Adopted: November 10, 2015

DEBT MANAGEMENT POLICY
City of Jacksonville, Florida

Table of Contents
Debt Management Policy
City of Jacksonville, Florida

Executive Summary……………………….……………………………………..3

Policy Statement……………………………………….……………………4

Introduction
Authorization to Issue Debt
Debt Oversight Committee
Policy Approval, Amendments, and Exceptions

Long Range Policy Guidelines………………………………………………..7

Integrate Multiple Objectives
Maintain and Enhance Market Perception
Establish Framework to Manage and Monitor Debt
Blend Governmental and Corporate Debt Management Styles

Near Term Objectives and Strategies……..……………………….…………9

Acceptable Debt Issuances Ranges and Limits
Appropriate Structuring Guidelines
Debt Management Best Practices
Risk Management Limits for Derivatives

Glossary of Terms………………………………..………………………….22

DEBT MANAGEMENT POLICY - EXECUTIVE SUMMARY

The City of Jacksonville's Debt Management Policy is a broad policy document providing guidance designed to promote effective and efficient management of the City's debt program, provide a framework for the structuring and monitoring of debt issuances, and demonstrate commitment to long-term financial planning. The policies adopted herein along with the guidance and limitations included in the City's annual Capital Improvement Plan and Debt Affordability Study are intended to ensure that future elected officials have reasonable flexibility to address emerging issues within a consistently applied framework.

The Debt Management Policy is approved by City Council and implemented by the Chief Financial Officer. The Policy establishes a Debt Oversight Committee consisting of the Chief Financial Officer (as Chairman), the Chief Administrative Officer or his/her designee, the Treasurer, the Comptroller, and the Budget Officer, Senior Debt Manager, and others as designated by the Chief Financial Officer. The Council Auditor, or his/her designee, will be an ex-officio member.

GOALS

1. Enhance the City's ability to operate within the credit markets and to maintain and/or enhance its credit ratings for each of its programs.
2. Establish a policy framework to allow the City to manage and monitor its Debt Program over time in a manner that facilitates equity between accounting periods and generations of citizens.
3. Provide guidance needed to blend the traditional governmental and established corporate debt management techniques and to use the best of both, whenever possible.
4. Integrate multiple objectives of creativity, innovation, flexibility, responsibility, corporate image and due care.

OBJECTIVES

The objectives section outlines the City's short to intermediate term strategies to:

1. Establish acceptable debt limits or acceptable ranges originating from legal, public policy, and financial and budgetary considerations.
2. Establish appropriate debt structuring guidelines to ensure that the City's Debt Management Program will facilitate equity between fiscal years and generations of taxpayers.
3. Establish beneficial debt issuance practices that govern the criteria for methods of sale, selection of service providers, use of credit enhancement, and guidelines for refundings (both current and advance).
4. Establish debt management practices that reflect the City's objectives of creativity, innovation, flexibility, responsibility, corporate image, and due care.
5. Manage risk through adoption of limitations on variable rate debt and derivatives.

DEBT MANAGEMENT POLICY STATEMENT
City of Jacksonville, Florida
As of November 10, 2015

DEBT MANAGEMENT POLICY STATEMENT

This Debt Management Policy Statement is designed to promote effective and efficient management of the City’s debt program by providing a written framework for how the City accesses the credit market, establishing debt limitations and restrictions, identifying preferred debt structures and debt issuance practices, creating guidelines for refunding of previously issued debt, and establishing limits and restrictions in the use of derivative products for risk management.

A significant portion of a City's capacity to influence and/or encourage economic development can be measured by the adequacy of its infrastructure and its capacity to support growth. It is the mission of the Mayor, City Council, Chief Administrative Officer and appointed staff to provide for the adequacy of infrastructure (roads, bridges, parks, collector system, etc.), physical plant (buildings, structures, pumping stations, etc.), to meet the demands of basic service delivery as well as economic growth and development. In order to systematically accomplish this, the City must:

- Maintain the bedrock (the current systems, structures and facilities and their service delivery potential) and add building blocks (additions, modifications and expansions) as needed and, when possible, in reasonable anticipation of change;
- Ensure that the costs of this effort are borne equitably by each generation of taxpayers, rate payers, users, and other beneficiaries and, thus, by each period of time;
- Employ the use of debt to complement but not replace significant recurring commitments of annual appropriations for capital purposes;
- Maintain the City's sound financial position, reasonable reserve and attractive debt posture and thereby enhance the City's corporate image, credit worthiness, flexibility and the related ability to meet the challenges of each new administration.

