RESOLUTION NO. R2016-038

A RESOLUTION REVISING ADMINISTRATIVE POLICY NO. 403.07 "DEBT SERVICE MANAGEMENT"; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, on the 5th day of March, 1996 the City Council passed Resolution No. 96-013 adopting Administrative Policy No. 403.07 "Debt Service Management"; and

WHEREAS, the policy most recently amended on the 1st day of December 2015, when the City Council passed Resolution No. 2015-044 adopting the current version of the Debt Service Management Policy; and

WHEREAS, the City Manager recommends adoption of the revised policy and the City Council desires to adopt such policy as the official policy regarding Debt Service Management; NOW, THEREFORE,

THE COUNCIL OF THE CITY OF DENTON HEREBY RESOLVES:

SECTION 1. The following policy entitled Policy No. 403.07 "Debt Service Management" attached hereto and made a part hereof, is hereby adopted as an official policy of the City of Denton, Texas and shall replace the existing Debt Service Management Policy.

SECTION 2. The attached policy shall be filed in the official records with the City Secretary.

SECTION 3. This resolution shall become effective immediately upon its passage and approval.

PASSED AND APPROVED this the 1 day of November, 2016.

CHRIS WATTS, MAYOR

ATTEST:
JENNIFER WALTERS, CITY SECRETARY

BY: Jennifer Walters

APPROVED AS TO LEGAL FORM:
ANITA BURGESS, CITY ATTORNEY

BY:

POLICY/ADMINISTRATIVE PROCEDURE/ADMINISTRATIVE DIRECTIVE

SECTION:	FINANCE	REFERENCE NUMBER: 403.07
SUBJECT:	DEBT MANAGEMENT	INITIAL EFECTIVE DATE: 03/05/96
TITLE:	DEBT SERVICE MANAGEMENT	LAST REVISION DATE: 11/1/16

POLICY STATEMENT

This policy shall provide general guidelines by which the City of Denton (the "City") will issue debt. In as much as this policy may be in conflict or inconsistent with state law, state law will prevail. Furthermore, state law will prevail on matters not specifically addressed in this policy. It is the objective of this policy that (1) the City obtain financing only when necessary, (2) the process for identifying the timing and amount of debt or other financing proceed as efficiently as possible, and (3) the City seek the most favorable interest rate and competitive costs in accordance with this policy while maintaining financial flexibility.

This debt management policy applies to the financing activities of the City of Denton, Texas. It also addresses the issues of process, use and limitations. Proceeds from debt issuances will be delivered as closely as possible to the time that contracts are expected to be awarded so that the proceeds are spent efficiently. In addition, the City Council may, through adoption of a reimbursement ordinance, authorize the expenditure of funds prior to the bond sale for certain capital expenses. The reimbursement ordinance is required by Federal Law to document the City's intent to reimburse expenses from the future sale of debt obligations. The City Council shall review and approve the debt management policy at least annually and be documented by ordinance or resolution, which shall include any changes made.

ADMINISTRATIVE PROCEDURES

I. DEBT MANAGEMENT COMMITTEE

A. Members

The Debt Management Committee (the "Committee") will consist of the City Manager, two (2) Assistant City Managers, and the Director of Finance. The City's financial advisor and bond counsel shall act as consultants to the Committee.

B. Scope

The Committee shall meet at least annually to review the debt program or as necessary. Topics for discussion should include: the Capital Improvement Program (CIP), acquisition of fixed assets, status of outstanding debt, unspent

bond proceeds, unissued voter authorized debt, timing of additional financing needs and financing options, and the effect of proposed financing activity on the related rates supporting the debt (i.e., property tax rate, utility rates, user fees, etc.).

II. RESPONSIBILITY AND STANDARD OF CARE

The Finance Department will coordinate all activities required for the issuance of all debt.

A. Delegation

The Director of Finance shall have primary responsibility for developing financing recommendations. The Director of Finance shall:

- Meet at least annually during budget development with Department Directors to consider the need for financing, review debt capacity and assess progress on the Capital Improvement Program;
- Periodically review changes in state and federal legislation;
- Periodically review the provisions of ordinances authorizing issuance of debt obligations;
- Periodically review the City's Charter to ensure compliance with state law; and
- Periodically review services provided by the financial advisor, bond counsel, paying agent, and other service providers to evaluate the extent and effectiveness of the services being provided.

B. Conflicts of Interest

All participants in the debt management process shall act responsibly as custodians of public assets. Officers and employees involved in the debt management process shall refrain from personal business activity that could conflict with proper execution of the financing program, or which could impair their ability to make impartial financing decisions.

C. Reporting

The Director of Finance shall include in the Comprehensive Annual Financial Report ("CAFR") a report summarizing all debt outstanding by type (tax-supported and self-supported general obligation debt, and revenue debt), remaining balance of bond proceeds, update of arbitrage liability, and update of pertinent legislative changes. Additionally, the Director of Finance shall annually publish on the City's website a Debt Report summarizing the City's total outstanding principal and interest for all long-term debt as of the end of the last fiscal year, in accordance with House Bill 1378 passed during the 2015 legislative session.

D. Investor Relations

The City shall endeavor to maintain a positive relationship with the investment community. The Director of Finance and the City's financial advisor shall, as necessary, prepare reports and other forms of communications regarding the City's indebtedness, as well as its future financing plans. This includes information presented to the press and other media. The information includes, but is not limited to, the annual program of services, CAFR, financial plans, capital improvement plans, and comprehensive development plans.

All forms of media deemed appropriate and immediately available to the City will be utilized to disseminate information to all investors. Examples include the Texas Bond Reporter and the Texas Municipal Reports published by the Municipal Advisory Council of Texas (the "MAC"), The Bond Buyer, and the Electronic Municipal Market Access system ("EMMA") maintained by the Municipal Securities Rulemaking Board (the "MSRB"). Bond counsel will advise on the use of electronic media in connection with the City's debt program.

E. Financial Advisor

The City shall retain an independent financial advisor for advice on the structuring of new debt, financial analysis of various options, including refunding opportunities, the rating review process, the marketing and marketability of City debt obligations, issuance and post-issuance services, the preparation of offering documents (each, an "Official Statement") and other services, as necessary. The City will seek the advice of the financial advisor on an ongoing basis. The financial advisor will perform other services as defined by the agreement approved by the City Council. The financial advisor will not bid on nor underwrite any City debt issues in accordance with MSRB rules.

