RESOLUTION NO.: 80-2010
INTRODUCED BY: Alexander

A RESOLUTION ADOPTING A "FINANCIAL AND DEBT POLICY."

WHEREAS, the State Auditor has recommended that the City adopt a "financial and debt policy" to provide a summary of significant financial and budgetary policies required by State law, City Charter, City ordinances, generally accepted governmental accounting standards (GAAP) in the United States, and administrative practices; and

WHEREAS, the City's Director of Finance and this Council's Finance Committee have recommended the attached "Financial and Debt Policy" for adoption by City Council;

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Richmond Heights, State of Ohio, that:

<u>Section 1:</u> The "Financial and Debt Policy", attached hereto as Exhibit A and incorporated by reference herein, is hereby adopted by this Council.

<u>Section 2:</u> It is found and determined that all formal actions of this Council concerning and relating to the adoption of this Resolution were adopted in an open meeting of this Council, and that all deliberations of this Council and any of its committees that resulted in such formal action, were in meetings open to the public, in compliance with all legal requirements, including Section 121.22 of the Ohio Revised Code.

<u>Section 3:</u> This Resolution shall take effect and be in force from and after the earliest period allowed by law.

PASSED: ________________________ ________________________________
Daniel J. Ursu, Mayor

APPROVED: ______________________

ATTEST:__________________________ ________________________________
Betsy Traben
Clerk of Council

David H. Roche
President of Council

EXHIBIT A

City of Richmond Heights

FINANCIAL AND DEBT POLICY

I. Purpose and Scope

The City of the Issuer has a responsibility to its citizens to carefully account for public resources, to manage municipal finances wisely, and to plan for the provision of services. Sound financial management policies are necessary to carry out that responsibility. Managerial decisions, policies and practices directly impact a government's financial position and operations, debt burden and other key credit factors.

This Financial Debt Policy and General Fund Reserve Policy provides a summary of significant financial and budgetary policies required by State law, the City Charter, City ordinances, generally accepted governmental accounting standards (GAAP) in the United States, and administrative practices. It is intended that this Policy be approved by the City Council.

This policy is designed to:

> Assist the City in maintaining appropriate assets for present and future needs;
> Provide a framework for financial decision-making;
> Enhance consistency in financial decisions;
> Establish parameters for the administration to use in directing financial affairs of the City;
> Provide a framework for the future;
> Provide a solid foundation for the City's long-term Credit strategy;
> Promote coordination and cooperation with the residential and private sector;
> Promote coordination and cooperation in joint ventures involving debt service; and
> Establish parameters in analyzing Tax Increment Financing and other developer driven economic development transactions.

The scope of these policies might include budgeting, financial reporting, auditing, asset management, risk management, capital improvement program, debt management, general fund reserve balances and credit.

II. Debt Policy and Management

A. **Purposes and Uses of Debt** (General Obligation, Revenue and Loans)
The city will consider issuing debt or entering into a loan agreement under the following conditions:

All grant and assistance programs should be considered first, and then, in no particular order:

- Any asset over 5 years asset life;
- Any item over $250,000, or a combination of $250,000;
- Pay-as-you-Go Financing considered first after loans and grants;

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- General Obligation(GO) is the next choice;
- Enterprise fund issues will consider using OWDA or WPCLF loans; revenue debt once GO debt limits are stressed;
- and assessment debt/loans/ and or bank loans;
- Internal financing may be considered for assessed projects;
- General obligation issues will be 20 years or less;
- Revenue issues will be 25 years or less.
- Variable rate debt – shall be no more than 10% of the City's outstanding debt.

B. Debt Standards and Structure

Term: Useful asset Life. GO debt maximum of 20 years and Enterprise fund debt maximum at 25 years;

1. **Repayment schedule**:

    a. Equal Principal and/or Level debt service will be considered;
    b. City will strive to retire 50% of the debt within the first half of term of the debt issue; in line with the City's history of aggressively retiring debt.
    c. Short term notes will be used until a project is done and then may be bonded when all costs are in. The City may choose to roll notes and pay the debt off over the 10 years using one year notes, provided that the short-term rates are acceptable to the City. The City must pay down principal of the note as if it were a bond issue after five years.

2. **Credit enhancement:**
    a. Letters of Credit: Any Letter of credit Bank or liquidity provider should be rated A1 or the equivalent by at least two rating agencies before the City enters into a financing agreement with them or another party using a Letter-of-Credit.

    b. Municipal Bond Insurance: The insurance company should be rated Aaa by at least one of the three rating agencies; or have the highest rating available among the insurance companies available at the time of the financing

3. **Call provisions:** The City should structure deals with maximum flexibility; 8 or 9 year call options should always be considered with respect to debt issues of 20 years and over.

4. **Issuance costs:** All eligible costs of issuance may be paid from bond/and or note proceeds:
    a. Included in the par;
    b. Or through premium bonds;
    c. Or through capital appreciation bonds; and

d. Or the city can pay for costs apart from the bond issue.

C. **BANs:** Bond Anticipation Notes – during construction, or a five year type project that the City will pay off aggressively, or as early as possible.

D. **Derivatives Policy:** Prior to entering into a transaction using a hedging arrangement or derivative product, the City will develop a derivatives policy. National GFOA Standards should be used.