Authorization to Issue Debt

Ordinance Code Section 104.203 empowers the City Council to authorize the issuance of revenue bonds. These authorizations are based on the funding requirements outlined in the Capital Improvement Plan (CIP) included in the Mayor’s budget submission. Borrowing not contemplated in the CIP requires specific authorization by City Council.

Debt Oversight Committee

A Debt Oversight Committee (the “Committee”) is hereby established, consisting of the Chief Financial Officer (as Chairman), the Chief Administrative Officer or his/her designee, the Treasurer, Comptroller, Budget Officer, Senior Debt Manager, and others as designated by the CFO. The Council Auditor, or his/her designee, will be an ex-officio member. The Committee will meet on at least a quarterly basis.

Policy Approval, Amendments, and Exceptions

The Debt Management Policy is approved by City Council and implemented by the Chief Financial Officer.

The goals and strategies outlined in this Statement, while designed with some foresight, will be subject to periodic review and/or amendment. Additionally, circumstances may arise that dictate a temporary exception to one of the established limits or guidelines, such as exceeding variable rate debt limitations due to disruptions in the fixed rate markets. Exceptions to the Policy must be approved by the Chief Financial Officer and the Debt Oversight Committee, and become effective only after approval by the Mayor with timely notice to the Finance Committee Chair. All exceptions to the policy limits must be reauthorized quarterly by the Debt Oversight Committee.

While this document is created with prudent long term debt management in mind, the Debt Management Policy shall be reviewed periodically and updated every 5 years, or more frequently, to reflect industry and marketplace best practices. Amendments must be approved by City Council.

GOAL STATEMENT
LONG RANGE POLICY GUIDELINES

1. Maintain and Enhance Credit Market Perception

The City will maintain open communication lines with the credit markets by way of timely filing of financial information and periodic in person updates, telephone calls, and electronic communications.

The City will manage its debt program in such a way as to maintain and enhance its credit ratings by the national rating agencies, both with a strong underlying rating and for individual pledge sources. The General Obligation (G.O. or full faith and credit) rating is a basic credit rating benchmark against which the City and its various credit obligations would be measured. However, since the City has no outstanding G.O. debt, the City will pursue and maintain an Issuer Credit Rating (ICR) from all three nationally recognized rating agencies in lieu of a G.O. rating.

2. Establish Framework to Manage and Monitor Debt

The City will prepare and publish an annual Debt Affordability Study in accordance with Code Section 110.514 that reports on the City's debt position at each fiscal year end, both in absolute terms as well as relative to adopted benchmarks, maximums, and minimums. The Study will focus on the City's ability to repay debt (debt affordability) rather than the capacity to issue debt as measured by traditional tests designed to measure additional debt capacity by individual revenue source. As designed, the annual Debt Affordability Study will be an effective tool for policy makers to monitor and control debt issuance. Two versions shall be produced annually. The first will be a baseline report submitted by May 31st showing the City's debt burden based on existing and known debt as of April 30th. The second study will be produced immediately following the annual budget submission and will include an analysis of the impact on the measured ratios at the Mayor's proposed level of CIP. In addition, this study will show the impact of each $10 million above and below that amount proposed, within a range of 50% above and below the proposed amount.

The City operates its debt program within three primary pledge programs and each program should be analyzed and managed separately. The three primary pledge programs are:

(a) General Fund, including all direct revenue pledges (e.g., Excise tax, Sales tax, Guarantee Entitlement Revenue sharing, etc.) and the City's covenant program
(b) Better Jacksonville Program Transportation Sales Tax
(c) Better Jacksonville Program Infrastructure Sales Tax

3. Blend Best Practices of Traditional Government and Established Corporate Debt Management Styles Where Prudent

The City will strive to utilize the best of both the traditional government and corporate debt management styles and integrate and utilize, if and when appropriate, proven effective private sector techniques. The pricing or interest rate advantage of a corporate-style debt alternative must be measured and balanced against new and different inherent risks. The manageability of these new risks related to these alternative strategies must be addressed before initiating implementation of any alternative strategies.