F. Bond Counsel

The City shall retain bond counsel for legal and procedural advice on all debt issues. Bond counsel shall advise the City in all matters pertaining to its bond ordinance(s) and/or resolution(s). No action shall be taken with respect to any obligation until a written instrument (e.g., Certificate for Ordinance or other legal instrument) has been prepared by the bond attorneys certifying the legality of the proposal. The bond attorneys shall prepare all ordinances and other legal instruments required for the execution and sale of any bonds issued which shall then be reviewed by the City Attorney and the Director of Finance. The City will also seek the advice of bond counsel on all other types of debt and on any other questions involving federal tax or arbitrage law. Special counsel may be retained to protect the City's interest in complex negotiations.

G. Communications with Underwriters

The Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 mandated the Securities and Exchange Commission to establish the Municipal Advisor Rules (the "MA Rules") which were finalized in September of 2013 and became effective July 1, 2014. Under the MA Rules, any person that provides certain advice to the City with respect to the issuance of bonds or municipal financial projects (including investment strategies involving the investment of bond proceeds) is, absent an exemption under the MA Rules, deemed to be a "municipal advisor." Any person that is a municipal advisor under the MA Rules is subject to a fiduciary duty to the City and would be precluded from acting as an underwriter for bonds issued by the City. The City receives deal ideas, analysis, suggestions and related services for bond issues from underwriter banks that may be considered "advice" for purposes of the MA Rules. So that the City may continue to receive this type of advice from underwriters/banks, the Director of Finance may provide whatever communications to an underwriter/bank the Director of Finance determines to be necessary to establish an exemption under the MA Rules so that those underwriters/banks are not considered a "municipal advisor" for purposes of the MA Rules. On June 29, 2015, the Director of Finance filed an Independent Registered Municipal Advisor (IRMA) Certificate with the Municipal Advisory Council of Texas (MAC) to be made available to underwriters/banks desiring to communicate with the City. The IRMA Certificate is also available on the City's website.

III. OFFICIAL STATEMENT

The preparation of the Official Statement is the responsibility of the financial advisor in concert with the Director of Finance. Information for the Official Statement is gathered from departments/divisions throughout the City.

IV. DISCLOSURE

A. The City will take all appropriate steps to comply with federal securities laws, including, but not limited to, Securities and Exchange Commission ("SEC") Rule 15c2-12 (the "Rule"). The City will make annual and event disclosure filings to the MSRB via EMMA as required by the Rule and its continuing disclosure undertakings.

B. With each bond offering, in the preparation of a CAFR, Official Statement or any other offering document, and with the City's annual filings required by its continuing disclosure undertakings pursuant to the Rule, the City will follow a policy of full and complete disclosure of operating, financial and legal conditions of the City, in conformance with the Government Finance Officers Association best practice, "Understanding Your Continuing Disclosure Responsibilities (September 2015)", and as advised by the City's bond counsel or financial advisor.

C. Notice of Disclosure Events

The Rule and the City's continuing disclosure undertakings list certain events that must be reported in a timely fashion to the MSRB via EMMA and, if required by the Rule and the City's continuing disclosure undertakings, to the MAC in its capacity as the State Information Depository ("SID") for the state. On May 26, 2010, the SEC made amendments to the Rule, which only apply to primary offerings that occur on or after December 1, 2010. While not required, the City will make every effort to apply the new requirements to previously issued bonds since the amendments make the Rule more stringent. The amended Rule requires that events be reported to the MSRB within 10 business days after the occurrence of the event.

1. The events that must be reported, if material, are:

    a. Nonpayment related defaults;
    b. Modifications of rights of security holders;
    c. Bond calls;
    d. Release, substitution, or sale of property securing repayment of the securities;
    e. Mergers, consolidations, acquisitions, the sale of all or substantially all of the assets of the City or other obligated entity or their termination; and
    f. Appointment of a successor or additional trustee or paying agent or the change of the name of a trustee or paying agent.

2. The events that must be reported, regardless of materiality, are:

    a. Principal and interest payment delinquencies;
    b. Unscheduled draws on debt service reserves reflecting financial difficulties;
    c. Unscheduled draws on credit enhancements reflecting financial difficulties;
    d. Substitution of credit or liquidity providers, or their failure to perform;
    e. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
    f. Tender offers;
    g. Defeasances;
    h. Rating changes; and
    i. Bankruptcy, insolvency, receivership or similar proceeding.

The Rule also requires the City to report to the MSRB the failure of the City to provide the required annual financial information or operating data on or before the dates specified under a continuing disclosure undertaking

V. RATING AGENCY COMMUNICATIONS & CREDIT OBJECTIVES

The City will seek to maintain and improve its current bond ratings so its borrowing costs are reduced to a minimum and its access to credit is preserved.

In conjunction with the financial advisor, the City shall maintain a line of communication with at least two of the rating agencies (Moody's, Standard & Poor's, or Fitch), informing them of major financial events in the City as they occur. The CAFR, Annual Program of Services, and Capital Improvement Program shall be distributed to the rating agencies after they have been accepted and adopted by the City Council on an annual basis.

When necessary, a conference call or personal meeting with representatives of the rating agencies will be scheduled when a major capital improvement program is initiated, or to discuss economic and/or financial developments which might impact credit ratings. The following documents may be required by the rating agencies:

- Most recent annual audit reports, including a description of accounting practices. Accounting changes in the past three years and the impact on financial results should be explained;
- Current budget;
- Current Capital Improvement Program;
- Official Statements for new financings;
- Description of projects being financed;
- Sources and uses statement for bond issuance. If additional funds are required to complete specific projects being financed, the source of the funds and any conditional requirements may be discussed;
- Engineering and feasibility report (if applicable);
- Zoning or land-use map (if applicable);
- Cash flow statement, in the case of interim borrowing. Statement of long– and short-term debt with annual and monthly maturity dates as appropriate. Also, a report of any lease obligations, their nature and term;
- Indication of appropriate authority for debt issuance;
- Investment policy (if applicable); and
- Statement concerning remaining borrowing capacity plus tax rate and levy capacity or other revenue capacity.

Full disclosure of the City's operations will be made to the bond rating agencies. The City staff, with the assistance of the financial advisors and bond counsel, will prepare the necessary materials for and presentation to the rating agencies.

