in respect of any municipal securities as to which the (City/Town/District) is the issuer or an obligated person for purposes of Rule 15c2-12 that is issued or released to the public by any employee, agent or official of the (City/Town/District) without the express approval required by this policy shall be deemed to be a statement or undertaking by or on behalf of the (City/Town/District).

c) Action

Unless otherwise required by law, prior to releasing to the public any official statement intended to be made public, the Finance Director shall provide to the (City/Town/District) (Council/Board) for its review and approval copies of the official statement in substantially final form. Official statements forwarded to the (City/Town/District) (Council/Board) for approval shall, for the (Council/Board)'s convenience, be accompanied by:

- (1) A cross-referenced narrative summary of disclosed risks prepared by the (City/Town/District)'s Disclosure Counsel;
- (2) A written response to the questions postulated in the 1996 NLC/GFOA pocket guide for elected and other public officials *To Ask Before You Approve A Bond Issue*. See ADDENDUM C for a copy of the questionnaire; and
- (3) Notwithstanding, the review of such summaries shall not relieve individual (Council/Board)ors of their obligation to substantively evaluate the adequacy of disclosure contained in the referenced official statement.

B. Credit Ratings

1. The (City/Town/District) current ratings are:
 - a) General Obligation Bonds - ____ (Moody's) and/or ____ (Standard & Poor's);
 - b) _____ Revenue Bonds - ____ (Moody's) and/or ____ (Standard & Poor's)
2. The (City/Town/District) shall seek a credit rating on all new bond issues which are being sold in the public market. However, exceptions to this requirement, such as when privately placing a security with a sophisticated investor, are permissible, if warranted by the circumstances;
3. The (City/Town/District) shall request a underlying rating on all bond issues utilizing bond insurance, together with an insurance bond rating (Aaa/AAA);
4. The (City/Town/District) shall secure ratings for all outstanding bond issues that have been advance refunded or otherwise defeased materially in advance of their maturity at the time of defeasance;
5. The (City/Town/District) shall continue to apply for ratings on credits which have been rated by one or more of the rating agencies in the past;
6. The (City/Town/District) shall maintain a line of communications with the bond rating agencies (Moody's and/or Standard & Poor's), informing them of major financial events in the (City/Town/District) as they occur. All communications, both oral and written, in response to requests for information shall be made by the Finance Director and Management or designee
7. The (City/Town/District) shall report annually all financial information, including its comprehensive annual financial report after been accepted by the (City/Town/District) (Council/Board), to agencies which provide credit ratings or credit enhancement for the (City/Town/District)'s outstanding;
8. The (City/Town/District) shall provide full disclosure of operations to the bond rating agencies. The (City/Town/District) staff, with the assistance of disclosure counsel, bond counsel and tax counsel, shall prepare the necessary materials for presentations to the bond rating agencies; and
9. The (City/Town/District) either shall notify the bond rating agencies by telephone or through written correspondence when the (City/Town/District) begins preparation for a debt issuance. After the initial contact, a formal application shall be prepared and sent along with the draft of the Official Statement relating to the bond sale to the rating agencies. This application and related documentation should be sent in sufficient time prior to the bond sale to give the rating agencies sufficient time to perform their review. A personal meeting with the rating agencies shall be scheduled at least once every year or whenever a major project is initiated.

VIII. INVESTMENT OF BOND PROCEEDS

- A. All bond proceeds of debt issues shall be invested in accordance with federal and State laws and the (City/Town/District)'s Investment Policy as approved by the Chief Administrative Officer.
- B. Escrow Accounts Funded with US Treasury Securities - In the event that an escrow account is to be funded with open market securities, the Finance Director shall competitively purchase those securities as provided for in the (City/Town/District)'s investment policy, soliciting bids from no less than three (3) independent broker/dealers.

