CITY OF SYLVANIA

FINANCIAL AND DEBT POLICY

I. Purpose and Scope

The City of Sylvania 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 policies are necessary to enhance that responsibility. Managerial decisions, policies and best practices directly impact a government's financial position and operations, debt burden and other key credit factors.

This Statement of Financial and Debt and Liquidity and Reserve Policy provides a summary of significant financial and budgetary policies adopted by the City. This Policy includes the requirements by state law, the City Charter, City ordinances, accounting principles generally accepted in the United States, and administrative practices. A glossary of financial terms has also been prepared.

This policy is designed to:

1. Provide a framework for financial decision-making;
2. Assist the City in maintaining appropriate assets for present and future needs;
3. Enhance consistency in financial decisions;
4. Establish parameters for the administration to use in directing financial affairs of the City;
5. Promote coordination and cooperation with residential and private development;
6. Establish a number of Reserve Funds for contingencies;
7. Establish parameters in analyzing economic development transactions; and
8. Provide a framework for the future.

The scope of these policies includes budgeting, financial reporting, auditing, asset management, risk management, capital improvement programming, debt management and credit analysis.

II. Debt Policy and Management

A. Purposes and Uses of Debt

1. The City will consider long-term financing for the acquisition, maintenance, replacement, or expansion of physical assets (including land) only if they have a useful life of at least five years and a cost of $500,000 or more.

2. The City shall issue debt only as specifically approved by City Council. Expenditure of such monies shall be in accordance with the designated purpose as specified in the authorizing ordinances.

3. The improvement will be financed over a period not exceeding the estimated useful life or average useful lives of the improvement or improvements to be financed. The City will strive to finance General Obligation issues over 20 years or less; and Revenue bond issues over 25 years or less.

    a) General Obligation debt is secured by a pledge of the full faith and credit and general property taxing power of the City.
    b) Revenue debt is payable from a specific source of revenues which do not pledge the full faith and credit of the issuer.

4. The City does not intend to use 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.

5. Factors to consider when determining whether to issue debt include:

    a. whether there are sufficient current resources to fund the improvement;
    b. whether it is in the best financial interest of the City, considering the costs of issuance relative to investment opportunities;
    c. whether it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries; and
    d. whether cost of the improvement is at least $500,000.
    e. whether it is in the City's most recent Capital Improvement Plan.

6. The City shall seek to finance the capital needs of its revenue-producing enterprise activities through the issuance of revenue-secured debt obligations (including revenue-secured general obligation bonds). The City will determine that projected revenues are sufficient to re-pay the debt.

7. Debt service expenditures shall take priority over all other expenditures in the annual budget.

B. Debt Standards and Structure

1. ***Term:*** Debt will be structured to achieve the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users.

2. ***Repayment schedule:***

    a. The City shall strive to repay at least 40 percent of its debt within ten years of a 20 year issue; or within the first half of the term of a loan.
    b. The City will seek to structure debt with relatively level debt service (principal and interests) costs over the life of the debt.

3. ***Credit enhancement:*** (e.g., letters of credit, bond insurance) may be used, but only when its use reduces net debt service by more than the cost of the enhancement.

4. ***Call provisions:*** Call features shall be no later than ten years from the date of delivery of the bonds. Calls shall be made as short as possible in context of seeking the optimal true interest cost. Calls should generally be at par.

5. ***Issuance costs***; such as bond counsel fees, financial advisor fees, registrar / paying agent fees, rating agency fees, printing costs, and underwriter's discount, will be charged to the bond issue to the extent allowable by law.

6. ***BANs:*** Use of short-term borrowing, such as bond anticipation notes (BANs) will be undertaken only if the transaction costs plus interest of the debt are less than the cost of internal borrowing, or available cash is insufficient to meet capital requirements.

