Indianapolis Local Public Improvement Bond Bank

Debt Management Policy

Adopted: December 21, 2015

Indianapolis Local Public Improvement Bond Bank
City-County Building
200 E. Washington Street
Suite 2342 Indianapolis, IN 46204
Phone: (317) 327-4220
Fax: (317) 327-5879
http://indianapolisbondbank.com/

Table of Contents

Background 3

I. Introduction 3

A. Purpose of the Debt Management Policy 3

B. Scope and Authority 4

C. Objectives 4

II. Implementation of the Debt Management Policy 5

III. Purpose and Guidelines for Issuing Debt 5

A. Financing Capital Projects of QEs 5

B. Authorization of Debt 6

C. Debt Limits and Debt Capacity 6

D. Capital Planning 7

E. Appropriate Uses of Debt 7

F. Specific Guidelines for Debt 8

1. Tax-Exempt or Taxable Debt 8

2. Fixed-rate vs. Variable-rate Debt 9

3. Debt Products 10

4. Security of Qualified Entity Financings 11

5. Use of Credit Enhancement 12

6. Key Covenants of Sources of Security 13

7. Maturity of Debt 15

8. Debt Service Structure 15

9. Call Provisions 16

10. Financial and Risk Analysis of Issuance 16

11. Investing Bond Proceeds 16

12. Pricing Review and Post-Pricing Secondary Market Reviews 17

13. Tracking expenditure of bond proceeds. 18

IV. Refunding: Purposes and Guidelines 18

A. Purposes 18

B. Savings Thresholds ... 18
C. Segregation of Refunding by Original Purpose ... 19
V. Method of Sale ... 19
A. Competitive ... 19
B. Negotiated ... 19
C. Private Placement ... 20
VI. Selection of Transaction Teams ... 20
VII. Documentation of Financings ... 20
VIII. Ratings and Rating Agencies ... 20
IX. Investor Relations Program ... 21
X. Review of This Debt Management Policy ... 21

Background

The Indianapolis Local Public Improvement Bond Bank was created in 1985, pursuant to IC 5-1.4-3-1. The Indianapolis Bond Bank is governed by a five-member Board of Directors. Each Board member is appointed by the Mayor of Indianapolis. The Bond Bank staff consists of the Executive Director, Deputy Director/General Counsel, Project Managers, Trust Accountant Finance Manager, Office Manager, and Executive Assistant/Human Resource Manager.

The Bond Bank serves as the capital-financing arm of the City of Indianapolis and as a conduit debt-issuing entity for the City's Qualified Entities and municipal corporations, is responsible for managing the outstanding debt obligations of the City and the QEs. The Bond Bank also supports and/or manages the operations of various City projects, including Union Station, the Indianapolis Downtown Canal, Indianapolis Downtown, Inc., and certain City-owned parking facilities.

I. Introduction

A. Purpose of the Debt Management Policy

The purpose of the Indianapolis Local Public Improvement Bond Bank Debt Management Policy ("Policy") is to establish guidelines and to provide a framework for making decisions concerning the planning, issuance, use, and management of debt. The oversight of the Indianapolis Local Public Improvement Bond Bank's ("Bond Bank") debt and decisions to utilize debt as a source of funding for Bond Bank initiatives reside with the Bond Bank's Board of Directors ("Board"). The Bond Bank Executive Director ("Executive Director") is responsible for implementing the Policy and reporting regularly to the Board. This Policy is a companion to, and should be read in conjunction with, the Bond Bank's Swap and Derivative Policy and Post Issuance Compliance Policy.

The Policy and its underlying strategies are subject to periodic review, update, and modification, with Board approval, to reflect changing market conditions, capital financing needs, regulatory changes, and municipal bond market best practice guidelines. The Policy, as a debt-management tool, will better enable the Board, the Executive Director, and the Bond Bank's staff of professionals to fulfill the Bond Bank's capital-financing role for the City of Indianapolis ("City") and all other Qualified Entities ("QE" or "QEs") located in Marion County.

The QEs are:

- The City of Indianapolis
- Marion County
- The Health and Hospital Corporation of Marion County
- Indianapolis Public Transportation Corporation (IndyGo)
- Indianapolis Airport Authority
- Indianapolis-Marion County Building Authority
- Indianapolis-Marion County Public Library

- Indianapolis Solid Waste District
- Indianapolis Stormwater District
- Metropolitan Thoroughfare District
- Capital Improvement Board of Managers (of Marion County, Indiana)
- Marion County Convention and Recreational Facilities Authority
- Park District
- Public Safety Communications and Computer Facilities District
- Redevelopment District
- Charter Schools sponsored by Office of Mayor, City of Indianapolis
- Fort Harrison Reuse Authority
- Citizens Energy Group, for the operations formerly known as the Department of Waterworks, currently the Department of Public Utilities

B. Scope and Authority

The Bond Bank issues long-term and short-term obligations as the debt-issuing and capital-financing management entity for the City and other QEs. This Policy governs the issuance and management of all Bond Bank bonds, notes, and other obligations, as well as the investment of proceeds resulting from the issuance of those obligations. It is supplemented by the Bond Bank's "Swap and Derivative Policy" and "Post-Issuance Compliance Policy."