Items to be addressed in the derivatives policy should include the following:

- guidelines for selecting counterparties;
- types of transactions that can and cannot be entered into;
- source of payment for derivative obligations;
- levels of permissible risk exposure, including basis risk, counterparty risk and termination risk;
- oversight;
- disclosure

E. **Refunding (Refinancing):** There should be a 4% minimum present value savings, and/or other considerations such as structure or removal of onerous covenenants before a refinancing may be executed. Or in the instance of new money issues and a refinancing, the City may want to take advantage of paying the costs of issuance one time. Periodic review of outstanding debt to determine the refunding possibilities.

F. Creditworthiness Objectives:

1. **Credit Ratings:** The City seeks to maintain the highest possible credit rating as part of its credit rating strategy consistent with the City's financing objectives. The city shall rate all of its long term debt. The city will consider rating short term debt over $1,000,000. The City shall respond to any rating agency surveillance and monitoring request through its finance team.

2. **Financial Disclosure/Municipal Continuing Disclosure: The City will comply with requirements.** A brief explanation of the new Electronic Municipal Market Access System (EMMA) is provided below.

Beginning July 1, 2009 Securities and Exchange Commission(SEC) Rule 15c2-12 will require issuers of municipal securities and other obligated entities to provide annual information and material event notices to the Municipal Securities Rulemaking Board(MSRB) only, rather than to any of the previously recognized national information repositories(NRMSIRs). These filings must be made through the use of the MSRB's new electronic portal "EMMA," is short for Electronic Municipal Market Access.

If the City has issued debt prior to July 1, 2009 subject to the Continuing Disclosure requirements, the City must abide by the original agreement and send the information to the local State Information Depository (SID) – OMAC.

Financial Disclosure: The City currently has a bi-annual audit conducted after the second year is closed. The City will have an annual financial audit cycle, starting after the completion of the 2009/10 bi-annual audit.

An Annual Disclosure Document will be prepared by Bond Counsel with the City's assistance on an annual basis.

Financial Management Policies:

1. **Revenue and Expenditure Assumptions:**

Revenue and Expenditure forecasts are arrived at through a combination of the following:

a. reviewing historical data over primarily the last five years;
b. relying on the professional judgment of the department or division manager as it relates to individual line item expenditures and their anticipated needs for the coming year;
c. evaluating changes in law (both the City's and other entities) and the forecasts of outside agencies that will specifically impact individual revenue sources;
d. maintaining contact with a representative sample of local businesses in order to estimate a general level of productivity for the local economy;
e. maintaining close contact with the communities largest employers to estimate their anticipated annual level of activity;
f. adjusting for changes in city policies and procedures intended to limit expenditure increases and manage risk;
g. modifying based on the overall personal experience of the Mayor, the Finance Director and Department Heads, especially with regard to matters of personnel, fringe benefit, insurance, and utility costs;

2. **Budget Amendments and Updates :**

a. Supplemental appropriations are typically done as needed and certified to the county auditor on a semi-annual basis.
b. Only budget adjustments from one account to another within an authorized spending category within a single fund are processed by the Director of Finance and approved be the Mayor. Any budget adjustments in excess of $5,000 will be reported to Council.
c. No budget amendments are made without legislative approval.
d. Monthly financial statements and analysis are shared with the Mayor, Council, and Department supervisors by the tenth business day of the next month and discussed at the Finance Committee on the third Tuesday of each month.

3. **Long Term Financial Planning:**

    a. The City updates a General Fund three year revenue and expenditure forecast annually.
    b. The City prepares a capital project financial plan reflecting the terms of each individual project within project categories, incorporating funding sources and project schedules from planning through construction.

4. **Long Term Capital Planning:**

    a. The Director of Finance projects funding sources for the current year's Capital budget.
    b. Next, the Director of Finance and the Department Supervisors develop a Capital Budget for the next year and a Capital Improvement Plan for the next four years. This is the first component of the budgeting process and usually starts in July.
    c. Once the Department Supervisors submit their capital requests for the next year's Capital Budget and the four years of Capital Improvement Plan, the Director of Finance prepares a schedule with all requests and costs.
    d. Next, the Mayor and Council meet with the Department Supervisors for explanations of their requests.
    e. Then a prioritized list is compiled by the Mayor and Council with a spending limit.
    f. This information is then compiled and submitted to the Mayor and Council for approval and included in the overall budget document.
    g. The four years of the Capital Improvement Plan is adjusted for those requests not approved in the current year's Capital Budget. The Capital Improvement Plan is also reviewed for large projects that have funding requirements outside the scope of the normal revenue sources.

III. Income Tax Issues and Deposit of Funds

Income tax is recorded in the General Fund and transferred to all other funds as budgeted, appropriated, and needed. If a need arises that is not budgeted and appropriated, then a supplemental appropriation goes through the appropriate process. The income tax credit can only be modified by a vote of the residents.

Interest Distribution on Investments: Interest income will be allocated between the General Fund, the Street Construction Fund and the State Highway Fund based on their percent of the prior year fund balances of the total of these three funds, unless there is a restriction from the originating source.

According to the ORC, every five years new public depository agreements for a banking relationship must be bid. Additional consideration will be awarded to each bank that has bid on the City's notes and bonds over the past five years.

IV. Liquidity and Reserve Fund Policies

A. General Reserve Fund:

This Fund was created to save surpluses for lean years and/or disasters. The source of funding is one time revenues and a portion of the surpluses in excess of 5% of the current year appropriations in the General Fund. The General Reserve Fund can only transfer to the General Fund.