7. ***Refundings:***

    a. Periodic reviews of all outstanding debt will be undertaken to evaluate refunding opportunities.

    b. Refunding will be considered if and when there is a net economic benefit of the refunding. Refundings may also be done when needed debt structural changes or other demonstrated benefits appear. In general, advance refundings will be undertaken when a net present value savings of at least three percent of the refunded debt can be achieved. Refundings that produce a net present value benefit of less than three percent will be considered on a case-by-case basis.

c. In certain instances, it may be advantageous for the City of Sylvania to issue refunding bonds that do not produce 3% positive economic savings. These instances will serve to restructure debt or retire a bond issue in order to remove undesirable bond covenants. The benefits (both tangible and intangible) will be evaluated before issuing such bonds.

d. The City may issue debt on a taxable or tax exempt basis. The City has a preference for issuing debt on a tax exempt basis to take advantage of the interest cost savings versus a taxable issue.

C. Creditworthiness Objectives

1. ***Credit Ratings:*** The City seeks to maintain the highest possible credit rating consistent with the City's financing objectives, and operating needs. The City of Sylvania will maintain a long-term credit rating with one or more of the following agencies: Moody's Investors Service, Standard & Poors, or Fitch. The City of Sylvania will consider having its short-term BANs rated by Moody's Investors Service and/or Standard & Poor's Corporation whenever the issue is over $500,000 per issue. Maintaining or improving the City's bond rating is an important objective of the City. Accordingly, the City will strive for continual improvement in its financial policies, practices, and performance with respect to its rating agency strategy**.**

2. ***Financial Disclosure:*** The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share clear, comprehensible, and accurate financial information.

   As of 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
   (See Appendix A for list of 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," short for Electronic Municipal Market Access. The City may use Bond Counsel to assist in this new required filing.

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

3. The City is committed to continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. It will provide Official Statements to NIMSIR and OMAC on those debt issues issued prior to July 1, 2009. .

4. ***Capital Planning:*** To enhance creditworthiness and prudent financial management, the City of Sylvania is committed to systematic capital planning and long-term financial planning.

   a. Evidence of this commitment to systematic capital planning will be demonstrated through adoption and periodic annual review of a Comprehensive Plan and the annual adoption of a Five-Year Financial Plan. This will be reviewed periodically.

   b. The budgetary impact of debt service expenditures for proposed debt must be illustrated in the Five-Year Plan as adopted, or modified, by Council**.** This will be reviewed periodically.

5. ***Renewal and replacement funds:*** The City will set aside annual cash allocations for the renewal and replacement of capital assets as described in Fund Balance Reserves.

6. ***Statutory Debt Limits:*** The City will keep outstanding debt within the limits prescribed by its Charter, which gives the City an "indirect 15-mill limitation". The City will consider using revenue debt in lieu of general obligation debt, when revenue debt is feasible and fully self supporting, if the available margin within the 15-mill limitation is less than 5 mills, and;

   a. Shall not in any one (1) year exceed fifteen (15) mills for each dollar of assessed valuation. Of said total maximum levy, an amount shall annually be levied sufficient to pay the interest, sinking fund and retirement charges on all notes and bonds of the City.

   b. An amount shall annually be levied sufficient to provide the amounts required by law for police and firemen's pensions and the balance thereof, but not to exceed three (3) mills, may be levied for the purpose of paying the current operating or other expenses of the City.

7. ***Debt Limits – City Policies:***

   a. Net bonded debt (general obligation debt that is not self-supporting from revenues) shall not exceed 10% of assessed valuation.
   b. For funds that typically issue self-supporting debt (e.g., Water Fund and Sewer Fund) the City will strive to maintain a debt coverage ratio of 1.5 or higher. For loans from the OWDA programs, coverage should be 1.25%. Debt coverage is calculated by this formula (using data from the latest Audited Financial Report):

      (Operating revenues + investment income – operating expenses + depreciation and amortization) / Annual debt service payments = Debt Coverage Ratio

D. <u>Debt Administration and Process</u>

1. ***Competitive versus Negotiated sales:***

   a. It is the policy of the City to issue debt through a competitive process. Bids will be awarded on a true interest cost basis (TIC) for Bond Issues, and on a net interest cost (NIC) for Note Issues providing other bidding requirements are satisfied. The actual sale of the debt will be competitively sold.

   b. Negotiated sales of debt will be considered when the complexity of the issue requires specialized expertise, when the size of the issue may limit the number of potential bidders, when a negotiated sale would result in substantial savings in time or money, when the City has determined that all competitive bids received are unsatisfactory, or when market conditions or City credit are unusually volatile or uncertain.