C. Objectives

The Policy establishes the characteristics of when to use debt financing by coordinating capital planning with the City and all other QEs and determining the appropriate funding mechanism or mechanisms. The entire, multi-step process—coordinated capital-needs planning, debt issuance preparations, the issuance itself, use of proceeds, post-issuance compliance, investor communications, and monitoring outstanding obligations—requires the consistent, strategic guidelines and practices established in this Policy and the Swap and Post Issuance Compliance Policies. The resulting objectives are:

a) **To preserve the public trust and make well-considered decisions that positively impact current and future Marion County citizens.** The Bond Bank shall achieve this objective by providing ongoing information to elected officials, the senior management of QEs, and the public and managing each debt issue in accordance with this Policy.

b) **To achieve minimum borrowing costs for QEs.** The Bond Bank shall achieve this objective by: a) ensuring that the type of debt, debt structure, and investor marketing selected are optimal for each capital finance undertaking; b) communicating with the credit rating agencies and striving to obtain the highest credit ratings possible; c) utilizing cost/benefit analysis to set optional debt prepayment provisions to provide minimum costs of capital; d) coordinating with the QE's to optimize borrowing so as to minimize capitalized interest; and e) working with the City and all other QEs to ensure that bond proceeds are invested and drawn-upon as required to comply with federal statutes and regulations.

c) **To preserve access to capital markets for QEs.** The Bond Bank shall achieve this objective by providing information to the general municipal market, investors, and other market participants through its timely, regular continuing disclosure to investors, and coordinating with the City and all other QEs to maintain future debt capacity by monitoring debt service coverage and other debt metrics.

d) **To ensure future financial flexibility for QEs.** The Bond Bank shall achieve this objective by:

1) acoordinating capital-needs planning with the City and all other QEs to maintain debt levels within manageable ranges;
2) ensuring both legal covenants are met and sufficient financial margins exist;
3) negotiating all bond-related contracts and finance terms, which provide for flexibility in meeting future capital requirements and avoid overly constrictive terms for the QEs; and
4) utilizing cost/benefit analysis to set optional debt prepayment provisions to preserve debt-management flexibility of outstanding obligations.

II. Implementation of the Debt Management Policy

The Policy is authorized by the Board, as the Bond Bank's governing body. The Executive Director is charged with the management of implementing the Policy. Working with the Bond Bank's professional staff, the Executive Director is responsible for the execution of the Policy, as well as the periodic reviews of the Policy. The Executive Director is responsible for submitting future Policy recommendations to the Board, so that the Policy remains current and reflects changes that occur with QE needs, the bond market, regulatory requirements, and industry best practice guidelines. The Policy will be reviewed periodically, but at least every two years, by the Board.

III. Purpose and Guidelines for Issuing Debt

A. Financing Capital Projects of QEs

As the capital-financing entity for the City and all other QEs, the Bond Bank issues debt and loans the proceeds to various departments of the City or to another QE. The QE loan is in the form of a bond or note issued by the QE and purchased by the Bond Bank. The underlying QE debt is the security, or collateral, for the Bond Bank's obligation. The underlying QE is responsible for repayment of its obligation to the Bond Bank, and the Bond Bank irrevocably pledges this repayment stream to secure repayment of its debt held by investors.

While debt issuance is used primarily for capital projects, the Bond Bank may need to issue notes or other forms of interim or construction financing on a line of credit to provide working capital funds or funds needed for a QE's where appropriate . For projects or uses that do not meet IRS [and State] regulations for tax-exempt funding, the Bond Bank may use taxable debt. In some cases, the use of tax-exempt debt might not be cost-effective, leading to the use of a taxable issuance as the lowest possible cost of

funds. Bond issuances for operating or working capital purposes will be considered only in limited circumstances.

Whether for capital financing or other needs and whether tax-exempt or taxable debt is used, the Bond Bank's debt issuance proceeds provide the QE with funds for capital projects or working capital, while the QE's loan repayment provides funds to repay investors. When put side-by-side, the two revenue streams—1.) the Bond Bank's debt service owed to investors and 2.) the QE's payments owed to the Bond Bank—should match-up, as governed by State statute.

B. Authorization of Debt

The parameters of debt authorization include three, and with some QEs four, governing levels. Certain QEs have governing boards, and debt authorization procedures require the respective board's approval prior to being considered by the City-County Council.

1. State Statute
   Indiana Code Titles 5 and 36 are the general governing statutes for Bond Bank and QE debt issuance.
2. Qualified Entity Board Authorization
   QEs with governing boards are required to obtain the respective board's approval for proposed debt.
3. City-County Council Authorization
   Sec. 126-402 of the Indianapolis-Marion County Code of Ordinances is the general governing ordinance for the authorization of debt by the City and all other QEs.
4. Bond Bank Board Authorization
   The Board is the final authorization level, granting the approval of the Bond Bank to issue obligations.

Working with the QEs, the Executive Director and the Bond Bank staff should seek bond counsel advice to determine the appropriate authorizations required for each debt issuance. The QEs are required to obtain their respective statutory board and City-County Council approvals, while the Bond Bank staff provides assistance to the QE's senior management and other administrators. The financial advisor to the Bond Bank and the QE often assists both entities with Board/Council background memos.