B. Payroll Stabilization Fund:

This Fund was created to fund the compensation liability created by accumulated vacation, sick, compensatory time and other paid leave time. It will make available the necessary balance to pay out certain accumulated leaves at the time of termination of employment. That payment will be made directly from this fund. It will save the two operating funds from spikes in their expenditures for these payouts. This Fund will be funded through one time revenues and a portion of the surpluses in excess of 5% of the current year appropriations in the General Fund up to the prior year end liability. It will have priority over the General Reserve Fund for these funding sources.

C. Capital Reserve Fund:

This Fund was created to fund the capital expenditures of equipment, building improvements, street improvements, and sewer improvements as is deemed prudent. It will be funded through one time revenues, transfers, and a portion of the surpluses in excess of 5% of the current year appropriations in the General Fund. The minimum balance of this fund should cover expenditures of the successive year for those capital items with an expected life of five years or less. Amounts needed to fund longer life improvements can be accumulated in this fund. The Capital Reserve Fund can transfer to the Capital Fund, the Building Improvement Fund, the Street Improvement Fund, and the Sewer Improvement Fund.

D. Recommended Ending Fund Balances:

- General Fund Balance – 5% of the current year appropriations.
- General Reserve Fund Balance – from 5% up to 17% of the General Fund current year appropriations.
- Payroll Stabilization Fund Balance – an amount equal to 60% of the liability as established on the prior year financial statements. This balance will be accumulated until met and will be evaluated and adjusted annually.
- Capital Reserve Fund Balance – a minimum amount to fund successive year's five year life capital asset expenditures plus $50,000.
- Ambulance Billing Fund – a minimum of $50,000, accumulating an additional $50,000 until reach the next needed equipment goal.

V. Methods of Debt Issuance

The City will determine, on a case-by-case basis, whether to sell its bonds competitively or through negotiation.

A. **Competitive Sale:** In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. With respect to Bond Anticipation Notes, the notes shall be awarded to the bidder providing the lowest net interest cost.

B. **Negotiated Sale:** The City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:

1. A structure which may require a strong pre-marketing effort such as a complex transaction or a "story" bond;
2. Selling a short long-term fixed rate Issue without an Official Statement;
3. Size of the issue which may limit the number of potential bidders; and
4. Market volatility is such that the City would be better served by flexibility in timing a sale in a changing interest rate environment.

C. **Private Placement:** From time to time the City may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a cost savings to the City relative to other methods of debt issuance or if current credit conditions make it appropriate not to market the debt to the general public.

VI. Financial Team Selection

A. **Senior and Co-Manager Selection (Negotiated Sale):** With approval of City Council, the Director of Finance or the Mayor shall have the right to select a Senior Manager and, if appropriate, a co-manager for a proposed negotiated sale. The criteria shall include, but not be limited to the following:

1. The firm's ability and experience in managing complex transactions;
2. The firm's knowledge and prior experience with the City and other Ohio debt issues;
3. The firm's willingness to risk capital and demonstration of such risk;
4. Quality and experience of personnel assigned to the City's engagement;
5. Financing plan presented by the firm;
6. The underwriting fees proposed;
7. The availability and accessibility of firm personnel.

In competitive sales the Finance team is the one with the lowest and best bid on the day of the sale.

B. Underwriter's Compensation: The underwriter's compensation will be determined through the RFP process. The senior manager shall submit an itemized list of expenses incurred to members of the underwriting group. Any expenses must be substantiated.

C. Evaluation of Underwriter's Performance: The City may evaluate each debt sale after its completion to assess the following: costs of issuance including underwriter's compensation, pricing of the debt in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of debt and sales credit.

The City may require the underwriter to prepare a Pricing Memorandum in those cases in which the City has not hired a financial advisor. The Pricing Memorandum will compare the City's debt issue to the comparable issues in the market during the same time period. The transaction should also be compared against nationally recognized indices such as the Municipal Market Data and Delphos Scales or other appropriate measures.

Following each sale, the underwriter shall provide a report to the City.

D. Financial Advisor: The City may select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes (whether competitive or negotiated). Any selection of a financial advisor(s) shall be based on, but not limited to, the following criteria:

1. Experience in providing consulting services to tax-exempt issuers, especially in Ohio;
2. Knowledge and experience in structuring and analyzing complex issues;
3. Experience and reputation of assigned personnel;
4. National Association of Independent Public Financial Advisor (NAIPFA) Certification
5. Fees and expenses

E. Financial Advisory Services: Financial advisory services provided to the City shall include, but shall not be limited to the following:

1. Evaluation of risks and opportunities associated with debt issuance;
2. Monitoring marketing opportunities, especially for refunding opportunities;
3. Evaluation of proposals submitted to the City by investment banking firms;
4. Structuring and pricing;
5. Preparation of request for proposals for other financial services (trustee and paying agent services, printing, credit facilities, remarketing agent services, etc.);
6. Advice, assistance and preparation for presentations with rating agencies, insurance companies, and major investors.