2. ***Investment of bond proceeds:*** All bond proceeds shall be invested consistent with the City's investment policy. Investment of proceeds and records thereof will be structured to comply with the arbitrage rebate compliance requirements of federal tax code. The City may use a Registered Investment Advisor to assist it with its investments.

   Interest earnings on investment portfolio are distributed pro-rata to: General Fund, Water Fund, Sewer Fund, American Rescue Plan Fund, and Capital Improvement Fund

3. ***Arbitrage Rebate:*** The City shall retain an arbitrage rebate specialist within two years from the issuance of each series of bonds over $10 million to perform annual arbitrage rebate calculations. In addition, the City shall require that calculations are performed within sixty days of the five-year anniversary date of the bonds (or the first computation date for rebate purposes) and every five years

thereafter until the bonds are paid in full. Should a liability be owed to the Internal Revenue Service, the City shall make every effort to make such a payment in a timely manner to avoid any penalties or sanctions. The City may use its Bond Counsel if it performs this service.

4. ***Trustee Relationships and Monitoring of Trustee Activities:*** The City shall periodically monitor trustee activities made on behalf of the City to ensure the City is receiving the best possible service at the most reasonable cost. The City will strive to use Trustees who do the work in Ohio.

5. ***Authorization:*** These Policy Guidelines have been authorized by the Council of the City of Sylvania by Resolution No. ________-2021.

III. Capital Improvement Program/Capital Budget

A. Five-Year Capital Plan

The City shall prepare a five-year capital plan and update it annually. The plan will prioritize all anticipated capital projects and determine availability of funding.

1. Establish Capital Improvement Policies

Identify projects to be considered: 1-5 years.
Projects to be considered must have useful asset life of at least 5 years and cost over $300,000.
Available source of funding moves project upon the list.

2. Adopt Standards to Rank Project Requests

Public Interest/health and safety
Projects that enhance economic development
Pay as you go financing
Debt financing

3. Prepare and Maintain a Capital Inventory

Administration Building
Police Station
City Streets
Parks/Forestry
Maintenance Buildings
Municipal Court
Sewer and Water Facilities

4. Identify Projects

The Administration
City Council
Department Heads
Citizen Committees
Long Term vs. Short Term Projects

5. Assess Funding Sources

Property Tax
Interest Earnings
Property Tax Levies
State grants and loans
Federal Grants and funding options
County
Review Financing Alternatives
TIFs; Special Assessments, JEDDS
Local Government Fund

6. **Develop the Capital Improvement Plan**
Estimating capital requirements
Plan, prioritize, schedule and implement projects
Develop revenue policy for proposed projects
Budget high priority projects
Inform the public of planned capital improvement
Determine a Prudent Reserve Fund

7. **Approve the Capital Improvement Plan and Budget**
Demonstrate need
Identify funding sources
Schedule timing of projects/financing
Adopt and Approve Plan

B. Capital Budget

An annual capital budget will be prepared by the Administration for consideration and approval by Council.

1. The Capital Budget encompasses the Capital Improvement Fund, Water Fund, Sewer Fund, Municipal Court Improvement Fund, and other capital project funds established from time to time for specific projects.

2. The purchase or construction of a fixed asset with an acquisition cost of at least $10,000 is eligible for funding as a capital project.

3. A recommended funding source and resource availability shall be presented to Council for each project. Water Fund and Sewer Fund capital projects are funded from water and sewer user charges. Municipal Court Improvement Fund projects are funded from Court fees. Capital Improvement Fund is funded from an Income Tax Allocation. Other capital projects are funded from the Capital Improvement Fund. The Capital Improvement Fund receives it's funding primarily from:

a) 8% of municipal income tax collections net of costs of collection;

4. Administration will investigate all potential alternative funding sources, such as Federal or State Grants with respect to all major capital projects.