The City’s debt program will at any time consist of a blend of fixed rate, medium term notes, and variable rate debt. The mix of these will be governed by this policy and market conditions existing at the time of issue.

4. Integrate Multiple Objectives

As the City addresses issues/elements of the City's Debt Management Program, each of the following goals must be weighed in an effort to maintain an integrated, balanced approach:

Creativity - To examine the array of tools used in the broad marketplace to achieve established objectives at the lowest possible cost over time.

Innovation - To address, consider or conceive new financing options which are either developed in the City's traditional municipal markets or adaptable from other existing financial markets and are deemed prudent by the City’s financial advisor.

Diversification - To manage market risk by a disciplined approach that limits concentration of service providers, debt strategies, and products.

Flexibility - To retain or maintain the City's current and future elective choice of financing options to meet the challenges of each new day, decade or generation.

Responsibility - To be fair, reasonable and equitable to each generation of taxpayers, rate payers, users and other beneficiaries when distributing the debt burden or costs of government within governmental accounting, SEC, and IRS guidelines.

Corporate Image - To act as a good corporate citizen, to maintain or enhance the City's credit worthiness and reputation and to maintain the trust of those who have or will purchase the City's debt or other forms of borrowing.

Due Care - To pay timely attention to and comply with each and all of the agreements, laws, contracts, covenants, policies and obligations which make up or are related to the Debt Management Program.

NEAR TERM OBJECTIVES AND STRATEGIES

The following strategies and actions are designed to accomplish the objectives outlined in the long-range goals section and are currently incorporated into the existing debt program.

1. Establish acceptable debt limits or acceptable ranges originating from legal, public policy, and financial and budgetary considerations.

There are no legal debt limitations established by Florida law or City ordinance. As a matter of good public policy and in light of financial/budgetary considerations the City will maintain institutionalized control over debt issuance using the following processes:

Five Year Capital Improvement Plan- the City will continue to prepare and update annually a financially feasible Five Year Capital Improvement Plan (CIP) to be submitted concurrently with the Mayor's budget each July. The CIP outlines the funding sources for the City's capital needs, including the proceeds from the annual CIP borrowing and pay-as-you-go contributions from the general fund, grants and other sources. This plan is adopted by City Council as a part of its budget approvals. Companion legislation to the budget ordinance grants specific authorization to issue the bonds contemplated in the proposed CIP.

Debt Affordability Study- Required by City Ordinance Section 110.514, the annual Debt Affordability Study is one aspect of the City's ongoing evaluation of its fiscal health and credit quality. It provides an effective management tool for policymakers to monitor and control debt issuance by reporting on the following debt position benchmarks, maximums, and minimums, as adopted by the City in Ordinance 2006-829 and amended by 2007-971 and 2015-450:

(a) Overall Debt to Market Value Ratio
(b) GF/GSD Debt Service as a Percentage of GF/GSD Revenues
(c) Debt Service as a Percentage of General Fund Revenues
(d) Unassigned General Fund Balance (inclusive of Emergency Reserve) as a Percentage of General Fund Revenues
(e) Unassigned General Fund Balance/GSD (exclusive of Emergency Reserve) as a Percentage of General Fund/GSD Revenues
(f) Ten Year Principal Pay-down
(g) GF/GSD Ten Year Pay down
(h) Debt Per Capita

The Study reports the City's debt position at each fiscal year end and projects the debt positions for each of the next five fiscal years using the CIP as the base for capital spending and future borrowing. The Study also reports on compliance levels with established debt benchmarks for those future periods.

By May 31st of each year, this study shall be presented to the City Council Finance Committee and the standing committee to which audits are referenced. Such study will be considered the baseline report reflecting where the City's stands with regard to its adopted ratios incorporating all existing and authorized debt. This will help the City in setting its annual CIP as part of the annual budget process.