VI. LIMITATIONS OF INDEBTEDNESS AND AFFORDABILITY STATEMENT

City staff, in conjunction with the financial advisor and bond counsel, will present to the City Council, and any City committee, as appropriate, a comprehensive analysis of debt capacity prior to issuing bonds. This analysis should include relevant information such as:

- Legal debt limits, tax or expenditure ceilings;
- Coverage requirements or additional bonds tests in accordance with bond covenants;
- Measures of the tax and revenue base, such as projections of relevant economic variables (e.g., assessed property values, employment base, unemployment rates, income levels, and retail sales);
- Population trends;
- Utilization trends for services underlying revenues;
- Factors affecting tax collections, including types of property, goods, or services taxed, assessment practices and collection rates, evaluation of trends relating to the City's financial performance, such as revenues and expenditures, net revenues available after meeting operating requirements;
- Reliability of revenues expected to pay debt service;
- Unreserved fund balance levels;
- Debt service obligations, such as existing debt service requirements;
- Debt service as a percentage of expenditures or tax or system revenues;
- Measures of debt burden on the community, such as debt per capita, debt as a percentage of full or equalized assessed property value, and overlapping or underlying debt; and
- Tax-exempt and taxable market factors affecting interest costs, such as interest rates, market receptivity, and credit rating.

Annual debt service on general obligation debt (tax-supported), which excludes self-supported debt, shall be limited to no more than 30% of budgeted expenditures in the City's General Fund.

The City has revenue bonds and other indebtedness of the Electric, Water, and Wastewater Funds, which are collectively known as the City's "Utility System." The City will maintain coverage ratios as dictated by the City's outstanding bond covenants, including any other indebtedness of the Utility System. In addition, the City will follow a policy that the Utility System will maintain a debt service coverage ratio of at least 1.25 on all outstanding revenue bonds and other indebtedness of the Utility System. For this purpose, the debt coverage ratio is defined as the net revenue of the Utility System (gross revenue less operating expenses) for a fiscal year (as set out in the audited financial statements for that fiscal year) divided by the maximum annual debt service for all then outstanding revenue bonds and other indebtedness of the Utility System. The City will strive to further maintain this debt service coverage ratio for each separate utility.

The Electric, Water, and Wastewater Funds' total long-term debt outstanding shall not exceed the amount of combined fund equity.

VII. CAPITAL IMPROVEMENT PROGRAM

A. The City will seek all possible federal and state reimbursement for mandated projects and/or programs. The City will pursue a balanced relationship between issuing debt and pay-as-you-go financing as dictated by prevailing economic factors and as directed by the City Council.

B. Current operations will not be financed with long-term debt.

C. Debt incurred to finance capital improvements will be repaid within the useful life of the asset.

D. High priority will be assigned to the replacement of capital improvements and fixed assets when they have deteriorated to the point they are hazardous, incur high maintenance costs, negatively affect property values, or no longer serve their intended purposes.

E. An updated Capital Improvement Program will be presented to the City Council for approval on an annual basis. This plan will be used as a basis for the long-range financial planning process.

VIII. TYPES OF DEBT

The City's bond counsel and financial advisor will present the different types of debt best suited and legally permissible under state law for each debt issue and assist in analyzing the use of capital lease purchases or the use of lines of credit. These types may include, but are not limited to:

- Short-term vs. long-term debt,
- General obligation debt vs. revenue debt,
- Fixed rate debt,
- Lease-backed debt,
- Special obligation debt, such as assessment district debt,
- Certificates of obligation,
- Combination tax and revenue debt,
- Tax Increment Reinvestment Zone (TIRZ) debt,
- Public Improvement District (PID) debt,
- Conduit issues,
- Tax Notes, and
- Taxable debt.

The issuance of long-term variable rate debt and interest rate swaps are expressly prohibited by this policy. The Director of Finance will be responsible for evaluating this type of debt and will present a variable rate debt policy or interest rate swap policy to the City Council for approval as necessary.

IX. BOND STRUCTURE

Factors that may be considered when structuring debt include the following:

- Final maturity of the debt;
- Setting the final maturity of the debt equal to or less than the useful life of the asset(s) being financed;
- Use of zero coupon bonds, capital appreciation bonds, deep discount bonds or premium bonds;

- Principal and interest payment structure (e.g., level debt service payments, level principal payments, bullet and term maturities, interest only, or other payment structures);
- Redemption provisions (e.g., mandatory and optional call features);
- Use of credit enhancement (e.g., bond insurance);
- Use of senior lien and junior lien obligations;
- Capitalized interest; and
- Other factors as deemed appropriate in consultation with the City's financial advisor and bond counsel.

X. SHORT-TERM DEBT

A. General

Short-term obligations may be issued to finance projects or portions of projects for which the City ultimately intends to issue long-term debt (i.e., it will be used, when appropriate, to provide interim financing which will eventually be refunded with the proceeds of long-term obligations).

Short-term obligations may be backed with a tax and/or revenue pledge or a pledge of other available resources.

Interim financing may be appropriate when long-term interest rates are forecasted to decline in the future. In addition, some forms of short-term obligations may be obtained more quickly than long-term obligations and, thus, may be used until long-term financing is secured.

B. Commercial Paper

Due to the financing costs associated with the marketing and placement of commercial paper, programs of less than $25 million may not be cost effective. Should the opportunity to participate in a commercial paper issuance pool present itself or if the establishment of a program becomes cost effective, the advantages and disadvantages shall be evaluated by the Director of Finance. The use of a commercial paper program requires approval by the City Council.

C. Anticipation Notes

Anticipation notes do not require giving a notice of intent. Anticipation notes may be secured and repaid by a pledge of revenue, taxes, or the proceeds of a future debt issue and have a maximum maturity of seven (7) years. Anticipation notes may be authorized by an ordinance adopted by the City Council.

Anticipation notes may be used to finance projects or acquisitions that could also be financed using certificates of obligation and have the following restrictions:

1) Anticipation notes may not be used to repay interfund borrowing or a borrowing that occurred up to/or more than 24-months prior to the date of issuance, and

2) The City may not issue anticipation notes that are payable from general obligation bond proceeds unless the proposition authorizing the issuance of the general obligation bonds has already been approved by the voters.