C. Debt Limits and Debt Capacity

Article 13 of the State Constitution limits the incurrence of general obligation debt to 2% of assessed valuation for each municipality and municipal corporation. Statutory restrictions in Indiana Code Article 6 provide further restrictions on debt limits for QEs, and Article 36 establishes the limits on revenue-generating rates, such as property taxes, user fees, and other charges. As well, debt limit policies set by the City-County Council, QE boards, and/or QE senior management might apply additional limitations within the Constitutional and statutory restrictions.

For each QE, debt issuance is subject to the respective debt limitations and the resulting debt capacity. The Bond Bank shall have an active role in monitoring each QE's debt capacity and the amount of outstanding obligations applicable to any debt limits. The Bond Bank should assist the respective QE with its annual budget process and its capital planning process by determining and reporting debt limit and debt capacity information. This proactive fiscal management and capital financing role of the Bond Bank should be part of the Bond Bank's goal of achieving credit rating objectives for each QE.

D. Capital Planning

The Bond Bank staff should assist each QE with ongoing, long term capital planning, and debt capacity analysis. In many respects, this is the first step in offering the expertise and experience that the Bond Bank offers QEs, particularly when the QE has bonds outstanding and might have need for additional debt issuance. This proactive role on the part of the Bond Bank facilitates the monitoring of each QE's debt capacity, and it engages the Bond Bank in planning the appropriateness of potential future debt issuance.

E. Appropriate Uses of Debt

This Policy sets parameters and guidelines regarding the appropriateness of long-term capital funding, short-term capital funding, leasing financing, and refunding bonds.

1. Use of Long-Term Capital Funding:

The Bond Bank will utilize long-term debt, primarily in the form of tax-exempt bonds, to finance capital projects that are considered, or will be considered upon completion, long-term assets. Long-term debt will not be used to fund any QE operations. The Bond Bank will issue the long-term debt for a QE's approved capital projects, and the QE shall have an identifiable, authorized source of security available for debt repayment.

2. Use of Short-Term Capital Funding:

The Bond Bank may utilize short-term borrowing for temporary working capital needs or to provide interim funding for capital projects in anticipation of long-term capital funding issuance. Such programs can be utilized to reduce the need for capitalized interest or to ensure that total borrowing matches final construction and capital costs. Short-term borrowing generally will be repaid within three years of incurrence. The primary source of short-term borrowing repayment will be the QE's internal financial resources.

3. Lease Financing:

The Bond Bank may utilize lease financings as an appropriate means of financing capital equipment or the acquisition of real property and improvements to the property. In certain circumstances, lease financing is financially advantageous when compared to a bond issuance. In all cases, whether capital equipment or property improvements are leased, the useful life of the leased asset, the lease terms and conditions, the impact on debt capacity and budget flexibility must be evaluated prior to the implementation of a lease program.

4. Refunding Bonds:
The Bond Bank may refund outstanding debt to achieve interest cost savings, remove or change burdensome bond covenants, change interest rate modes, eliminate the need for liquidity facilities, and/or restructure the stream of debt service payments. A debt refunding may also be used to diversify the Bond Bank's financial institution counterparties or to remove or replace certain counterparties, if the counterparty's credit rating has become a burden or concern to the Bond Bank's outstanding debt. Often, the debt service savings may be applied to fund additional qualified projects for the QE.

A refunding may be accomplished on a current basis, meaning that the Bond Bank's bonds are currently callable preferably at 100% of the par amount, or a refunding may be on an advance basis, in which the bonds are issued prior to the refunding date, by replacing the outstanding debt with an escrow account funded with defeasance securities to pay off the retired debt as it comes due in the future.

F. Specific Guidelines for Debt

1. Tax-Exempt or Taxable Debt

Most Bond Bank debt will be issued as tax-exempt, due to the cost-effectiveness of the federal and State income tax exemption. To qualify as tax-exempt, the terms of the issuance and the use of issuance proceeds must comply with IRS regulations. Bond Counsel will review the transaction and intended use of bond proceeds with Bond Bank staff and make a determination on the tax status of the bonds under consideration. The Bond Bank and the QE have substantial responsibilities with respect to maintaining the tax-exempt status of the bonds after issuance (reference post issuance compliance policy).

The Bonk Bank, however, may issue taxable debt. This would be the case for projects or uses that do not meet IRS **[and State]** regulations for tax-exempt funding. In some instances, the use of tax-exempt debt might not be cost-effective, leading to the use of a taxable issuance as the lowest possible cost of funds. Taxable market conventions are different than municipal market conventions in many respects. The Bond Bank should utilize ongoing professional relationships with bond counsel and financial advisors to remain current on the latest practices in order to obtain the best pricing. The following items should be considered with a taxable issuance:

a) Attention should be paid to the coordination of the book-running senior manager's taxable and tax-exempt underwriting desks in order to effectively market to the largest number of buyers.

b) Education may be needed on the issuer's structure and credit for analysts and investors who are more accustomed to the taxable bond market.