A. The Director of Finance shall conduct a debt affordability analysis each year. Proposed capital projects that require funding by the issuance of additional City debt shall be evaluated on the basis of the analysis to assist the Council in setting priorities among capital projects and related appropriations. The Debt Management Policy shall be reviewed and re-adopted by the Council every five (5) years.

   (i) The Director of Finance shall annually prepare a baseline debt affordability report, to be presented to the Finance Committee and the City Council standing committee to which matters regarding Audits are referenced on or before May 31st of each year for purposes of providing a framework for the Council to evaluate and establish priorities for bills that propose the authorization of additional City debt during the next budget year.

   (ii) The baseline report shall include, but not be limited to:

   - A listing of City debt outstanding, other debt secured by City revenues, and other contingent debt current through April 30th of such year.
   - An estimate of revenues available for the next five fiscal years to pay debt service, including general revenues plus any revenues specifically pledged to pay debt service.
   - An estimate of additional debt issuance for previously authorized debt to be issued under the next five fiscal years for the City's existing borrowing programs.
   - A current schedule of the annual debt service requirements by bond issue or Banking Fund Issuance, including principal and interest allocation, on the outstanding City debt and an estimate of the annual debt service requirements on the debt included in subparagraph (iii) for each of the next five fiscal years. Such schedules shall not include projected savings from anticipated refinancing but shall be based on current terms and conditions. Assumptions regarding interest rates on variable debt shall be disclosed.
   - An overview of the City's issuer, general obligation, if any, covenant and specific revenue credit ratings.
   - Identification and calculation of pertinent debt ratios, including, but not limited to, the debt affordability parameters/measures and ratios established by code. A comparison of the debt ratios prepared for subparagraph
     with the comparable debt ratios for the national average for cities and counties of size and rating comparable to the City.

(iii) The Director of Finance shall prepare an update of the report set forth above in conjunction with any proposal to issue new City debt including an updated debt affordability report, to be presented to the Finance Committee and the City Council standing committee to which matters regarding Audits are referenced concurrent with the submission of the City's Capital Improvement Plan and Capital Improvement Plan Budget each year, for purposes of providing a framework for the Council to evaluate and establish priorities for bills that propose the authorization of additional City debt during the next budget year. This updated report shall contain the information provided in baseline report, updated to reflect the impact of the issuance of additional debt on both the debt affordability parameters/measures in the code as well as the debt service schedules for the next five years. The amount of additional debt used in the analysis shall be the amount proposed in the proposed Capital Improvement Plan Budget and Capital Improvement Plan as well as a schedule depicting the impact on debt service and debt affordability of each ten million dollar increase or decrease from that proposed up to 50% greater than the proposed budget. The schedule shall note breakpoints at which debt affordability criteria must be waived to permit such authorization.

(iv) Any entity issuing debt secured by City revenues shall provide the information necessary to prepare the debt affordability report.

B. Failure to comply with this section shall not affect the validity of any debt or the authorization of such debt.

Variable Rate Assumptions- the Treasury Division shall submit proposed variable rate assumptions for use in developing the debt service elements of the City's budget by March 1 of each year. The Debt Management Committee will provide its recommendations for variable rate assumptions to the Budget Office by April 1.

Variable Rate Limitations- Pursuant to this Policy, the City will limit the amount of variable rate debt outstanding to 30% of total debt outstanding. While the upper limit on variable rate debt is 30%, the Debt Management Committee will manage its exposure in light of the prevailing interest rate environment and the types of projects being financed. The City will utilize a mix of fixed and variable rate debt to lower the overall cost of capital. Variable rate debt will generally be used as an efficient way to fund new construction requirements and as a permanent component of a long-term funding strategy. The amount of variable rate debt outstanding shall be based on any one or a combination of the following factors:

Interest Rates- The absolute level of interest rates, the forecasted direction of interest rates and the shape of the yield curve are all factors in managing the amount of variable rate debt outstanding. If fixed rates are high relative to the current cycle of rates and the yield curve is steep, a higher percentage of net variable rate debt may be desirable. Conversely, if interest rates are low relative to the current cycle of rates and the yield curve is flat, a higher percentage of net fixed rate debt may be desirable.