D. Line of Credit

To the extent authorized by state law and with the approval of the City Council, the City may establish a tax-exempt line of credit with a financial institution selected through a competitive process. Draws shall be made on the line of credit when (1) the need for financing is so urgent that time does not permit the issuance of long-term debt, or (2) the need for financing is so small that the total cost of issuance of long-term debt including carrying costs of debt proceeds not needed immediately is significantly higher. Draws will be made on the line of credit to pay for projects designated for line of credit financing by the City Council. Borrowings under the line of credit shall be repaid from current revenues. The Director of Finance will authorize all draws on the line of credit, as authorized in the agreement approved by the City Council. Under current state law, a line of credit cannot extend past the end of the then current fiscal year.

E. Capital Leasing

Capital leasing is an option for the acquisition of a piece or package of equipment.

Leasing shall not be considered when funds are on hand for the acquisition unless the interest expense associated with the lease is less than the interest that can be earned by investing the funds on hand or when other factors such as budget constraints or vendor responsiveness override the economic consideration.

Whenever a lease is arranged with a private sector entity, a tax-exempt rate shall be sought. Whenever a lease is arranged with a government or other tax-exempt entity, the City shall obtain an explicitly defined taxable rate so that the lease will not be counted in the City's total annual borrowings subject to arbitrage rebate.

The lease agreement shall permit the City to refinance the lease at no more than reasonable cost should the City decide to do so. A lease which may be called at will is preferable to one which may merely be accelerated.

The City shall seek at least three (3) competitive proposals for any lease financing, except those related to technology equipment. Due to the proprietary nature of most technology equipment, lease financing is typically only offered through the technology's vendor. The net present value of competitive bids shall be compared, taking into account whether payments are in advance or in arrears, and how frequently payments are made. The purchase price of equipment shall be competitively bid, as required by state law, as well as the financing costs.

The Director of Finance will ensure any leasing agreement is compared to other financing options to ensure the lease is cost beneficial. Alternate financing options will include revenue bonds, contractual obligations, certificates of obligation, tax notes, and lines of credit. The Director of Finance will be the person responsible for evaluating this financing source, and will make a recommendation to the City Council for approval.

F. Interfund Loans

As allowed by the City, the Director of Finance will review opportunities whereby interfund loans may be utilized to meet short-term financing needs. Interfund loans will only be utilized if economically beneficial to the lending fund and only if the rate of return is comparable or higher than the rate of return the lending fund would otherwise receive by keeping funds in the City's investment pool. Any interfund loan must be approved by the City Council.

XI. LONG-TERM DEBT

A. General

Proceeds from the sale of long-term obligations will not be used for operating purposes, and the final maturity of the obligations will not exceed the estimated useful life of the asset(s) financed. Voter approved general obligation bonds will strive to have a final maturity of twenty (20) years or less. Revenue bonds and certificates of obligation will strive to have a final maturity of thirty (30) years or less. If deemed appropriate, staff may present to the City Council extraordinary circumstances in which longer final maturities may be necessary but never in excess of the useful life of an individual asset.

A level debt service structure will be used unless operational matters and marketing considerations dictate otherwise.

The cost of issuance of private activity bonds is usually higher than for governmental purpose bonds. Consequently, private activity bonds will be issued only when they will economically benefit the City.

The cost of taxable debt is generally higher than for tax-exempt debt. However, the issuance of taxable debt may be required or may be more appropriate in some circumstances and may allow valuable flexibility in subsequent contracts with users or managers of the improvements constructed with the bond proceeds. Therefore, the City will usually issue tax-exempt obligations but may occasionally issue taxable obligations.

B. Bonds

Long-term general obligation debt, including certificates of obligation, or revenue bonds shall be issued to finance significant and desirable capital improvements. Proceeds of general obligation debt will be used only for the purposes approved

by voters in bond elections or set forth in the notices of intent for certificates of obligation or to refund previously issued general obligation bonds, certificates of obligation or revenue bonds. All bonds shall be sold in accordance with applicable law.

C. Certificates of Obligation

Certificates of obligation may be issued to:

- Finance permanent improvements and land acquisitions;
- Finance costs associated with capital project overruns;
- Acquire equipment/vehicles;
- Leverage grant funding;
- Renovate, acquire, construct facilities and facility improvements;
- Construct street improvements;
- Provide funding for master plans/studies;
- Address necessary life safety needs; and
- Finance revenue supported projects/assets if determined to be more economical than revenue bonds.

To the extent required by state law, a resolution authorizing publication of notice of intent to issue certificates of obligation shall be presented for the consideration of the City Council. The notice of intent shall be published in a newspaper of general circulation in the City once a week for two consecutive weeks with the first publication to be at least thirty-one (31) days prior to the date set for passage of the ordinance authorizing the sale of the certificates.

Certificates of obligation may be backed by a tax pledge under certain circumstances as permitted by law. They may also be backed by a combination tax and revenue pledge as permitted under state law. Some revenues are restricted as to the uses for which they may be pledged. Electric, Water, and Wastewater revenues may be pledged without limit for Electric, Water, and Wastewater purposes but may only be pledged to a limit of $1,000 for any one series of bonds issued for non-utility system purposes.

The final maturity of certificates of obligation will be in accordance with Section XI (A).

Effective January 1, 2016 and as prescribed in Section 271.047, Local Government Code, the City Council may not authorize certificates of obligation to pay a contractual obligation to be incurred if a bond proposition to authorize the issuance of bonds for the same purpose was submitted to the voters during the preceding three years and failed to be approved. The City Council may authorize a certificate that it is otherwise prohibited from authorizing:

1. In a case of public calamity if it is necessary to act promptly to relieve the necessity of residents or to preserve the property of the City;

2. A case in which it is necessary to preserve or protect the public health of the residents of the City;
3. A case of unforeseen damage to public machinery, equipment or other property;
4. To comply with a state or federal law, rule, or regulation if the City has been officially notified of noncompliance with the law, rule, or regulation.

D. Public Property Finance Contractual Obligations

Public property finance contractual obligations may be issued to finance the acquisition of personal property.

E. Revenue Bonds

In addition to the policies set forth above, when cost-beneficial and when permitted under applicable state law, the City may consider the use of surety bonds, letters of credit, or similar instruments to satisfy debt service reserve fund requirements on outstanding and/or proposed revenue bonds.