c) Conventional call provisions in the taxable market can differ materially from those included in the tax-exempt market, and the Bond Bank should consider the economic benefits and costs of a make-whole call or issuing non-callable bonds, both of which are common in the taxable bond market.

d) The Bond Bank may benefit from using a blend of tax-exempt bonds and taxable bonds on a particular deal. Analysis should be completed immediately prior to the bond sale as to what structure would produce the lowest cost for a given maturity.

e) The underwriting spreads on a taxable deal should not be materially higher than those seen on a tax-exempt deal. The Bond Bank should evaluate the all-in true interest cost, including underwriting spreads, when deciding on a tax-exempt and/or taxable structure.

f) Fees for professional services, including bond counsel, financial advisors, and disclosure counsel, should not be materially higher than those seen on a tax-exempt deal given the development of the taxable bond market.

The Bond Bank will allocate its capital funding sources so as to achieve the lowest possible cost of funds.

2. Fixed-rate vs. Variable-rate Debt

The Bond Bank may issue either fixed-rate or variable-rate debt, when debt has been deemed the appropriate financing tool or a refunding has been determined to be financially feasible. Variable-rate debt can diversify the Bond Bank and/or a QE's debt portfolio, reduce interest costs, provide repayment flexibility, and help match assets to liabilities. However, a variable-rate mode can result in ongoing credit support costs, remarketing fees, and other resources that consume Bond Bank staff time and resources. If variable-rate debt is preferable, the Bond Bank should carefully evaluate which variable-rate debt product and structure will best control risks and minimize overall debt service expense.

The Bond Bank and the underlying QE securities should reflect a diverse debt portfolio with a mix of the portfolio being long-term fixed-rate debt and variable-rate debt. As a general guideline, the variable-rate exposure for the Bond Bank and each QE should be no more than 25% of total outstanding indebtedness. This maximum is based upon expected debt service requirements and diversification benefits relative to fixed-rate debt, rating agency considerations, and the Bond Bank's and each QE's risk tolerance levels. Further, the Bond Bank should maintain frequent, ongoing monitoring of the outstanding variable-rate debt to ensure that the floating-rate mode continues to match established financial objectives and continues to provide the most cost-effective source of capital funding.

3. Debt Products

Current coupon bonds are the preferred debt issuance product for the Bond Bank. Other debt products, namely zero-coupon and capital appreciation bonds, lease-purchase financing, and direct placements with banks, may be used but only in circumstances when they present a clear, substantial benefit over current coupon bonds.

a) Current Coupon Bonds: Current coupon bonds pay interest periodically and principal at maturity, according to a stated maturity schedule. Typically, current coupon bonds are structured to result in level annual debt service payments. They may be used for both new projects being financed and refunding transactions. Current coupon bonds may be structured to meet the demands of the investor thereby reducing the cost of borrowing. Features such as annual principal maturities, the use of discounts and/or premiums, maturity of the debt, the parameters of the call provisions, bond insurance, and cash funded or surety debt service reserve funds ("DSRF") are reflective of the market conditions at the time of sale. All of these features will be evaluated where they present a compelling financial advantage to the Bond Bank.

b) Zero-Coupon and Capital Appreciation Bonds: Zero-coupon bonds and capital appreciation bonds have principal amortization that is much slower than level debt service, resulting in increased interest expenditure over the life of the bond. These debt products shall only be issued by the Bond Band in limited situations.

c) Lease-Purchase Financing, Certificates of Participation (COPs), and Public-Private Partnerships (P3): Lease-purchase financing may be suitable for financing capital equipment or the acquisition and construction of real property. The Bond Bank and QEs may consider lease purchase transactions, including certificates of participation, as an alternative to long-term vendor leases. Such financings could be pooled into a Bond Bank master lease program. Whether individual leases or pooled leases are used, the final maturity of each equipment lease financing will be limited to the average useful life of the leased equipment. For these financing structures, the final maturity shall not exceed the estimated useful life of the leased facility, up to a maximum of 40 years. Where possible, the Bond Bank's principal payments related to real property acquisition or construction should match or exceed straight line depreciation. Certificates of participation (COPs) and public-private partnerships (P3), like lease-purchase financings, are contractual obligations that provide financing flexibility for the Bond Bank and QEs. The terms of these financings and the final maturity for each obligation will be limited to the respective

project's or acquired property's useful life, but the financings might not always match depreciation.

d) Direct Placements with Banks: The Bond Bank may enter into a direct placement agreement with a commercial bank to achieve optimal, advantageous low-cost capital funding. With a direct placement, the Bond Bank and the bank negotiate the terms of the debt structure and repayment schedule. Each direct placement can vary depending the terms, disclosure requirements, and credit quality parameters required by the bank. The Bond Bank, its counsel and Bond counsel shall carefully analyze the terms and covenants of a direct purchase to ensure that the advantages of the direct purchase outweigh any onerous terms and covenants.

e) Line of Credit: The Bond Bank may enter into line of credit agreements for the Bond Bank, as well as line of credit agreements for the benefit of QEs. A line of credit is a source of liquidity, the uses of which could be separate from a bond issuance.