IV. Income Tax Issues and Deposit of Funds

A. Income Tax

The City levies a 1-1/2% income tax. In practice the monies are divided and distributed in the following manner:

1. 25% to the General Fund;
2. 8% to the Capital Improvement Fund; and
3. 67% to the Income Tax Fund.

Through Fund Transfers approved by Council, income tax monies are redistributed to both the General Fund for operations of the City and to the G.O. Debt Service Fund. This practice should be reviewed on an annual basis to insure financial stability.

The City gives a 100% credit to those that live in the City and work in another taxing jurisdiction, although the amount of the credit is subject to review.

B. Interest Distribution

1. Interest earnings shall distribute to the General Fund, Water Fund, Sewer Fund, American Rescue Plan Fund, and Capital Improvement Fund on a pro-rata.
2. All other interest will be distributed to the General Fund except as otherwise required by statute or as required by state or federal grants.

C. Depository Bank

1. The City shall designate public depositories eligible to receive deposits of the City's funds at least once every five years. Depositories so designated shall appear on a list of eligible depositories authorized by the State of Ohio.

V. Utility System Funds

A. Utility Funds' Purpose

Enterprise funds are commonly used to account for activities that are fully financed through user charges. Also, they are used when it has been determined that it is beneficial to determine the full cost of operations, including the determination of depreciation and other such private sector accounting conventions. Accordingly, enterprise funds are subject to generally accepted accounting principles applicable to similar businesses in the private sector.

The City may consider an administrative fee for those funds that are not part of the General Fund – an indirect cost accounting to defer expenses.

B. City of Sylvania Utility System Activities

The following activities and associated funds are classified as enterprise funds:

- Water distribution system
  - Water Fund
- Sanitary sewer system
  - Sewer Fund
- Resource Recovery System
  - Green yard waste collection/disposal

C. Utility System Funds Financial Performance Policies

Water, Sewer, and Resource Recovery Fund:

Revenues generated by each of these funds shall be sufficient to support 100% of:
- Operating costs;
- Administrative overhead charges (see Section E below);
- Debt service;
- Adequate maintenance and replacement of capital plant and equipment;
- Special replacement reserves and other reserves required by grants or bond indentures;
- Cash fund balance reserves as specified elsewhere in this policy.

D. Storm Water System

The City currently collects special assessments for ditch improvements, but at present collects no other fees for storm water discharges.

E. Internal Service Funds

The General Fund, Water Fund, Sewer Fund, or Capital Improvement Fund will subsidize 100% of the following:

Administrative overhead charges;
Replacement of capital plant and equipment;
Special replacement reserves and other reserves required by grants or bond indentures.

F. Utility System Funds' Revenue and Fee Policies

Rates shall be reviewed annually and adjusted (inflation, CPI) to allow charges to grow at a rate that keeps pace with the cost of providing the service. Projected cash needs for at least five years into the future will be considered when establishing rates. This policy will result in incremental increases in rates rather than large increases that may result in a financial burden to customers.

VI. Budgeting and Financial Planning

A. Financial Planning Elements

1. City of Sylvania Comprehensive Plan - this document establishes a policy framework to guide the expansion of the City and future development over a five and ten year period.

2. Five -Year Financial Plan - updated annually, this plan projects operating funds' financial performance, estimates funding needs, identifies funding sources and expands upon the Comprehensive Plan by estimating the costs and funding for projects and programs that accomplish the long term goals of the City.

3. Annual Operating and Capital Budgets - annual financial plan of the organization.

B. Long-Term Focus

1. The City recognizes the importance of long-term strategic planning. Prudent financial planning considers the multi-year implications of financial decisions.

2. The City shall maintain a long-term focus in its financial planning that is mindful of the long-term objectives of the City. It shall be reviewed and updated on a regular basis.