F. Combination Tax and Revenue Bonds

In addition to the policies set forth above, when cost-beneficial and when permitted under applicable state law, the City may consider the use of tax bonds or combination tax and revenue bonds for refunding obligations of the Electric, Water and Wastewater combined utility system, and Solid Waste or any other self-supporting revenue-producing City enterprise. Combination tax and revenue bonds will comply with applicable state law and are assigned the full faith and credit of the City, thereby enhancing the credit rating otherwise obtained from debt that is strictly supported by non-tax revenues (i.e., revenue bonds).

G. Capital Appreciation Bonds (CABS)

As prescribed by Section 1201.0245, Government Code, a municipality may not issue capital appreciation bonds that are secured by ad valorem taxes (other than as refunding bonds or for the purpose of financing transportation projects) unless:

1. The bonds have a scheduled maturity date that is not later than 20 years after the date of issuance;
2. The City Council has received a written estimate of the cost of the issuance as prescribed in the statute;
3. The City Council has determined in writing whether any personal or financial relationship exists between the members of the City Council and any financial advisor, bond counsel, bond underwriter or other professional associated with the bond issuance; and
4. The City Council posts prominently on the City's website and enters in the minutes the required information as prescribed in the statute.

CABS may not be used to purchase items more regularly considered maintenance items, including replacement HVAC units, upgraded plumbing or similar items, or transportation-related items, including buses, unless the item has an expected useful life that exceeds the CABS maturity date. The total amount of CABS may not exceed 25 percent of the City's total outstanding bonded indebtedness at the time of the issuance, including the amount of principal and interest to be paid on the outstanding bonds until maturity. The City may not extend the maturity date of an issued capital appreciation bond, including through the issuance of refunding bonds that extend the maturity date, except in the event the extension of the maturity date will decrease the total amount of projected principal and interest to maturity.

XII. CREDIT ENHANCEMENTS

Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance, lines of credit, surety bonds and letters of credit. A credit enhancement, while costly, is intended to bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall borrowing costs.

The City's financial advisor will advise the City whether or not a credit enhancement is cost effective under the circumstances and what type of credit enhancement, if any, should be purchased. In a negotiated sale, bids will be taken during the period prior to the pricing of the debt. In a competitive sale, bond insurance may be provided by the purchaser if the purchaser finds it cost effective.

Other credit enhancements may arise in the future, which may be beneficial. The City's financial advisor will present these options for consideration.

XIII. REFUNDING AND RESTRUCTURING OPTIONS

In the case of advance refundings, the City shall consider refunding debt whenever an analysis indicates the potential for present value savings of at least 3% of the par amount being refunded. In the case of current refundings, the City shall consider refunding debt whenever an analysis indicates the potential for present value savings above the costs of refunding the outstanding debt. Refunding for savings should not extend the final maturity of the original obligations, unless specifically approved by the City Council. Refunding of contractual obligations not currently recorded as an outstanding debt obligation of the City (i.e., TMPA debt) may be restructured to extend the final maturity if specifically approved by the City Council.

XIV. REIMBURSEMENT ORDINANCES

The Director of Finance will review and approve all reimbursement ordinances from City departments, including enterprise fund departments, before forwarding to the City Council for consideration. Initially, funding for the capital expenditures will be provided

with existing bond proceeds or unreserved fund balance. Once the debt is sold, these expenditures will be reimbursed from the debt proceeds.

Reimbursement ordinances must be adopted within sixty (60) days of the date the original expenditures were paid. Debt obligations must be issued and the reimbursement allocation made not later than eighteen (18) months after the later of (1) the date the original expenditures were paid, or (2) the date the project is placed in service or abandoned, but in no event more than three (3) years after the original expenditures were paid.

XV. USE OF ANTICIPATED BOND PROCEEDS

The use of anticipated bond proceeds will be limited to preliminary (soft) costs, which may include engineering fees, architect fees, feasibility studies, etc unless a reimbursement ordinance has been adopted pursuant to Section XIV. The Director of Finance may provide additional parameters regarding qualifying uses and will review and approve all requests for the use of anticipated bond proceeds. Departments may not use anticipated bond proceeds for preliminary costs earlier than 60 days from the date the City Council adopts an ordinance authorizing the sale of said bonds unless a reimbursement ordinance has been adopted pursuant to Section XIV. In no event will the use of anticipated bond proceeds exceed the unreserved fund equity of the combined Utility System for Electric, Water or Wastewater requests or the operating fund of any other department making a request.

XVI. METHOD OF SALE

A. Competitive Sale

When feasible and economical, obligations shall be issued by competitive rather than negotiated sale. Favorable conditions for a competitive method of sale include the following:

- The market is familiar with the issuer, and the issuer is a stable and regular borrower in the public market;
- An active secondary market with a broad investor base for the issuer's debt;
- The issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sales effort;
- The issue is not viewed by the market as carrying overly complex features or requiring explanation as to the debt's soundness; and
- Interest rates are relatively stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable price changes.

1. Bidding Parameters

The notice of sale will be carefully constructed so as to ensure the best possible bid for the City, in light of existing market conditions and other prevailing factors. Parameters to be examined may include:

- Limits between lowest and highest coupons;
- Coupon requirements relative to the yield curve;
- Method of underwriter compensation, discount or premium coupons;
- Use of true interest cost (TIC);
- Use of bond insurance;
- Serial debt versus term debt with mandatory sinking fund redemptions; and
- Call provisions

B. Negotiated Sale

Bonds issued for the purpose of refunding and/or restructuring outstanding debt may appropriately be sold on a negotiated basis when maximum flexibility is required in order for the City to respond to day-to-day nuances in the marketplace and other complications peculiar to the issuance of refunding debt. Whenever the option exists to sell an issue on a negotiated basis, an analysis of the options shall be performed to aid in the decision-making process.

The City will present the reasons and will actively participate in the selection of the underwriter or direct purchaser.

In negotiated sales, the City attempts to involve qualified and experienced firms which consistently submit financing plans to the City and actively participate in the City's competitive sales. The criteria used to select an underwriter in a negotiated sale may include the following:

- Overall experience;
- Participation in the City's past competitive sales;
- Marketing philosophy;
- Capability;
- Previous experience as managing or co-managing underwriter;
- Financial statement and financing plans that are relevant and appropriate;
- Public finance team and resources; and
- Breakdown of underwriter's discount, which includes management fee, underwriting fee, average takedown and other administrative expenses.

C. Private Placement

When cost-beneficial, the City may privately place its debt. Since underwriting and rating agency expenses may be avoided, it may result in a lower cost of borrowing. Private placement is sometimes an option for small issues. The opportunity may be identified by the financial advisor.