4. Security of Qualified Entity Financings

The Bond Bank's obligations are each secured by the underlying QE's pledge, including general obligation, various specified revenue sources, tax increment revenues, and in some cases a combination of these or dual security. As well, some obligations carry the moral obligation pledge as a security to replenish a debt service reserve fund, if that fund is ever utilized to make a debt service payment.

a) General Obligation Security: This is the full faith and credit pledge of the QE, which commits the QE to pay debt service from any and all available sources, including the levying of property taxes. If needed, the QE is required to increase the annual property tax levy to an amount sufficient to meet the general obligation pledge. The amount of debt issued and the annual property tax levy available for debt service are subject to statutory limitations.

b) Revenue Security: A QE can secure obligations by pledging various specified revenue sources, including user charges, fees, lease rental payments, certain taxes, and enterprise revenues. Some pledged revenues are limited by statute, governing policies, and/or regulatory bodies.

c) Tax Increment Revenue Security: A tax increment security is pledged **[real and, in some cases, personal]** property tax receipts generated within a specified redevelopment district, with the pledged property taxes being only those generated by tax base

growth above a set base year assessed valuation. As such, the tax increment receipts reflect the results of incremental tax revenue growth above the 'base' occurring within the redevelopment district.

d) Combination or Dual Security Pledge: Certain QEs pledge a combination of securities for a stronger source of debt service repayment. For example, a user charge might be the primary source, but the QE has pledged its general obligation as a dual security or the City agrees to an moral obligation pledge in the event pledged revenues are insufficient to meet debt service requirements.

e) Moral Obligation Pledge: The moral obligation pledge is authorized by Indiana Code 5-1.4 enabling the City-Council Council to appropriate available funds to replenish a Bond Bank debt service reserve fund if the reserve fund is ever utilized to make a debt service payment. A QE's revenue or tax increment pledge remain the security for the underlying bonds. The moral obligation is a City-County Council's pledge to make funds available to transfer to the Bond Bank's debt service reserve fund, if needed. All moral obligation debt must be authorized by the Council.

5. Use of Credit Enhancement

The Bond Bank shall evaluate the use of credit enhancement to support debt issuance, taking into account issues related to the maximum desired exposure to any one counterparty, the current credit rating of the counterparty, the expected long-term credit outlook for an institution, renewal risk related to the term of the credit facility, the number of times the facility may need to be renegotiated over the life of the debt, the all-in annual cost of the facility, any termination risks, and staff time and resources needed to monitor these and other risks. The Bond Bank shall seek a diversified exposure to credit providers and to stagger credit facilities' maturities to avoid all facilities coming due on any one date.

a. Bond Insurance: Given the current state of the municipal bond insurance industry, caution should be exercised before bond insurance is contemplated. Insurance may be obtained when it provides a decisive economic advantage for a particular bond maturity or entire issue. If the bonds are callable, the insurance premium should be substantially recovered by the call date.

Economic decision-making shall determine the use bond insurance. The analysis should compare the present value of the interest savings to the cost of the insurance premium. Insurance will be

purchased when the premium cost is substantially less than the projected interest savings on a bond-by-bond basis and when the provider does not otherwise require covenant or security features that would be contrary to the Bond Bank and QE's best interests.

The Executive Director will solicit quotes for bond insurance from qualified counterparties rated AA or higher. The Executive Director shall have the authority to purchase bond insurance when deemed clearly advantageous and the terms and conditions governing the guarantee are favorable. If possible, the Bond Bank should retain the right to terminate the bond insurance in the future and recoup premium expense in the event of a ratings downgrade of the insurer.

b. Letters of Credit: A letter of credit ("LOC") represents a bank's promise to pay principal and interest when due for a defined period of time and subject to certain conditions. In the case of a direct-pay LOC, the trustee draws upon the LOC to make debt service payments. A stand-by LOC is used to cover events such as a failed remarketing or the Bond Bank's failure to make a debt service payment. If an LOC is used, the Executive Director shall solicit quotes and qualifications from banks, stating the terms and conditions that are acceptable to the Bond Bank. The Bond Bank must evaluate and recognize future bank risks such as renewal pricing increases, non-renewal or termination events, and costs of bank downgrades. Stagger maturities to avoid renewal risk.

Liquidity Facility: The issuance of certain types of variable rate bonds require a bank liquidity facility to ensure repurchase support should the bonds be tendered but failed remarketing occurs. Only those banks with long-term ratings equal to or greater than that of the QE's security should be solicited. Selection criteria will include, but not be limited to the following:

Terms and conditions acceptable to the Bond Bank;

- Representative list of clients for whom the bank has provided liquidity facilities; and
- Bank fees, costs of an LOC, costs of a draw on the liquidity facility, bank counsel fees, and other administrative charges, as well as an estimate of trading differential costs.

6. Key Covenants of Sources of Security

The Bond Bank and QE bond resolutions and indentures establish the security covenants and requirements for each issuance. Key covenants might include a debt service reserve fund, required debt service coverage ratios, and the maintenance of certain fund balances.

a. Debt Service Reserve Fund: Debt service reserve funds ("DSRF") are trustee-held reserves established and maintained under the provisions of a bond resolution and indenture. A DSRF is maintained to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The Bond Bank establishes such reserve funds for all of its obligations backed by a QE's revenue bonds. These funds may be entirely funded with bond proceeds at the time of issuance or over time with the accumulation of pledged revenues from the QE. As an alternative, a DSRF can be funded upon the occurrence of a certain event, such as a specified decline in pledged revenues. If drawn upon, a DSRF is typically replenished from the first available revenues.

