CITY OF SYLVANIA

FINANCIAL AND DEBT POLICY

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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 carry out that responsibility.

This Statement of Financial and Debt Policy provides a summary of significant financial and budgetary policies required 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. enhance consistency in financial decisions;
3. establish parameters for the administration to use in directing financial affairs of the City; and
4. provide a framework for the future.

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

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.

4. 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 the cost of the improvement is at least $500,000.
    e. whether it is in the City's most recent Capital Improvement Plan.

5. 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.

6. 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.
   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. 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. It currently is rated by Moody's. The City of Sylvania will **consider having** its short-term BANs rated by Moody's whenever the issue is over $1,000,000 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. 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.**

3. ***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.**

4. ***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. For the water and wastewater operations, the annual budgetary allocation to this reserve should be $100,000 to $200,000 annually until the City reaches the amount reported as depreciation expense for those activities in the most recent Audited Annual Financial Report **or $1,500,000**. For the Capital Improvement Fund, the annual budgetary allocation for renewal and replacement should, on average, be no less than the amount reported in the Audited Financial Report as depreciation for governmental activities.

5. ***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.

6. ***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. Debt Administration and Process

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.

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.

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.

5. ***Authorization:*** These Policy Guidelines have been authorized by the Council of the City of Sylvania by Ordinance #_________.

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
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

Interest earnings on investment portfolio are distributed prorata to:
General Fund
Water Fund
Sewer Fund
Capital Improvement Fund

B. Capital Budget

An annual capital budget will be prepared by the Administration and approved by Council.

1. The Capital Budget encompasses the Capital Improvement Fund, Water Improvement Fund, Sewer Improvement 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 $50,000 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) 1/6 of municipal income tax collections net of costs of collection;
   b) transfers from the Income Tax Fund; and,
   c) transfers from other Capital Project Funds.

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. 1/6 to the General Fund;
2. 1/6 to the Capital Improvement Fund; and
3. 4/6 to the Income Tax Collection Fund.

At year end, through Fund Transfers approved by Council, income tax monies are redistributed to both the General Fund for operations of the City and to the Capital Improvement Fund. This practice should be reviewed on an annual basis to insure financial stability.

B. Interest Distribution

1. Interest earnings shall distribute to the General Fund, Water Distribution Fund, Sewer System 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.

B. City of Sylvania Utility System Activities

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

Water distribution system
- Water Fund (operating) Water Capital Improvement Reserve Fund
- Deposit $100,000 - $200,000 annually until fund reaches $1,500,000

Sanitary sewer system
- Sewer Fund (operating)
- Sewer Capital Improvement Reserve Fund
- Deposit $100,000 - $200,000 annually until fund reaches $1,500,000

Resource Recovery System
- Green yard waste collection/disposal

C. Utility System Funds Financial Performance Policies

Water (including Water Improvement Fund), Sewer (including Sewer Improvement Fund) 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 will consider establishing parameters for a storm water system within the next 5 years.

E. Internal Service Funds

- Information Technology
- Other operations which charge back costs to the other funds for services provided should endeavor to be self-supporting.

The General Fund, **Water CIP Fund, Sewer CIP 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 strive to develop a long term 10 years Financial Plan.

3. 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.

One-time (i.e. estate taxes) or 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. a 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 and provide an opportunity for the public to offer input.

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. ***Interfund 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.

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 a bi-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	10%
Water	20%
Sewer	20%
Capital Improvement	150%**

**Percentage of General Fund Expenditures

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 <u>$1,000.00.</u>

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.

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.

Arbitrage. 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. Refers to bond issuers who issue no more that $10 million of general debt, 501(c)(3), 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.

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.

Bond Anticipation Notes (BANs). Notes which are paid from the proceeds of the issuance of long-term bonds. 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. 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 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 underwriter 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."

Bullet Maturity. A maturity for which there are no principal and/or sinking fund payments prior to the stated maturity date.

Call Provisions. 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 Improvement Debt. Refers to 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.

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.

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. The rate of actual cash flow as percent of the purchase price.

Cusip. 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.

Debt Service Coverage. 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. 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. Bonds which are priced for sale at a substantial discount from their face or par value.

Derivatives. A financial product whose value is derived from an underlying asset value or reference to an index.

Double-Barreled Bond. 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.

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

Escrow Securities. Escrow Securities means securities in which moneys in an Escrow are invested.

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 a new issue of municipal bonds, a consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings. Typically used with competitive sales and to a lesser extent, negotiated sales.

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.

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

General Obligation 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. Examples of funds not available are revenues of other City utilities and grants for specific purposes.

Indenture. The document by which the City has provided securities for its Utility revenue bonds, and set forth terms, and conditions of issuance of bonds, covenants and representations of the City and the rights of the bondholders, and the obligations of the City to the bondholder.

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. Most insured bonds carry the highest quality credit rating -AAA.

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.

Letters 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.

Moody’s Median. Key financial, debt, economic and tax base statistics with median values for each statistic presented.

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 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. 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.

Negotiated Sale. A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

Net Interest Cost (NIC). A 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. Defined in greater detail by the City’s Indenture. 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. A publication 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. Document prepared by an issuer of municipal securities that gives details of the security and financial information for an issue. 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.

Parity Bonds. Two or more issues of bonds that have the same priority claim or lien against pledged revenues or the issuer’s 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. 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 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. Amount above its par (face) value at which a bond sells.

Present Value. The current value of a future cash flow.

Private Activity Bonds. 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. The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

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. 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. The replacement of 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 Refundings" bonds must be called within 90 days of the earliest call date applicable to IDBs. "Advance Refundings" 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. 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.

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. Debt secured only by a pledge of revenues of the Utility and certain covenants of the City for the payment of annual principal and interest payments.

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

Serial Bonds. 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. Generally means 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.

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. 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.

Term Bond. A bond issued with a single maturity. 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 investment bank or group of banks which agrees to purchase an entire security issue for a specified price, usually for resale to others. The underwriter may acquire bonds either through competitive or negotiated sales.

Underwriter’s Discount. The 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. A long-term bond for which the interest rate is adjusted periodically according to a pre-determined 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.

Yield. Net annual percentage income from an investment. The yield of a bond reflects interest rate, length of time to maturity and write-off of premium or discount.

Zero-Coupon Bonds. Bonds sold at a deep discount, and without a coupon, appreciating to full value at maturity. Also known as capital appreciation bonds