IX. ARBITRAGE COMPLIANCE

It is the (City/Town/District)'s policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

- A. The (City/Town/District) shall maintain investment allocations by source of funds and record pro rata interest income of the commingled bond funds monthly.
- B. Project cash flows shall be carefully planned to insure the applicability of rebate exceptions, if feasible.
- C. Rebate computations should be performed annually, but no less often than every five years until the bonds mature.
- D. It is the (City/Town/District)'s policy to segregate current arbitrage earnings for future payment or credit, and to enter the amount as a liability on the books.
- E. The (City/Town/District) shall report to the IRS as required and shall make rebate payments as required by FEDERAL law.
- F. The (City/Town/District) shall structure its financings in such a way as to reduce or eliminate future arbitrage rebate liability, wherever feasible.

X. LEGAL AND REGULATORY REQUIREMENTS

- A. The Finance Director and the (City/Town/District) Attorney shall coordinate their activities to ensure that all securities are issued in the most efficient and cost-effective manner possible.
- B. The Finance Director and (City/Town/District) Attorney shall coordinate their activities to ensure that in the opinion of the (City/Town/District) Attorney and/or bond counsel all securities are issued in compliance with the applicable (City/Town/District), State, and federal statutes and regulations.
- C. The (City/Town/District) Attorney shall review all documents related to the issuance of securities by the (City/Town/District).
- D. Other documents and opinions relating to the issuance of debt shall be prepared by nationally recognized bond counsel with extensive experience in public finance, securities regulation and tax issues.
- E. The Finance Director and the (City/Town/District) Attorney shall consult and jointly recommend the appointment of bond, tax and disclosure counsel to the Finance Director for his commendation to the (City/Town/District) ((Council/Board)/Board).

SOURCES AND CREDITS: Inspired by, but substantially modified from, Debt Management Policies & Guidelines, April 16, 2001 - Treasury Division, Version Prepared by: Department of Finance & Administrative Services; Albuquerque, New Mexico.

COMPETITIVE vs. NEGOTIATED SALES:		
Summary of Conditions Favoring Each Method of Sale		
DEBT STRUCTURE	CONDITIONS FAVORING A COMPETITIVE SALE	CONDITIONS FAVORING A NEGOTIATED SALE
Pledged Revenues	General Obligation or Strong System Revenue	Project Supported Revenues
Security Structure (for Revenue Bonds)	Conventional Resolution and Cash Flow; Rate Covenant and Coverage	Unusual or Weak Covenants; Subordinated Debt
Debt Instrument	Traditional Serial and Term, Full Coupon Bonds	Use of Innovative Structuring, Derivative Products, Structure to Attract Particular Investors (e.g., Discount Bonds), etc.
CREDIT QUALITY		
Rating	'A' or better	Below Single 'A'
Outlook	Stable	Weak but Improving, or Under Stress
ISSUER CHARACTERISTICS		
Type of Organization	Broad-Based General Purpose Borrower	Special Purpose, Independent Authority
Frequency of Issuance	Regular Borrower in Public Market	New or Infrequent Issuer
Market Awareness	Active Secondary Market with Broad Investor Base	Little or No Institutional Awareness of Issuer; Historical Antipathy
Investor Comfort	Well-Known, Stable Issuer	Issuer Experiencing Significant Financial, Legal or Other Problems
MARKET CONDITIONS		
Interest Rates	Stable; Predictable Market	Volatile or Declining Market
Supply and Demand	Strong Investor Demand, Good Liquidity, Light Forward Calendar	Oversold Market, Heavy Supply
POLICY CONSIDERATIONS		
Participation in Sale of Bonds	Broad Market Participation Desired for Sale of Bonds	Desire to Direct Business to DBE or Local/Regional Firms
Stimulation of Investor Interest	Broad Market Participation Desired for Purchase of Bonds	Desire to Direct Business to Local/Regional Investors

Source: *A Practitioner's Guide to Effective Debt Management: Competitive v. Negotiated* (1994), Government Finance Officers Association, Chicago, Illinois.