Capital Structure and Construction Funding- Given that the City has many capital programs with projects beginning at various points in time and the lack of correlation between low interest rate environments and the need to begin a project, having a variable rate program will allow for "Just in Time" financing while providing flexibility in choosing when to issue longer term fixed rate debt (initial interim use of variable rate with the intention of conversion to fixed rate when market opportunities arise). Additionally, variable rate debt adds flexibility for capital structure changes like accelerating the pay down of debt.

The cash flow forecast for budgeted capital projects is the main factor used in determining the appropriate timing of new money debt transactions. The goal is to issue new debt as outstanding debt proceeds are spent and on an as-needed basis so as to minimize interest costs.

Medium Term Notes: Given various market circumstances medium term notes should be considered as either a complement of or a substitute for variable rate bonds. Medium term notes expand the City's capacity to utilize the entire spectrum of the yield curve while equally avoiding certain risk concerns associated with variable rate debt (liquidity availability and pricing volatility, remarketing fees and basic point spread, etc.).

The use of medium term notes is designed to be opportunistic based primarily on the shape of the yield curve and in some instances, to manage or avoid varying risks associated with traditional variable rate programs.

Medium Term Note Limitations: Pursuant to this Policy Statement the maximum medium term note exposure to any single primary pledge program shall be limited to:

(a) Medium term notes as a % of debt outstanding within a single program: **20%**
(b) Combined medium term notes and variable rate as a % of outstanding debt within a single program: **30%**
(c) Maximum single maturity roll-over within a single program: **$25,000,000**
(d) Aggregate single maturity roll of all programs: **$40,000,000**

Medium Term Note – Future Market Risk/Opportunity:

The medium term note option as established in the covenant bond indenture requires a minimum re-amortization of level principal over the last 1/3 of the nominal maturity, similar to the variable rate structure. Ultimately, this option should shorten the more traditional fixed rate term, reduce the related True Interest Cost (TIC) thereof and move the City to a more flexible "corporate style" overall debt management program. Given the presumption of a City Capital Improvement Program related annual borrowing somewhere in the $60 to $100 million range scheduled for near year end, the medium term note rollover (re-amortization) can easily be added to scheduled transactions and avoid inefficient stand alone borrowings. Equally, the medium term note options are part of a multi-modal program. Each rollover maturity can electively be wholly or partially paid off, converted to variable rate (for one year or longer), or extended to ultimate maturity in addition to being rolled over into a new medium term note. At least ninety (90) days prior to any aggregate rollover in excess of $22,500,000 the City shall assess if it has sufficient liquidity to address the rollover assuming a worst case scenario or significant market disruption. If the City determines that liquid cash reserves are insufficient, arrangements should be made no later than thirty (30) days prior for a bank line of credit to address its temporary liquidity needs, if necessary.

If a single primary pledge maturity starts to approach $18-20 million in annual maturity, consideration should be given to splitting the single maturity dates (within the fiscal period). Alternative dates should consider May 1 and/or June 1 as options to October 1. As the alternative date approaches maturity, when appropriate, should lead to a possible splitting the then present primary pledge program related annual borrowing.

2. Establish appropriate debt structuring guidelines to ensure that the City's Debt Management Program is contributing to equity between fiscal years and generations of taxpayers.

The following structuring guidelines and practices are intended to allow for consistent structuring of the City's debt repayment that will result in future flexibility and equitable repayment burdens.

Tax-exempt vs. Taxable - As a municipality, the City is authorized to issue tax-exempt debt and must comply with appropriate tax regulations. The City's stated preference is to issue tax-exempt debt. For certain transactions, due to tax regulations, it may be necessary for the City to issue taxable debt. Such prevailing circumstances may include excessive transferred proceeds, volume cap limitations, and private use restrictions. The Chief Financial Officer and Treasurer will monitor current tax regulations and utilize tax-exempt financing whenever possible.