   The bond trustee maintains all DSRF balances throughout the life of the bonds. A cash-funded DSRF is invested pursuant to guidelines within the bond indenture and interest earnings are used to offset debt service payments. In the final year of the bond issue, the cash available in any DSRF is available to make the final debt service payments.

   The Bond Bank should consider a DSRF surety policy provided by an appropriately rated bond insurer as an alternative to a cash-funded DSRF. Given the credit status of many of the municipal bond insurance entities and the fact that a surety policy requires an up-front fee payment to the insurer and results in a loss of future income to the DSRF, the use of a surety policy should be limited to instances where the future risk of credit rating downgrades of the insurer is believed to be minimal, there are no covenants requiring replacement insurance in the event of a downgrade to the insurer, and the all-in present-value interest savings results in a significant cost savings to the Bond Bank. The Executive Director will evaluate and document the DSRF funding decision. Factors to be considered in this evaluation include: arbitrage yield restrictions, current interest rates, availability and cost of a surety policy, and use of a QE's debt capacity to cash-fund the DSRF.

b. Debt Service Coverage Ratios: Bond resolutions and indentures often establish debt service coverage ratios when a specified revenue security is pledged. The ratios and any applicable test are established to ensure bold-holder security and avoid security dilution, as well as ensuring, for the Bond Bank and QE, that a pledged revenue stream is not overcommitted. Debt service coverage ratios are levels of security that are expected to be maintained during the life of outstanding obligations, and they are also bond capacity tests that must be met in order issue additional,

parity bonds. Any QE issuing revenue debt should be able to show debt service coverage ratios that will preserve or enhance the credit rating and/or marketability of the bonds. While certain circumstances may result in a lesser percentage at certain points over the life of the bonds, the general goal is to achieve a target of 125% debt service coverage or in certain cases, higher coverage levels are warranted.

c. Fund Balances: Pledges under bond indentures often include trustee-held Bond Bank and QE funds, such as unexpended bond proceeds, that are separate from a debt service reserve fund and the principal and interest payment funds. Such pledges provide a legal claim for the trustee on behalf of bond-holders.

Additionally, bond indentures often establish fund balance requirements or objectives of maintaining certain levels of balances held by a QE. Such fund balances, which may or may not be explicitly pledged as security, are intended to provide the strongest possible credit quality and financial flexibility for the payment of principal and interest. The Bond Bank should work with the Office of Finance and Management and the Issuer to identify fund balance sizes appropriate to the QE and the credit.

7. Maturity of Debt

The Bond Bank's final maturity of each debt issuance for capital projects or acquisitions, whether short-term or long-term, shall be equal to or less than the useful life of the assets being financed, and, as a general rule, the average life of the financing shall not exceed 120% of the average life of the assets being financed. The weighted average life of each debt issuance should be considered, as well, with a target, for example, of 10 years for a 20-year debt issue. Bond counsel will assist in calculating the useful life of the asset under IRS rules and pursuant to any statutory limitations.

For short-term funding for working capital needs, the debt issue's final maturity should be within three years.

8. Debt Service Structure

To the extent feasible, the Bond Bank shall structure combined principal and interest payments for each bond issue such that principal is amortized over time, with the goal of achieving overall level annual debt service for the Issuer. The Bond Bank will use bullet and balloon maturities only under specific and limited circumstances as [reported to the Board by the Executive Director for the Board's consideration for approval]. Similarly, debt structured with backloaded maturities should be limited in

practice. The use of "scoop and toss" issuance of debt for the purposes of deferring debt payments is highly discouraged; such measures result in applying new debt proceeds to pay existing debt principal and, in some cases, interest costs, thereby pushing out the obligation beyond the original term.

9. Call Provisions

The Bond Bank shall, with the assistance of financial advisors and underwriters, carefully analyze the potential impacts of call provisions. Typically, tax exempt bonds are callable in 7-10 years. The interest rate spread at different call periods should be considered in all transactions, with a preference for shorter call periods, unless such provisions are deemed too costly. The Bond Bank, generally, shall utilize a non-call feature that is no longer than 10 years, preferably priced at par. However, prior to setting any non-call provision, the Bond Bank will compare the option-adjusted yields on the bonds with and without a non-call provision. For callable bonds, the Bond Bank will seek to pay little or no call premium, subject to conventions in the current market.

10. Financial and Risk Analysis of Issuance

Net present value ("NPV") cost analysis of total debt service costs (net of all issuance costs and any cash contribution to a refunding), assessment of structural risks and complexities, and consideration of restrictions to future financing flexibility will be assessed and documented to determine the most efficient bond type and structuring features. When comparing alternative debt structures for a refunding, a discount rate equal to the refunding bond's arbitrage yield or the highest true interest cost (TIC) of the alternatives being compared will be used to determine NPV.