F. Bond Counsel: The City shall retain a nationally, or of equal expertise, recognized bond counsel firm in connection with the issuance of debt of the City. Bond counsel will be expected to provide necessary legal services to the City in the negotiation and preparation of required documents and legislation, in connection with issuance of the debt, to render at the closing a legal opinion concerning validity and binding nature of the agreements of the City and the tax exempt nature of the interest on the debt. The legal opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. Counsel may act as Rebate Consultant and assist the City with its Continuing Disclosure Requirements. Bond Counsel may also assist the City in preparing the Offering Documents for debt issues.

G. **Underwriter's Counsel**: The appointment of any underwriter's counsel will be made by the senior manager on negotiated transactions with the concurrence of the Municipal Administrator, and Director of Finance. The City shall have the right to review the credentials of counsel selected by underwriter in a negotiated sale.

H. **Rebate Consultant**: A firm engaged in assisting issuers in calculating arbitrage and rebate obligations may be retained by the City. The City may choose to retain the services of their Bond Counsel, if qualified, in this endeavor.

I. **Economic Development Consultant:**

Tax Increment Financing will be considered for industrial, manufacturing, or large commercial projects. Other projects will be considered based on the merits of the proposal. A TIF project should be evaluated based on the following criteria:

- Developer will show 2 times coverage of debt service on the improvement cash flow;
- Developer will demonstrate the viability of the proposed project with construction contract(s), building permits, or other commitments.
- Developer will structure transaction with one years debt service reserve;
- Developer will provide some sort of remedy if coverage or enhancement changes in the negative; and
- The City will only offer its general obligation pledge under the conditions mentioned above.

VII. Finance Team Concerns/Issues

A. **Conflicts of Interest:** The City requires that its consultants and advisors will provide the City with objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts of interest.

B. **Disclosure by Financing Team Members**: All financing team members will be required to provide full and complete disclosure, relative to agreements with other financing team members and outside parties. The extent of disclosure may vary depending on the nature of the transaction. However, in general terms, no agreements shall be permitted which could compromise the firm's ability to provide independent advice which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

C. Right of First Refusal: The City shall not enter into any financial contract or agreement that permits or grants "right of first refusal." A "right of first refusal" grants a previous contractor, or underwriter, an unfair opportunity on all future bond Issues. This type of contract is unenforceable and shall not be entered into.

VIII. Review of Policies

These policies shall be reviewed annually by the Council Finance Committee with the assistance of the Director of Finance, and any recommended modifications will be presented for the consideration of the City Council as needed.

APPENDIX

LIST OF MATERIAL EVENTS THAT MUST BE DISCLOSED WHEN THEY HAPPEN

The Issuer will provide to the MSRB through the EMMA system, in a timely manner, notice of:

- The occurrence of any of the following events, within the meaning of the Rule, with respect to the Bonds, if material:
    - Principal and interest payment delinquencies
    - Non-payment-related defaults
    - Unscheduled draws on debt charges reserves reflecting financial difficulties
    - Unscheduled draws on credit enhancements reflecting financial difficulties
    - Substitution of credit or liquidity providers, or their failure to perform
    - Adverse tax opinions or events affecting the tax-exempt status of the Bonds
    - Modifications to rights of holders or beneficial owners
    - Bond calls
    - Defeasances
    - Release, substitution, or sale of property securing repayment of the Bonds*
    - Rating changes

- The Issuer's failure to provide the Annual Information within the time specified in the Issuer's Continuing Disclosure Agreement.
- Any change in the accounting principles applied in the preparation of its annual financial statements, any change in its Fiscal Year, its failure to appropriate funds to meet costs to be incurred to perform the Continuing Disclosure Agreement, and of the termination of this Agreement.

Debt Financial Management Policy
Glossary

Accrued Interest. Accrued interest is interest that is due on a bond or other fixed income security since the last interest payment was made.

Advance Refunding. Financing transactions under which new bonds are issued to repay an outstanding bond issue prior to its first call date. Money raised from the new issue is usually placed in an escrow account and invested in government securities. The interest and principal repayments of these escrowed securities are used to pay the old bonds until they can be called.

Agency Debt. Debt the City incurs from making loans from Federal or State agencies.

American Recovery and Re-Investment Act. The ARRA is generally referred to as the Stimulus Act. It authorizes and expands existing authority for state and local government tax-exempt and tax credit bonds, and provisions intended to stimulate market demand for those bonds.

Amortization. It is the process of paying the principal amount of an issue of securities by periodic payments either directly to holders of the securities or to a sinking fund for the benefit of security holders.

Annual Financial Information. This is financial information of operating data of the type included in the final official statement with respect to the issuer. Rule 15c2-12 obligates underwriters for most primary offerings of municipal securities to ensure that the issuer or other obligated person have undertaken to provide such information or data on an annual basis to EMMA.

Assessed Valuation or Assessed Value. The appraised worth of a property as set by a taxing authority for purposes of ad valorem taxation.

Auditor of State. The Auditor of State is the Constitutional Officer responsible for auditing all public offices in Ohio, including cities; villages; schools; universities; counties; townships; and State agencies, boards and commissions.

Arbitrage. It is, generally, the difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

Bank Qualified. It refers to bond issuers who issue no more that $30 million of general obligation debt by a local unit of government. Currently 501(c) (3) issuers have their own designations, and lease obligations in a year. Certain financial institutions like commercial banks are allowed to deduct 80% of the interest expense associated with the purchase of bank qualified issues.

Basis Point. 1/100 of a percent of yield. Often a basis point is referred to as "bp".