XVII. INVESTMENT OF BOND PROCEEDS

A. Strategy

The City should actively monitor its investment practices to ensure maximum returns on its invested bond funds while complying with federal arbitrage guidelines. Specific investment strategies for the investment of bond proceeds are provided in the City's Policy No. 403.06 ("Investment Policy").

B. Arbitrage Compliance

With respect to the investment and expenditure of the proceeds of tax-exempt obligations, the Director of Finance will:

- Instruct the appropriate person or persons that the construction, renovation or acquisition of the facilities financed with tax-exempt obligations must proceed with due diligence and that binding contracts for the expenditure of at least 5% of the proceeds of the tax-exempt obligations must be entered into within six months of the date of delivery of such obligations ("Issue Date");
- Monitor that at least 85% of the proceeds of tax-exempt obligations to be used for the construction, renovation or acquisition of any facilities are expended within three years of the Issue Date;
- Monitor investment of proceeds of the tax-exempt obligations and restrict the yield of the investments to the yield on the tax-exempt obligations after three years of the Issue Date;
- Monitor all amounts deposited into a sinking fund or funds, (e.g., the Interest and Sinking Fund established under each ordinance authorizing the issuance of the tax-exempt obligations), to assure that the maximum amount invested at a yield higher than the yield on the obligations does not exceed an amount equal to the debt service on the obligations in the succeeding 12 month period plus a carryover amount equal to one-twelfth of the principal and interest payable on the obligations for the immediately preceding 12-month period;
- Assure that the maximum amount of any debt service reserve fund for tax-exempt obligations invested at a yield higher than the yield on the related tax-exempt obligations will not exceed the lesser of (1) 10% of the principal amount of the related tax-exempt obligations, (2) 125% of the average annual debt service on the related tax-exempt obligations measured as of the Issue Date for such obligations, or (3) 100% of the

maximum annual debt service on the related tax-exempt obligations as of the Issue Date for such obligations;

- Ensure that no more than 50% of the proceeds of tax-exempt obligations are invested in an investment with a guaranteed yield for four years or more;
- Monitor the actions of the escrow agent (to the extent an escrow is funded with proceeds of tax-exempt obligations) to ensure compliance with the applicable provisions of the escrow agreement, including with respect to reinvestment of cash balances;
- Maintain any official action of the City (such as a reimbursement ordinance) stating its intent to reimburse with the proceeds of tax-exempt obligations any amount expended prior to the Issue Date for the acquisition, renovation or construction of the facilities financed with the obligations;
- Ensure that the applicable information return (e.g., Internal Revenue Service ("IRS") Form 8038-G, 8038-GC, or any successor forms) is timely filed with the IRS; and
- Assure that, unless excepted from rebate and yield restriction under section 148(f) of the United States Internal Revenue Code of 1986, as amended (the "Code"), excess investment earnings are computed and paid to the U.S. government at such time and in such manner as directed by the IRS (i) at least every five years after the Issue Date and (ii) within 30 days after the date the tax-exempt obligations are retired.

The City will follow a policy of full compliance with all arbitrage rebate requirements of the Code and IRS regulations, and will perform (internally or by contract consultants) arbitrage rebate calculations for each issue subject to rebate on an annual basis. All necessary rebates will be filed and paid when due.

C. Arbitrage Liability Management

The Director of Finance will maintain a system for tracking arbitrage rebate liability and ensuring that required calculations are performed on a timely basis. These calculations will be performed annually and as needed. Due to the complexity of the arbitrage calculations and regulations, and to the severity of the penalties for noncompliance, the advice of bond counsel and qualified experts will be pursued on an ongoing basis. If deemed necessary, funds should be set aside in anticipation of potential rebate liabilities.

XVIII. RESTRICTIONS ON PRIVATE BUSINESS USE

With respect to the use of the facilities financed or refinanced with the proceeds of tax-exempt obligations the Director of Finance will:

- Develop procedures or a tracking system to identify all property financed with tax-exempt obligations;
- Monitor the date on which the facilities are substantially complete and available to be used for the purpose intended;
- Monitor whether, at any time the tax-exempt obligations are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has any contractual right (such as a lease, purchase, management or other service agreement) with respect to any portion of the facilities;
- Monitor whether, at any time the tax-exempt obligations are outstanding, any person, other than the City, the employees of the City, the agents of the City or members of the general public has a right to use the output of the facilities (e.g., water, gas, electricity);
- Determine whether, at any time the tax-exempt obligations are outstanding, any person, other than the City, has a naming right for the facilities or any other contractual right granting an intangible benefit;
- Determine whether, at any time the tax-exempt obligations are outstanding, the facilities are sold or otherwise disposed of. Prior to any sale of property owned by the City (real or personal), the Director of Finance must confirm whether such property was financed with tax-exempt obligations, and if so, determine whether the proposed disposition of the property could impact the tax-exempt status of the issue of tax-exempt obligations that financed the acquisition of such property;
- Before entering into any private business use arrangement that involves the use of the facilities financed with tax-exempt obligations, the Director of Finance must obtain a description of the proposed private business use arrangement and determine whether such arrangement, if put into effect, will be consistent with the restrictions on private business use of the facilities. In connection with the evaluation of any proposed private business use arrangement, the Director of Finance should consult with bond counsel to discuss whether such arrangement, if put into effect, will be consistent with the restrictions on private business use of the facility, and, if not, whether any remedial action permitted under federal guidelines may be taken as a means of enabling such private business use without adversely affecting the tax-exempt status of the tax-exempt obligations which financed such facilities; and
- Take such action as is necessary to remediate any failure to maintain compliance with the covenants contained in the ordinances authorizing tax-exempt obligations related to the public use of the facilities financed by such obligations.

The City shall establish an appropriate record keeping system and designate the appropriate City personnel for purposes of compliance with this section, and as stated in Section XIX.

XIX. RECORD RETENTION

All proceeds of debt obligations will be separately accounted for in the City's financial accounting system to facilitate arbitrage tracking and reporting. The Director of Finance shall include in the CAFR the City's arbitrage rebate liability in accordance with accounting standards established by GASB.