C. Assumptions Used

City revenues will be projected conservatively, considering:

1. past experience;
2. the volatility of the revenue source;
3. inflation and other economic conditions;
4. the costs of providing the service;
5. the age of the infrastructure/depreciation.

Special purpose revenues will be used to finance capital projects or for expenditures required by the revenue, and not to subsidize recurring personnel costs or other operating costs.

City expenditures will be projected conservatively considering:

1. Conservative, but likely, scenario of events (versus "worst case scenario");
2. Specific identified needs of the program or service;
3. Historical consumption and trends;

4. Inflation and other economic trends.

D. Five-Year Financial Plan

A five-year financial plan shall be updated on an annual basis. The plan shall include all major operating funds and all capital improvement funds of the City.

The plan will:

1. Identify major policy issues for the Administration and City Council;
2. Establish capital project priorities and make advance preparation for the funding of projects specified time frame;
3. Provide assurance that adequate funding exists for proposed projects and services;
4. Identify financial trends in advance or in the early stages so that timely corrective action can be taken, if needed;
5. Provide to the public.

E. Annual Operating and Capital Budget

The operating and capital budget is the City's annual financial operating plan. All funds**,** except federal and state grant funds, will be subject to appropriation by Council; but the acceptance of Federal or State Funds must also be approved by Council.

The budget will be "balanced" for each fund. The proposed cash resources of each fund (beginning of year unencumbered fund balances plus estimated receipts) will exceed appropriations. When necessary, the following budget-balancing strategies will be used, in order of priority:

1. reduce expenditures through improved productivity;
2. shift expense to other parties;
3. create new service fees or increase existing fees;
4. seek tax rate increases;
5. reduce or eliminate services.

The City follows procedures prescribed by State law in establishing its budgets as follows:

(1) The City will submit to the Budget Commission a report of estimated revenue and actual unencumbered cash balances by fund. Thereafter, the County Budget Commission will issue an Official Certificate of Estimated Resources (OCER).

(2) Unencumbered appropriations lapse at year-end. State law provides that no contract, agreement or other obligation involving the expenditure of money shall be entered into unless the Finance Director first certifies that the money required for such contract, agreement, obligation or expenditure is in the treasury, or is anticipated to come into the treasury, before the maturity of such contract.

(3) All funds of the City have annual budgets legally adopted by the City Council. The exception is that when the City receives federal or state grant funds to aid in paying the cost of any program, activity, or function of the City, the amount received is deemed appropriated for such purpose.

1) The budget will be prepared on the cash basis.

2) The budget will be on a departmental basis.

3) The budget will be sufficiently detailed to identify all significant sources and uses of funds.

(a) Estimated beginning fund balances;
(b) Estimated receipts;

(c) Projected cash disbursements and encumbrances;
(d) And the estimated year-end fund balances.

4) Actual prior year data and projected current year results will be presented for comparative purposes.

5) The City will strive to identify unfunded mandated costs; or the additional costs that may result from accepting Federal or State Funds.

VII. Budgetary Compliance and Expenditure Control

A. Budgetary Compliance and Monitoring

1. The City will maintain a budgetary control system to ensure that appropriations or fund balances will not be overdrawn.

2. A purchasing control system will be maintained which will generally require advance authorization of purchases, and the City of Sylvania purchasing policy. Encumbrance accounting will be utilized as an extension of formal budgetary control. Under this system, purchase orders, contracts and other commitments for the expenditure of monies are recorded as an appropriation encumbrance prior to placing the order or entering into the contract in order to reserve that portion of the applicable appropriation.

3. The integrity of the various funds will be maintained by proper crediting of revenues and proper charging of costs.

4. An Indirect Cost Accounting analysis should be done every 5 years; or as deemed appropriate.

B. Budget Reporting

1. Monthly expenditure reports will compare actual results with approved budget amounts. Such reports will be provided to the appropriate department head for review. Appropriation deficiencies will be addressed via an authorized transfer of appropriations or request for supplemental appropriations.