Bidding Agent. A firm engaged in developing written terms for a request for securities for an escrow, receives competitive offers for the securities, and coordinates the settlement of the Escrow Securities.

Blue Sky Laws. A colloquial term for state securities laws.

Bond Anticipation Notes (BANs). Bans are notes which are paid from the proceeds of the issuance of long-term bonds. Typically issued for capital projects.

Bond Counsel. Nationally recognized legal experts hired to negotiate, prepare and supervise proceedings for the issuance of an issue of debt and to provide an opinion as to, validity and binding effect of the debt and related agreements and obligations and the tax-exempt nature of the debt (if tax-exempt).

Book Entry Bonds. The process of registering bonds through an electronic book-entry system. This system replaces the need to provide investors with physical bonds.

Bond Purchase Agreement. An agreement between issuer and the underwriter, in a negotiated transaction, who agrees to purchase a bond issue. A bond purchase agreement generally contains the following: 1) the purchase price to be paid by the underwriter, including any premium or discount; 2) certain terms of the bonds, such as interest rates, maturities, redemption provisions, and original issue discount; 3) the circumstances under which the under-writer may cancel its obligation to purchase the issue such as changes in the tax treatment of the bonds and other events which would make it substantially more difficult for the underwriter to sell the bonds to investors; 4) good faith deposit, if any; 5) the condition to the closing of the issue, which often include documents, certificates and opinions which are to be delivered on the closing date; and 6) any restrictions on the liability of the issuer. Other common names for a bond purchase agreement are "contract of purchase" or "bond purchase contract."

Broker-Dealer. This refers to a general term for a securities firm that is engaged in both buying and selling securities for customers and also buying and selling for its own account.

Build America Bonds. BABs, as they are known, are tax credit bonds. They can be issued as tax-exempt government use bonds, but for which the issuer has elected to forego the tax exemption of interest and either to allow (i) the holders to receive tax credits equal to 35 percent of the interest payments on the BABs or (ii) if eligible, the issuer to receive credits in the form of payments from the US Treasury in that amount.

Bullet Maturity. A maturity for which there are no principal and/or sinking fund payments prior to the stated maturity date. The par amount of the loans comes due at the end.

Call Provisions. This is commonly referred to as the pre-payment option, the terms of an issue of bonds giving the issuer the right to redeem all or a portion of the bonds prior to their stated maturities at a specific price, usually at or above par.

Capital Appreciation Bond (CABs). A municipal security on which the investment return on an initial principal amount is reinvested at a stated compounded rate until maturity, at which time the investor receives a single payment (the "maturity value") representing both the initial principal amount and the total investment return.

Capital Improvement Debt. It is debt which is to be repaid from income taxes transferred from the General Fund to the City's Capital Improvement Fund.

Capitalized Interest. A portion of the proceeds of a bond issue which is set aside to pay interest on the same bond issue for a specific period of time. Interest is sometimes capitalized for the construction period of the project.

Certificates of Participation (COPs). Tax-exempt lease/purchase financing enables issuers to avoid issuing general obligation debt, subject to voter approval. The financing is secured by a pledge to seek annual appropriations to make lease payments. COPs represent proportionate shares of interest in the lease payments made by the governmental entity to the trustee. Proceeds from the sale of COPs fund the purchase of equipment or other improvements. At the end of lease term, the government entity owns financed improvements.

Commercial Paper. Short-term promissory notes (less than 270 days) issued in either registered or bearer form, and usually backed by a line or letter of credit with a bank.

Compensated Absences. Remuneration for an agreed upon set or number of absences from one's job. Typically a union negotiated deal point.

Competitive Sale. A sale/auction of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. Contrast to a negotiated sale.

Conduit Financing. The issuance of municipal securities by a governmental unit (referred to as a "conduit issuer") to finance a project to be used primarily by a third party, usually a for-profit entity engaged in private enterprise or a 501©(3) organization.

Continuing Disclosure. The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.

Coverage. This is a term usually connected with revenue bonds. It indicates the margin of safety for payment of debt service, reflecting the number of time gross or net income must exceed debt service payable.

Credit Enhancement. Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

Current Yield. It is the rate of actual cash flow as percent of the purchase price.

Cusip. Cusip stands for "Committee on Uniform Securities Identification Procedures". It is a nine-digit identifier number for a security that is used to maintain a uniform method of identifying municipal, corporate, and U.S. Government securities. Cusip numbers are a service provided by Standard & Poor's Corporation.

Debt Service. It is the amount of money necessary to pay interest on outstanding bonds, the principal of maturing bonds and the required contributions to a sinking fund for term bonds. This amount is known as the debt service requirement.

Debt Service Coverage. It is the net revenue available for debt service divided by debt service.

Debt Service Reserve Fund (DSRF). A fund in which moneys are placed which may be used to pay debt service if current revenues of the Utility are insufficient to pay operating costs and satisfy current debt service requirements. It is designed to provide a cushion for temporary adversity. The DSRF may also be secured by a surety bond from a bond insurer or by a letter of credit.

Deep Discount Bonds. These are bonds which are priced for sale at a substantial discount from their face or par value.

Defeasance or Defeased. In a refinancing, the termination of rights and interests of the bondholders and of their lien on the pledged revenues or other security in accordance with the terms of the bond contract for an issue of securities.

Depreciation. Depreciation is a noncash expense that reduces the value of an asset as a result of wear and tear, age, or obsolescence.