11. Investing Bond Proceeds

The Executive Director is responsible for making the investment decisions with respect to bond proceeds, subject to the approval of the Board.

a. Purchase and Sale of Investments: The Bond Bank shall procure in the most cost-effective manner, securities, investment agreements, float contracts, forward purchase contracts and any other investment products used to invest bond proceeds. This includes compliance with restrictions under applicable bond indentures on the types of investment securities allowed, restrictions on the allowable yield of some invested funds and restrictions on the time period over which some bond proceeds may be invested.

b. Disclosure: The Bond Bank requires that all fees resulting from investment services to the Bond Bank be fully disclosed to ensure that

there are no conflicts of interest and that investments are purchased at a fair market price. Where applicable, all investments of bond proceeds by the Trustee should show evidence of being competitively bid.

12. Pricing Review and Post-Pricing Secondary Market Reviews

The lead investment banker will provide the Bond Bank with a pricing review both prior to and following every debt issuance. The pre-pricing and pricing books will include the following:

- An economic calendar with pertinent ‘market-moving’ type of financial news releases or other independent commentary on relevant market conditions;
- Expected issuance in the tax-exempt market during the pricing period;
- Pricing and spread trends (versus the MMD benchmark) in the tax-exempt market for 10 and 30 year debt by credit rating category’
- List of comparable transactions recently in the capital markets along with structure and credit spread information
- Copies of preliminary, intermediate and final pricing wires;
- Breakdown of order book, by maturity, with investor names and sizes of orders, as well as which underwriters placed orders (Orders and Allocations);
- Summary of orders by investor type and identification of new investors to the credit;
- Examples of pricing results for comparable issuers and similarly rated credits during the same time period;
- Final Pricing Results (DBC run) with the Escrow and Form 8038 information as appropriate;
- Closing memorandum;
- Ratings Agency Reports related to the financing transaction
- Finance team contact list and financing calendar;
- Final official statement, transaction term sheet, final pricing and amortization schedules and escrow and/or construction fund investment proceeds schedules;
- If derivatives are involved, either the pricing fairness report or a summary of the competitive bids received and awarded; and
- If proceeds are invested, summary of investment schedules and evidence (where applicable) that at least 3 bids for investments were competitively obtained.

The Bond Bank’s financial advisor shall update the Bond Bank regarding trades in the secondary market during the two week period following the closing of a bond transaction.

13. **Tracking expenditure of bond proceeds.**
The Bond Bank's procedures for tracking the timely and appropriate expenditure of bond proceeds is covered in the Post Issuance Compliance Policy.

IV. Refunding: Purposes and Guidelines

A. Purposes

The Bond Bank will issue current or advance refunding debt when material present value savings can be obtained or when other compelling reasons exist. The par amount of refunding bonds should be sized to maximize both the percentage and the dollar amount of savings achieved. Alternatively, refunding of outstanding debt may proceed without debt service savings if, in the opinion of the ED, such action is in the best interests of the Bond Bank. Examples include 1) removal of onerous financial covenants, 2) removal or replacement of letter of credit facilities or bond insurance or other credit enhancements, or 3) otherwise costly or problematic debt. The general purpose of a refunding is to restructure debt service payments in a way that generates overall debt service savings and results in an improved debt profile.

The Bond Bank should evaluate debt refundings with four key considerations in mind: 1.) financial and policy objectives, 2.) potential financial savings, 3.) bond structure, and 4.) escrow efficiency, if the refunding is done on an advance basis. In most instances the Bond Bank should consider all current or advance refundings if material present value savings can be obtained.

B. Savings Thresholds

The Bond Bank's target for any refunding is to accomplish at least an overall 3% net present value savings versus the refunded bonds, although 5% savings has been the preferred target. Depending on market conditions and the needs of the QE, the Bond Bank will consider structuring the savings up-front as well as overall level savings through the remaining life of the refunded bonds. The Bond Bank may also consider optimizing savings by refunding only the maturities of any outstanding bond issue which achieve the threshold target savings. Other considerations may include the cost of negative arbitrage, if any, in connection with undertaking an advance refunding and the time to the call date. Any risks associated with a refunding option and the loss of flexibility due to the new non-callable period for the new bonds must be carefully considered.

The Bond Bank will consider the following factors in evaluating the savings achieved in a refunding:

1) The "all-in" interest rate differential between the refunded and the refunding bonds;
2) The time from the present to the refunded bonds' call date;
3) The PV savings per maturity;
4) The negative arbitrage from the investment earnings rate of the escrow proceeds versus the interest expense until the call date, when those proceeds will be applied to refund the outstanding bonds;
5) The number of years between the call date and the final maturity of the refunded bonds;

6) The applicable call premium, if any, of the refunded bonds, and
7) The expected costs of the refunding transaction.

Refundings undertaken to effect a change in documentation, covenants, or restrictions that currently apply to the QE's bonds will be considered by the Bond Bank if the benefits of structure or document changes are deemed to be worth the additional cost to the QE and the Bond Bank.