Industry Standard Definitions of NIC and TIC

NET INTEREST COST (or NIC) is a common method of computing the interest expense to the issuer of issuing bonds, which usually serves as the basis of award in a competitive sale. NIC takes into account any premium and discount paid on the issue. NIC represents the dollar amount of coupon interest payable over the life of a serial issue, without taking into account the time value of money (as would be done in other calculation methods, such as the "true interest cost" method). While the term "net interest cost" actually refers to the dollar amount of the issuer's interest cost, it is also used to refer to the overall rate of interest to be paid by the issuer over the life of the bonds. The formula for calculating the NIC rate is:

$$\frac{\text{Total Coupon Interest Payments} + \text{Discount (or } - \text{ Premium)}}{\text{Bond Years}^{(1)}}$$

TRUE INTEREST COST (or TIC) is also known as "Canadian Interest Cost". Under this method of computing the borrowing issuer's cost, interest cost is defined as the rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment dates to the purchase price received for the new issue securities. TIC computations produce a figure slightly different from the net interest cost (NIC) method since TIC considers the time value of money while NIC does not."

Source: *Glossary of Municipal Securities Terms*, Municipal Securities Rulemaking Board, 1985.

The TIC bid discourages early year's high coupon or later year's deep discount bidding, and is most compatible with compliance with the issuer's concern with present value. Furthermore, this is currently the most commonly used method for bidding on bond issues.

The time value of money, or "Present Value" undertake computations that are used to determine whether or not a particular investment with a specified future cash flow is a good investment. This is based upon the premise that one dollar paid today is worth more than a dollar paid in future years. Present Value includes evaluating any borrowing where money is paid today over the future stream of such borrowing, to demonstrate the projected future expense. As such, an analysis assigns an implicit time value on money by measuring the effect of foregoing the return from potential future investment of money. In summary, the Absolute Savings are the actual numbers of dollars paid over the life of the issue. Present Value is the actual value today of amounts paid over the life of the issue.

NOTE: ⁽¹⁾ A Bond Year is \$1,000 of debt outstanding for one (1) year. The number of "bond years" in an issue is equal to the product of the number of bonds (One bond equals \$1,000 regardless of actual certificate denomination) and the number of years from the dated date (or other stated date) to the stated maturity. The total number of bond years is used in calculating the average life of an issue and its net interest cost. Computations are often made of bond years for each maturity or for each coupon rate, as well as total bond years for an entire issue. Source: *Glossary of Municipal Securities Terms*, Municipal Securities Rulemaking Board, 1985.

Questions Officials Should Ask Themselves and Their Staffs

- How have we allocated responsibilities for the preparation of the official statement? Have we clearly defined the responsibilities of all participants in the transaction?
- What processes or procedures have been established to select qualified outside professionals? How are we relying on them and is our reliance appropriate? How are they being compensated?
- What have we done to establish the accuracy of financial and operating information and its disclosure in the official statement? Has anything happened since the date of the financial statements that needs to be disclosed?
- What policies and procedures have we developed to determine whether material conflicts of interest exist that need to be disclosed?
- What procedures have we established to accurately describe the project, the bond terms, the sources of repayment, and the risks associated with the project? What procedures have we established for the investment and disbursement of the bond proceeds?
- Do our procedures permit the underwriters to carry out their "due diligence" and other responsibilities?
- Have we fully considered any questions asked by the rating agencies?
- What continuing disclosure responsibilities have we assumed and what procedures have we established to meet them? Who will determine and file the annual financial and material event disclosure information? Have we designated an individual to speak to the market on our behalf?
- If we are relying on the bond counsel, financial advisor, or trustee to evaluate and meet our continuing disclosure requirements, what procedures are in place to keep them apprised of our financial condition and other material information?
- Have our procedures produced an official statement that we feel accurately presents our financial condition and discloses the information a reasonable investor needs to know? Have all the right people reviewed it?

Questions Officials Should Ask Outside Professionals

- What is the nature or scope of the written opinion or certification, if any, that you are giving in this transaction and relating to the disclosure document? Have we given you access to the information you need?
- Have you explained to us all aspects of the structure or nature of this transaction so that you are confident we fully understand all critical aspects? Does our official statement adequately address any concerns you have about this transaction that a reasonable investor would consider important?
- Are there any matters regarding your participation in this transaction about which you should make us aware, including potential conflicts of interest?
- Has your review of the relevant financial documents and other materials, including the official statement, raised any concerns regarding this borrowing? Do these concerns need to be disclosed?
- Are you aware of any circumstances in which we, our staff, or others have not complied with our procedures so that we can make sure that our official statement adequately and accurately describes this transaction?