Derivative or Derivative Security. It is financial product whose value is derived from an underlying security, structured to deliver varying benefits to different market segments and participants. The term encompasses a wide range of products offered in the marketplace including interest rate swaps, caps, floors, collars and other synthetic variable rate products. value or reference to an index

Double-Barreled Bond. It is a municipal bond that is secured by a combination of a general obligation tax pledge and specified revenues. The term is occasionally, although erroneously, used to refer to bonds by any two sources of pledged revenue.

EMMA. EMMA stands for The Municipal Securities Rule Making Board's Electronic Municipal Market Access Data Base. It became effective July 1, 2009. It is a comprehensive source for the official statements, continuing disclosure documents, advance refunding documents and real-time price information on Municipal securities. It is assuming the role as the centralized, electronic repository for al municipal bond disclosure documents and trade data.

Enterprise Funds. Enterprise funds are commonly used to account for activities that are fully financed through user charges. The City operates its own sewer and water system utilities.

Escrow Fund. A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue in an advance refunding.

Escrow Securities. Escrow Securities means securities in which moneys in an Escrow are invested in relation to the advance refunding.

Feasibility Study. A report of the financial practicality of a proposed project and financing thereof, which may include estimates that will be generated and a review of the physical, operating, economic or engineering aspects of the proposed project. It is not uncommon for the rating services to require such studies, performed by credible third party consultants.

Financial Advisors. With respect to the issuance of municipal bonds, tax-exempt or taxable, a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings.

Floating or Variable Interest Rate. A method of determining the interest rate to be paid on a bond issue by reference to an index, formula, or an interest rate determined by the remarketing necessary to allow the bonds to trade at par, at intervals as stated in the bond contract. The latter method is most common with so-called, low floater, variable-rate demand obligations, where interest rates can be reset daily, weekly, and monthly or at other intervals.

501©(3) Organization. An organization recognized by the I.R.S. as a not-for-profit organization.

Fixed Rate. Means the interest rate for the debt is determined and fixed on the date the issue is sold.

Fund Accounting. The City uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self balancing set of accounts.

Generally Accepted Accounting Principles (GAAP). These are the rules adopted by the Financial Accounting Standards Board that establishes standards for preparing financial statements of an enterprise.

General Obligation Bond/Debt. Debt secured by a pledge of the full faith and credit and general property taxing power of the City for the payment of debt service payments. Can be "self-supporting," i.e. payable from the net revenues of the Utility (or another enterprise of the City). All City resources other than those specifically excluded are considered available and must be used if normal sources are not sufficient

Indenture/Trust Indenture. It is a contract between the issuer of municipal securities and a trustee for the benefit of bond holders. The trust indenture establishes the rights, duties, responsibilities and remedies of the issuer and trustee and determines the exact nature of the security for the bonds. Typically used with the issuance of revenue bonds.

Insured Bonds. Many municipal bonds are backed by municipal bond insurance that is specifically designed to reduce investment risk. In the event of a default, the insurance company guarantees payment of principal and interest to the investors for as long as the Default lasts. There were six insurance companies rated AAA during 2008; in 2009 only one insurance company had a Aa2 rating.

Investment Grade. Bonds graded Baa and higher by Moody's Investors Service and Fitch Investors Service, or BBB and higher by Standard and Poor's are considered to have only minor speculative characteristics. These are considered to have a high probability of being paid and are considered "investment grade." Bank examiners require that most bonds held by banks be investment grade.

Legal Opinion. An opinion from bond counsel that states that the issuance of the securities is valid, that the municipal securities are legal, and in the case of tax-exempt bonds, interest on the bonds is excluded from gross income of the holders for federal income tax purposes, and where applicable, from state and local taxes.

Letter of Credit. A bank credit facility pursuant to which the bank agrees to lend a specified amount of funds for a limited term.

Level Debt Service. An arrangement of serial maturities in which the amount of principal maturing increases at approximately the same rate as the amount of interest declines, resulting in substantially equal debt service payments over the life of bonds.

Long-term. Generally means more than one year.

Material Event Disclosure. The disclosure of certain enumerated events affecting a municipal security required to be made under a continuing disclosure agreement meeting the requirements of Rule 15c2-12. **See Appendix for List of Events.**

Municipal Bond. A general term referring to securities issued by states and local government agencies such as cities, towns, counties, and special districts. Primary features of these securities are that interest on them is generally exempt from federal income taxation and, in many cases, state income taxation as well (in that state issued). Because of this feature, the interest rates on municipal bonds are lower that interest rates on other types of bonds, but when taking into account a bondholder's income taxes, often provide a comparable, or better, rate of return.

Municipal Bond Insurance Companies.

Assured Guaranty /FSA

Municipal Bond Rating Agency.

Moody's Investors Service
Standard & Poor's Corporation
Fitch

Municipal Lease. An obligation by a municipal agency to lease equipment or property. The lease payments usually include a component for repayment of principal and a component for interest. The interest component is usually tax-free (exempt from federal, and sometimes state, income taxation).

Municipal Notes. Capital operating short term obligations, including tax/revenue/bond anticipation notes (TANS/RANS/BANS) of a municipal agency that are sold in anticipation of tax receipts, an upcoming bond issue, or other revenues. Municipalities may issue notes for 20 years; after 5 years they must pay down principal on the notes as if they had a bond issue outstanding.