C. Other Financial/Debt Related Issues

1. ***Inter-fund Cash Transfer***: Cash transfers may be made from one fund of the City to another fund if authorized, by ordinance or resolution, by an affirmative vote of at least four members of Council. Cash transfers from the General Fund shall be authorized by separate ordinance prior to the transfer being made. Cash transfers from the Income Tax Fund shall be made in accordance with Sylvania Codified Ordinance Section 171.21 and shall not require separate Council authorization.

2. ***Fund Balance Reserves***: The City will budget target cash fund balances for various operating funds to provide reserves for unforeseen emergencies or revenue shortfalls and to eliminate the need for short-term borrowing for cash flow needs.

3. ***Financial Reporting***: The City will prepare its financial reports in conformance with applicable statutes and, where applicable, accounting principles generally accepted in the United States. An Annual Financial Report will be prepared annually.

4. ***Audit***: The City shall have an annual financial audit conducted by an independent public accounting firm or the Auditor of the State of Ohio. This audit shall be conducted under General Accepted Auditing Standards (GAAS).

VIII. Fund Balance Reserves

The City will budget target cash fund balances for various major funds to provide reserves for unforeseen emergencies or revenue shortfalls and to eliminate the need to borrow for cash flow needs.

The following fund target balances are stated as a percentage of annual expenditures/expenses (exclusive of transfers):

Fund	**Target Balance as a Percentage of Annual Expenditures/Expenses**
General	30%
Water	20%
Sewer	30%
Capital Improvement	100% of General Fund

IX. Asset Management

A. Capital Assets

Capital assets include land, improvements to land, buildings, building improvements, machinery, equipment, infrastructure and all other assets that are used in operations and that have initial useful lives extending beyond one year. Infrastructure is defined as long-lived capital assets that normally are stationary in nature and normally can be preserved for a significantly greater number of years than most capital assets. Examples of infrastructure include roads, bridges, sidewalks, and similar items. Assets are identified pursuant to GASB 34.

1. A capitalization threshold is the cost established by the City that must be met or exceeded if an asset is too recorded and depreciated as a capital asset. The City has established the threshold of an initial, individual cost of more than $10,000.

2. All capital assets are valued at historical cost, or estimated historical cost, if actual cost is not available. Donated capital assets are valued at their estimated fair market value at the time received. Interest on constructed capital assets for enterprise funds is capitalized.

3. The City's capital assets will be reasonably safeguarded and will be used only for an appropriate public purpose. Responsibility for the safeguarding of the City's capital assets lays with the department head to whose department the capital asset is assigned.

4. All capital assets shall be tagged with an identifying number. Each department shall conduct a periodic inventory of capital assets using guidelines established by the Finance Department.

X. Insurance

A. Risk Management (Insurance)

1. The City shall make diligent effort to prevent loss or degradation of City assets and to reduce the City's exposure to liability through private insurers, insurance pools, and/or self-insurance as deemed appropriate under existing market conditions.
2. The City shall transfer risk to other parties, where cost-effective, by purchasing insurance.
3. The City shall shift the legal and financial responsibility to third parties who perform work or provide

services to the City for losses or potential losses caused by the actions of those third parties. This transfer of risk may occur through a variety of means in leases, purchase and service agreements, and other contracts. The transfer of risk shall be made formally and in writing and may include indemnification agreements, insurance requirements and the required provision of certificates of insurance (with the City of Sylvania named as an "additional insured").

B. Self-Funded Health Insurance Program

1. A separate fund will be used to account for the operations of the City's self-funded health insurance program.
2. Funding will be provided solely from premium charges made against departmental budgets and payroll deductions from the covered employees. Premium rates will be reviewed annually and established at a level that will provide resources, through a combination of beginning fund balance and estimated premium charges, to cover the estimated maximum annual liability of the plan.

XI. Review of Policies

These policies shall be reviewed periodically and will be presented to Council annually.

APPENDIX A

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.

Appendix B
City of Sylvania
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.

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 B 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.

AMBAC
Assured Guaranty /FSA
MBIA

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.