With respect to each issue of tax-exempt obligations issued by the City, the Director of Finance will maintain or cause to be maintained all records relating to the investment and expenditure of the proceeds of such issue and the use of the facilities financed or refinanced thereby for a period ending six years after the complete extinguishment of such issue of tax-exempt obligations. If any portion of an issue of tax-exempt obligations is refunded with the proceeds of another series of tax-exempt obligations, such records shall be maintained until the six years after the refunding obligations are completely extinguished. Such records may be maintained in paper or electronic format.

XX. TRAINING

The Director of Finance shall receive appropriate training regarding the City's accounting system, contract intake system, facilities management and other systems necessary to track the investment and expenditure of the proceeds and the use of the facilities financed with the proceeds of debt obligations. The foregoing notwithstanding, the Director of Finance is authorized and instructed to retain such experienced advisors, agents and consultants as may be necessary to carry out the policies and procedures described in Sections XVII, XVIII and XIX.

GLOSSARY

Amortization – The planned reduction of a debt obligation according to a stated maturity or redemption schedule.

Arbitrage – The gain which may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

Average Life – The average length of time debt is expected to be outstanding. Generally, a level debt service structure will limit the average life of a bond issue (i.e., a 20 year final maturity will have an approximate average life of 12 years, and a 30 year final maturity will have an approximate average life of 18 years).

Basis Point – One one-hundredth of one percent (0.0001).

BBI – Bond Buyer Index. Comparison of current rates for various maturities.

Bid Form – The document used by an underwriter to submit his bid at a competitive sale.

Bond – A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

Bond Counsel – An attorney (or firm of attorneys) retained by the issuer to give a legal opinion concerning the validity of the securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

Bond Insurance – Bond insurance is a type of credit enhancement whereby a monoline insurance company indemnifies an investor against a default by the issuer to pay principal and interest in-full and on-time. Once assigned, the municipal bond insurance policy generally is irrevocable. The insurance company receives an up-front fee, or premium, when the policy is issued.

Book-Entry-Only – Bonds that are issued in fully-registered form but without certificates of ownership. The ownership interest of each actual purchaser is recorded on computer.

Bond Years – $1,000 of debt outstanding for one year used to compute average life and net interest cost.

CAFR – Comprehensive Annual Financial Report.

CIP – Capital Improvement Program.

Call Option – The right to redeem a bond prior to its stated maturity, either on a given date or continuously. The call option is also referred to as the optional redemption provision.

Capital Appreciation Bond – A bond without current interest coupons that is typically sold at a substantial discount from par. Investors are provided with a return based upon the accretion and compounding of interest on the bond through maturity. As defined by Section 1201.0245, Government Code, means a bond that accrues and compounds interest from its date of delivery, the interest on which by its terms is payable only upon maturity or prior redemption.

Capital Lease – The acquisition of a capital asset over time rather than merely paying a rental fee for temporary use. A lease-purchase agreement, in which provision is made for transfer of ownership of the property for a nominal price at the scheduled termination of the lease, is referred to as a capital lease.

Certificates of Obligation – A type of debt authorized to be issued pursuant to the Certificates of Obligation Act of 1971 (Subchapter C of Chapter 271, Texas Government Code).

Closing – When bonds are exchanged for money (a/k/a delivery or settlement).

Commercial Paper (Tax-Exempt) – By convention, short-term, unsecured, tax-exempt promissory notes issued in either registered or bearer form with a stated maturity of 270 days or less.

Competitive Sale – A sale of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost.

Coupon Rate – The interest rate on specific maturities of a bond issue. While the term "coupon" derives from the days when virtually all municipal bonds were in bearer form with coupons attached, the term is still frequently used to refer to the interest rate on different maturities of bonds in registered form.

Cover Bid – The runner-up in a competitive bond sale.

Credit Enhancements – Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, will usually bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall costs. Cost effectiveness of credit enhancement will be evaluated for each debt issue.

CUSIP Number – The term CUSIP is an acronym for the Committee on Uniform Securities Identification Procedures. An identification number is assigned to each maturity of an issue, and is usually printed on the face of each individual certificate of the issue. The CUSIP numbers are intended to help facilitate the identification and clearance of municipal securities. As the municipal market has evolved, and the new derivative products are devised, the importance of the CUSIP system for identification purposes has increased.

Dated Date – A defined date at which interest begins to accrue from.

Debt Burden – The ratio of outstanding tax-supported debt to the market value of property within a jurisdiction. The overall debt burden includes a jurisdiction's proportionate share of overlapping debt as well as the municipality's direct net debt.

Debt Limitation – The maximum amount of debt that is legally permitted by a jurisdiction's charter, constitution, or statutory requirements.

Debt Obligation – As defined by Section 1201.002, Government Code, means an issued public security which is an instrument, including a bond, certificate, note, or other type of obligation authorized to be issued by an issuer under a statute, a municipal home-rule charter, or the constitution of the state.

Debt Service – The amount necessary to pay principal and interest requirements on outstanding bonds for a given year or series of years.

Debt Service Reserve Fund – The fund into which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements. The debt service reserve fund may be entirely funded with bond proceeds, or it may only be partly funded at the time of the issuance and allowed to reach its full funding requirement over time, due to the accumulation of pledged revenues. If the debt service reserve fund is used in whole or part to pay debt service, the issuer usually is required to replenish the funds from the first available funds or revenues. A typical reserve requirement might be the maximum aggregate annual debt service requirement for any year remaining until the bonds reach maturity. The size of the reserve fund, and the manner in which it is invested, may be subject to arbitrage regulations.

Default – The failure to pay principal or interest in full or on time. An actual default should be distinguished from technical default. The latter refers to a failure by an issuer to abide by certain covenants but does not necessarily result in a failure to pay principle or interest when due.

Defeasance – Providing for payment of principal of premium, if any, and interest on debt through the first call date or scheduled principal maturity in accordance with the terms and requirements of the instrument pursuant to which the debt was issued. A legal defeasance usually involves establishing an irrevocable escrow funded with only cash and U.S. government obligations.

Depository Trust Company (DTC) – A limited purpose trust company organized under the New York Banking Law. DTC facilitates the settlement of transactions in municipal securities.

Downgrade – A reduction in credit rating.

Enterprise Activity – A revenue-generating project or business. The project often provides funds necessary to pay debt service on securities issued to finance the facility. The debts of such projects are self-liquidating when the projects earn sufficient monies to cover all debt service and other requirements imposed under the bond contract. Common examples include water and sewer treatment facilities and utility facilities.