Municipal Securities Rule Making Board (MSRB). The Municipal Securities Rule Making Board is an independent self-regulatory organization, consisting of representatives of securities firms, dealer banks and the public that is charged with primary rule making authority over dealers, dealer banks and brokers in connection with their municipal securities activities. These rules are approved by the SEC and enforced by NASD.

Negative Arbitrage. Investment of bond proceeds and other related funds at a rate below the bond yield.

Negotiated Sale. It is a method of sale in which the issuer chooses one underwriter to negotiate its bond issue - terms pursuant to which such underwriter will purchase and market the bonds.

Net Interest Cost (NIC). It is the method of computing interest expense to the issuer of bonds. NIC allows for premium and discount bonds (and takes into consideration costs of issuance) and represents the dollar amount of interest payable over the life of an issue, without taking into account the time value of money (which True Interest Cost (TIC) does take into account). NIC can be stated as a percentage or a total dollar amount.

Net Revenue. Generally, Net Revenue is the difference between gross revenue and operating and maintenance expenses.

Notice of Redemption. A publication of an issuer's intention to call outstanding bonds prior to their stated maturity dates, in accordance with the bond contract.

Notice of Sale. It is publication/offering document by an issuer describing an anticipated new offering (sold through a competitive sale) of municipal bonds. It generally contains the date, time and place of sale, amount of issue, type of bond, amount of good faith deposit, basis for award, name of bond counsel, maturity schedule, method, time and place of delivery, and bid form.

Offering Circular. A document generally prepared by underwriters about an issue of securities expected in the primary market. Investors, analysts, and the rating agencies may use this information and other documents to evaluate the credit quality of an issue.

Official Statement. This is a legal document that must be prepared by an issuer of municipal securities (Over $1,000,000) that gives details of the security and financial information for an issue. It is much like a prospectus for stocks.

Original Issue Discount. A bond offered at a dollar price less that par (100%), which qualifies for special treatment under federal tax law. For tax-exempt municipal bonds, the difference between the issue price and par is treated as tax-exempt income rather than as a capital gain, if the bonds are held to maturity.

Par Bond. A bond selling at its face value.

Parity Bonds. Two or more issues of bonds that have the same priority claim or lien against pledged revenues or the issuers' full faith and credit pledge. With respect to the initial issue of bonds, called the "prior issue," the bond contract normally provides the requirements that must be satisfied before subsequent issues of bonds called "additional parity bonds," may be issued.

Pay-As-You-Go. An issuer elects to finance a project with existing cash flow as opposed to issuing debt obligations.

Paying Agent. It is the entity responsible for the payment of interest and principal on municipal bonds on behalf of the issuer, typically a bank or trust company.

Preliminary Official Statement. The legal document prepared by or for a municipal securities issuer that gives in detail the security and financial information about the issue. The Preliminary Official Statement includes all relevant material except the interest rates and prices for the securities, and is made available to prospective investors prior to the setting of rates and prices.

Premium Bond. It is a bond which sells above par to generate cash for the transaction.

Present Value. It is the current value of a future cash flow.

Private Activity Bonds. These bonds are one of the two primary categories of tax-exempt bonds established under the 1986 Tax Act. Most are subject to state volume caps and benefit non-governmental persons; e.g. IDBs, housing bonds, exempt facility bonds.

Private Placement. It is the negotiated private sale of an issue with one or more institutional or private investors as opposed to being publicly offered or sold.

Ratings. These are evaluations of the credit quality of notes and bonds made by rating agencies. Ratings are intended to measure the probability of the timely repayment of principal and interest on municipal securities. The three primary municipal credit rating agencies are: Standard & Poor's Corporation; Moody's Investors Service and Fitch Ratings.

Rebate. Generally, a requirement imposed by Tax Reform Act of 1986 whereby under certain circumstances, the issuer of tax-exempt bonds must pay the US Treasury profit earned from investment of tax-exempt bond proceeds at rates exceeding its tax-exempt borrowing rate. The tax-exempt borrowing rate (or "bond yield") is calculated pursuant to the IRS code.

Redemption. It is the paying off or buying back of an outstanding bond by the issuer prior to maturity by means of a cash payment. Redemption provisions are set forth in the indenture. Common types of redemption provisions include: Optional Redemption (ability to call after a stated date, usually at a premium); Mandatory Redemption (Issuer required to call outstanding bonds based on predetermined schedule or otherwise provided in the bond contract); Extraordinary Optional Redemption (Issuer has right to call bonds upon the occurrence of certain events such as when excess bond proceeds exist); and Extraordinary Mandatory Redemption (Usually derived from insurance proceeds after destruction of project collateral).

Refunding Bond. They are the bonds used in a refinancing to replace a bond issue with a new bond issue. Usually a new bond issue will refund an outstanding issue to achieve conditions more favorable to the issuer, such as reduced interest rate or more favorable borrowing conditions like the removal of liens. With "Current Refunding" bonds must be called within 90 days of the earliest call date applicable to IDBs. "Advance Refunding" establish a procedure where an issuer refinances an outstanding bond, typically far in advance of the first call date. The proceeds of new bonds are deposited in an escrow to pay debt service on outstanding bonds, called the "refunded bond." Revenues that were pledged to the outstanding bond to pay debt service are in turn, used to make debt service payments on the new bonds called "refunding bonds."