Typically, the Bond Bank will utilize State and Local Government Securities ("SLGs") issued by the U.S. Treasury as the funding mechanism for the escrow for an advance refunding, which allows issuers to exactly match the date and amount of funds required at a given debt service payment period. However, there are times when the SLG market is unavailable or when alternative and allowable investment securities result in a better financing outcome. The Bond Bank should seek proposals from at least three bidders. All investment options should be carefully reviewed by legal counsel to make sure they comply with IRS guidelines.

C. Segregation of Refunding by Original Purpose

Refunding debt reports should be presented so that the new debt service can be tracked to the debt it replaces. In cases of partial refundings, reports should show the non-refunded old bonds combined with refunding bonds. This method will help to ensure that the final term of the post-refunding debt service mirrors the original debt. Where possible, the Bond Bank should retain records of the weighted average life of the assets or capital being financed by a bond issue.

V. Method of Sale

A. Competitive

With a competitive sale, the documents are prepared to meet the Bond Bank and QE's needs and specifications and parties are invited to bid, in a closed process, on the interest rate the prospective purchaser would offer. In a competitive sale of bonds, the QE can be certain to sell its bonds at the lowest price available in the market on a given day for such bonds as structured. Typically, the True Interest Cost or "TIC" is the measure most frequently used to determine the winning bid. Overall transaction fees in a competitive sale may also be lower. However, because the terms are offered and set by the Bond Bank/QE, competitive sales limit flexibility as to the timing and structuring of a bond, or the ability structure a bond to meet investors' preferences. Competitive sales are also not suited to complicated credits or new credits being brought to market. In a transaction where terms are standard and little flexibility is needed by the QE, competitive sales should be considered.

B. Negotiated

If the governing statute allows, the Bond Bank/QE may decide to sell the bonds to an underwriter or other entity in a negotiated sale. In a negotiated sale, the Bond Bank/QE agree to sell the bonds to an underwriter at an established fee (or discount) and the underwriter will work in the market to gather information regarding the needs of investors and the lowest rates required to sell the bonds. Negotiated sales should be considered when the credit or entity supporting the

bonds is complicated or difficult to understand, when the market for similar bonds is very volatile, when specialized investors are needed, or other various factors play into the transaction. Negotiated sales may offer the Bond Bank greater flexibility in the timing and sizing of its transactions. The Bond Bank should monitor the post-sale activity to ensure fair pricing.

C. Private Placement

The Bond Bank may consider using a bank loan, or direct placement, as a method of sale. Direct placements may offer the Bond Bank greater ease of issuance and a more favorable cost of capital. However, the Bond Bank will weigh the cost of capital against the additional legal and reporting covenants, such as ‘make whole’ provisions, cross default provisions, allocation of future regulatory and tax risk, and increased financial reporting. The Bond Bank will proactively provide rating agencies information about any direct placements undertaken and will make documentation available on EMMA as appropriate.

VI. Selection of Transaction Teams

The Bond Bank employs various professionals for assistance in analyzing its debt structure and processing its debt issuance. These professionals include investment bankers, consultants and lawyers. Their services are highly specialized and not inexpensive. In addition to their general expertise, these professionals develop and maintain over time a detailed understanding of the Bond Bank's and QEs’ debt structure and legal documents. This shared "institutional memory" is a valuable, but not essential, distinguishing asset. The Bond Bank will periodically conduct a review of these debt management professionals, as it does for auditors, asset managers and other vendors. It is recognized that such reviews are time consuming for management and temporarily disruptive. All debt management professionals should undergo a formal review and/or solicitation process, no less frequently than every five years. More frequent reviews may be needed, and interim appointments or replacements are authorized at the discretion of the Executive Director,. Optimally, professionals will be selected by a written solicitation process.

VII. Documentation of Financings

The history and major decisions made in each financing process will be documented fully. The documentation will capture information regarding the selection of the financing team, product selection and structuring features, vendors providing ancillary services and investment securities or products. The information will be compiled into a post-pricing book retained for each financing and will include the pricing review.

VIII. Ratings and Rating Agencies

The Executive Director shall be primarily responsible for maintaining the Bond Bank's relationships with the major credit rating agencies, including Moody's Investors Service, Fitch Ratings, Standard & Poor's and Kroll Bond Rating Agency. In addition to general communications, the Executive Director shall: 1) meet with the Bond Banks's credit analyst for each agency at least once each fiscal year, and 2) ensure analysts receive the annual audited financial statements (CAFR) of the City on a timely basis and 3) communicate with the Bond

Bank's analysts at the Executive Director's choice of at least two of the four agencies prior to a financing. Copies of all presentations, credit write-ups and formal communications with the rating agencies will be maintained in a permanent file by the Executive Director and filed with the Bond Bank's continuing disclosure where appropriate.

IX. Investor Relations Program

The Bond Bank shall maintain an active Investor Relations Program to ensure that it is reaching as many possible investors as possible and reducing the cost of its debt to the lowest price possible. An active program shall include, at a minimum, an updated webpage with ratings reports, OS documents for all transactions, copies of recent CAFRs and recent continuing disclosure filings. The Executive Director of the Bond Bank, with the assistance of a financial advisor, shall periodically review the major holders of the Bond Bank's debt.

X. Review of This Debt Management Policy

This DMP will be reviewed periodically, but at least every two years, by the Board.