Electronic Municipal Market Access (EMMA) – Effective July 1, 2009, the SEC implemented amendments to SEC Rule 15c2-12 which approved the establishment by the MSRB of EMMA, the sole successor to the nationally recognized municipal securities information repositories with respect to filings made in connection with disclosure undertakings. Access to filings are made free of charge to the general public by the MSRB.

Final Official Statement (FOS) – A document published by the issuer which generally discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities.

Flow of Funds – The order in which pledged revenues must be disbursed, as set forth in the trust indenture or bond resolution. In most instances, the pledged revenues are deposited into a general collection account or revenue fund as they are received and subsequently transferred into the other accounts established by the bond resolution or trust indenture. The other accounts provide for payment of the costs of debt service, debt service reserve deposits, operation and maintenance costs, renewal and replacement, and other requirements.

GASB – Government Accounting Standards Board.

GFOA – Government Finance Officers Association.

General Obligation Debt – Debt that is secured by a pledge of the ad valorem taxing power of the issuer. Also known as a full faith and credit obligation.

Good Faith Deposit – A sum of money given by the Underwriter to assure his bid.

Institutional Buyer – Banks, financial institutions, insurance companies, and bond funds.

Issuance Costs – The costs incurred by the bond issuer during the planning and sale of securities. These costs include but are not limited to financial advisory and bond counsel fees, printing and advertising costs, rating agencies fees, and other expenses incurred in the marketing of an issue.

Junior Lien Bonds – Bonds which have a subordinate claim against pledged revenues.

Letter of Credit – Bank credit facility whereby a bank will honor the payment of an issuer's debt, in the event that an issuer is unable to do so, thereby providing an additional source of security for bondholders for a predetermined period of time. A letter of credit often is referred to as an L/C or an LOC. Letter of Credit can be issued on a "stand-by" or "direct pay" basis.

Level Debt Service – When annual payments are substantially the same each year.

Line of Credit – Bank credit facility wherein the bank agrees to lend up to a maximum amount of funds at some date in the future in return for a commitment fee.

Long-Term Debt – Will not exceed the estimated useful life of the asset(s) financed. Voter approved general obligation bonds will strive to have a final maturity of twenty (20) years or less. Revenue bonds and certificates of obligation will strive to have a final maturity of thirty (30) years or less.

Manager – The member (or members) of an underwriting syndicate charged with the primary responsibility for conducting the affairs of the syndicate. The managers take the largest underwriting commitment.

Lead Manager or Senior Manager

The underwriter serving as head of the syndicate. The lead manager generally handles negotiations in a negotiated underwriting of a new issue of municipal securities or directs the process by which a bid is determined for a competitive underwriting. The lead manager also is charged with allocating securities among the members of the syndicate in accordance with the terms of the syndicate agreement or agreement among underwriters.

Joint Manager or Co-Manager

Any member of the management group.

Municipal Advisory Council of Texas (MAC) – The designated State of Texas Information Depository as approved by the SEC with respect to filings made in connection with undertakings.

Municipal Securities Rulemaking Board (MSRB) – A self-regulating organization established on September 5, 1975 upon the appointment of a 15-member Board by the Securities and Exchange Agreement. The MSRB, comprised of representatives from investment banking firms, dealer bank representatives, and public representatives, is entrusted with the responsibility of writing rules of conduct for the municipal securities market. New Board members are selected by the MSRB pursuant to the method set forth in Board rules.

Negotiated Sale – A sale of securities in which the terms of sale are determined through negotiation between the issuer and the purchaser, typically an underwriter, without competitive bidding.

Net Interest Cost – The average interest cost of a bond issue calculated on the basis of simple interest.

Paying Agent – An agent of the issuer with responsibility for timely payment of principal and interest to bond holders.

Preliminary Official Statement (POS) – The POS is a preliminary version of the official statement which is used by an issuer or underwriters to describe the proposed issue of municipal securities prior to the determination of the interest rate(s) and offering prices(s). The preliminary official statement, also called a "red herring", often is examined by potential purchasers prior to making an investment decision.

Present Value – The value of a future amount or stream of revenues or expenditures in current dollars.

Private Business Use – Private business use occurs whenever tax-exempt obligation proceeds are used to benefit any entity other than a state or local government, including non-profit corporations and the federal government. In simple terms, an issue of tax-exempt obligations may lose their tax-exempt status if (i) more than 10% of the proceeds of the obligations are to be used for any private business use and the payment of the principal of, or the interest, on more than 10% of the proceeds of the obligations is secured by or payable from property used for a private business use or (ii) the amount of the proceeds of the obligations used to make loans to borrowers other than state and local governments exceeds the lesser of 5% of the proceeds or $5 million.

Refunding – An advance refunding is a refunding that occurs more than 90 days before the call date of the refunded bonds, and a current refunding is a refunding that occurs 90 days or less before the call date. A refunding is a process of selling a new issue of securities to obtain funds needed to retire existing securities. Debt refunding is done to extend maturity and/or to reduce debt service cost.

Retail Buyer – Individual investors.

Revenue Bond – A bond which is payable from a specific source of revenue and to which the full faith and credit of an issuer with taxing power is not pledged. Revenue bonds are payable from identified sources of revenue, and do not permit the bondholders to compel a jurisdiction to pay debt service from any other source. Pledged revenues often are derived from the operation of an enterprise activity. Generally, no voter approval is required prior to issuance of such obligations.

SEC – Securities and Exchange Commission.

SID – State Information Depository.

Secondary Market – The market in which bonds are sold after their initial sale in the new issue market.

Senior Lien Bonds – Bonds having a prior or first claim on pledged revenues.

Serial Bonds – A bond issue in which the principal is repaid in periodic installments over the issue's life.

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

Split ratings – Different rating levels from different rating agencies.

Surety Bond – A bond guaranteeing performance of a contract or obligation.

Term Bonds – Term bonds usually refer to a particularly large maturity of a bond issue that is created by aggregating a series of maturities. A provision is often made for the mandatory redemption of specified amounts of principal during several years prior to the stated maturity, which effectively simulates serial bonds.

True Interest Cost (TIC) – An expression of the average interest cost in present value terms. The true interest cost is a more accurate measurement of the bond issue's effective interest cost and should be used to ascertain the best bid in a competitive sale.

Variable Rate Bond – A bond on which the interest rate is reset periodically, usually no less often than semi-annually. The interest rate is reset either by means of an auction or through an index.

Upgrade – An increase in credit rating.