Revenue Anticipatory Debt. It is a method of improving cash flows by selling debt which will be retired with a certain revenue source to be received at a specific later date in the current year. This is typically done with short-term financing, i.e. RANs.

Revenue Bond. Bonds payable from a specific source of revenues and which do not pledge the full faith and credit of the issuer. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel taxation or legislative appropriations of funds not pledged for payment of debt service. Pledged revenues may be derived from the operation of the financed project, from companies financed in the case of IDBs, etc.

Revenue Debt. This would be debt secured only by a pledge of revenues of an Enterprise Fund and certain covenants of the City for the payment of annual principal and interest payments.

Rule 15c2-12. An SEC rule setting forth certain obligations of (i) underwriters to receive, review and distribute the official statements prepared by issuers of municipal securities, (ii) underwriters to obtain continuing disclosure agreements from issuers and to provide material event disclosures and annual financial information on a continuing basis, and (iii) broker-dealers to have access to such continuing disclosure in order to make recommendations of municipal securities in the secondary market.

Secondary Market Disclosure. The disclosure of information relating to outstanding municipal securities made following the end of an underwriting period by or on behalf of the issuer of or other obligor with respect to the securities. Certain secondary market disclosure obligations are set forth in Rule 15c2-12.

Self-Supporting Debt. This is debt that is to be repaid from proceeds derived exclusively from the enterprise activity for which the debt was issued.

Serial Bonds. These are the bonds of an issue in which some bonds mature in each year over a period of years. Serials enable issuers to access the lower end of the yield curve in a positively sloping yield curve environment.

Short-term debt. Generally means debt one year or less.

SLGS or SLUGS. Acronym for State and Local Government Series, SLGS are special U.S. government securities sold by the Treasury to issuers through individual subscription agreements. Interest rates and maturities of SLGS are arranged to comply with arbitrage restrictions of the Tax Code. SLGS are commonly used for deposit in an escrow account in connection with the issuance of refunding bonds.

Special Assessment. A charge imposed against a property in a particular locality because that property receives a special benefit by virtue of some public improvement, separate and apart from the general benefits accruing to the public at large.

Spread or Gross Spread. The income earned by the underwriting syndicate as a result of differences in the price paid to the issuer for a new issue of municipal bonds and the prices at which bonds are sold to the investing public. Spread is usually expressed in points or fractions thereof or per $1,000 bonds such as $8.00 per $1,000 bonds. The spread includes four components: Expenses, management fee, takedown (largest component like a sales commission), and risk.

Star Ohio. This is an acronym for the State Treasury Asset Reserve. The State of Ohio's highly rated (AAA in S&P) public investment pool offering safety, liquidity and generally higher yields.

Swap Management Policy. A swap policy is a formally approved written document intended to guide management decisions over time on interest rate derivative transactions.

Taxable Equivalent Yield. The interest rate that must be received on a taxable security to provide the holder the same after tax return as that earned on a tax-exempt bond.

Term Bond. A bond issued with a single maturity. Term bonds are typically structured at the end of a loan. Municipal Term Bonds usually include a sinking fund for the periodic redemption of a portion of the term bond.

True Interest Cost (TIC). Method of computing the issuer's borrowing cost, interest cost is defined as the rate, compounded semiannually, necessary to discount the amounts payable on the respective principal and interest maturity dates to the purchase price received for bonds; i.e. an internal rate of return calculation. Unlike NIC, TIC takes into account the time value of money. Although many analysts suggest that competitive sale bids should be awarded on the basis of the lowest TIC bid, most are awarded based on the lowest NIC bid.

Trustee. A bank designated by an issuer of bonds to act as the custodian of funds and official representative of the bondholders. Trustees are appointed to assure the bondholders have representation to enforce the contractual obligations of the issuer as provided for in the indenture.

Underwriter. An underwriter is a broker – dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. They purchase the entire security for a specified price, usually for resale to others. The underwriter may acquire bonds either through competitive or negotiated sales.

Underwriter's Discount. The Discount is difference between the price at which bonds are bought by the Underwriter from the City and the price at which they are reoffered to investors.

Underwriter's Expenses. Expenses of senior managers for out-of-pocket expenses including: underwriter's counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

Variable Interest Rate. An interest rate, sometimes referred to as a "floating rate," on a security that changes at intervals according to market conditions or a predetermined index or formula Variable rate bonds can adjust the interest rate as often as daily, or as infrequently as annually.

Variable Rate Debt. Debt with an interest rate which changes at intervals according to an index or a formula or other standard of measurement as stated in the bond contract.

Verification Report. In a refunding, a report, prepared by a certified public accountant or other independent third party, that demonstrates that the cash flow from investments purchased with the proceeds of the refunding bonds that are being defeased.

Yield. It is the net annual percentage income from an investment; the annual rate of return on an investment, based on the purchase price of the investment, its coupon rate and the length of time the investment is held. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or discount.

Yield Curve. A graph that plots market yields on securities of equivalent quality but different maturities at a given point in time. The vertical access represents the yields, while the horizontal axis depicts time to maturity. The relationship of interest rates over time, as reflected by the yield curve, will vary according to market conditions.

Zero Coupon Bond. An original issue discount bond on which no periodic interest payments are made but which is issued at a deep discount from par, accreting (at the rate represented the offering yield at issuance) to its full value at maturity. Also known as capital appreciation bonds.