Maximum Maturity and Amortization - Prudent debt management requires that there be a proper matching of the lives of the assets and the length of the debt, whether taxable or tax-exempt, used to finance the City's capital needs. In no instance will the City amortize the repayment of debt beyond the useful life of the asset acquired or constructed. In addition, the City will, at all times, structure the amortization and maturity of any fixed rate debt to comply with the appropriate tax regulations.

Where feasible, the City will incorporate shorter term fixed rate bond/loan amortizations in order to minimize interest costs and address its principal repayment targets. Using the Banking Fund's ability to blend variable, intermediate term, and long term debt structures, the City will strive to:

(a) Reduce related interest rate costs by increasing the portion of debt with shorter maturities;
(b) Shorten the lives of various loans, thereby reducing the total interest cost, by disconnecting the bond amortization period from the internal loan amortization period;
(c) Manage and control the potential for debt/loan amortization mismatch by reporting through the Debt Committee to the Finance Committee at least once every two years on the City's strategy to address the bond amortization through current and future loan and pre-payment strategies.
(d) Provide future flexibility to efficiently re-amortize currently outstanding loans when and if necessary.

Minimizing Borrowing - The City will at least annually review project funds for unused cash amounts, which are separate and distinct from authorizations, to use toward other Council authorized projects with bond counsel approval. This will be in effort to make sure that bond proceeds are allocated to authorizations in which spending has already occurred or will be occurring in the near term. This will avoid IRS spend-down violations and will serve to reduce the amount to be borrowed in the next "new money" bond issue. This will save interest and generally reduce bonds outstanding at any given time to an amount necessary to fund spending on authorizations.

Cash Management - The City will, at least annually, perform an analysis of project funds to identify projects which have cash borrowed against authorizations but not yet spent as well as those which have spending against authorizations but not yet bond proceeds assigned. With bond counsel review and approval, the City shall move the positive balances to the negative balances prior to sizing the next "new-money" bond issue. This will save interest and reduce bonds outstanding at any given time. Once this analysis has been performed and in the event of a net negative result, meaning that more spending has occurred than borrowing, the City shall annually issue an amount necessary to ensure that all cash deficits in project funds are in a non-negative position at fiscal year-end. For quarters in which there are cash transfers amongst project accounts, to track spending in accordance with IRS requirements, the Finance Department shall deliver a report summarizing these movements to the Finance Committee.

Reimbursement Resolutions - The City will utilize the reimbursement provisions of federal tax law when available and appropriate. The City will include a reimbursement resolution in all appropriate bond authorization legislation.

Capitalized Interest Limitations - The City will strive to avoid capitalized interest in its governmental debt. In special circumstances when capitalized interest is a needed element in the debt structure, it should be limited to two years or the construction period, whichever is shorter.

Call Provisions - To provide the maximum amount of flexibility, the City will consider shorter calls (less than the market normal par) whenever appropriate. City staff along with the financial advisor and underwriter will assess the market at the time of pricing to determine its ability to issue bonds with such features while minimizing interest costs.

Cash and Surety Reserve Targets - The City prefers utilization of Cash Debt Service Reserves. Use of surety products will be evaluated as to their expected benefits, projected cost, counterparty risk, and potential concentration of exposure to specific providers. The City's stated target is to maintain at least 60% of its required Debt Service Reserves in cash.

3. Establish beneficial debt issuance practices that govern the criteria for methods of sale, selection of service providers, use of credit enhancement, and guidelines for refundings (both current and advance).

The City Council created the Pension and Treasury Procurement Procedures under Ordinance Section 126.313. The Code requires that procurement "…under this section shall include as much competition as practically possible under the circumstances, and shall include procedures necessary to insure compliance with the requirement to procure the highest quality in financial services at the greatest economic value to the City".

Methods of Sale - Pension and Treasury Procurement Procedures Sections 306 and 307 provide the guidelines for selection of the methods of sale for bonds, notes, and other financial instruments. A determination of the appropriate method of sale will be made by the Chief Financial Officer and Treasurer prior to each financing working in concert with the City's Financial Advisor.

Selection of Service Providers - Pension and Treasury Procurement Procedures Section 304 provides the guidelines for selection of outside professionals to assist in accessing the market. The City shall employ an outside professional financial advisor, other than the underwriter, who is familiar with and abreast of the conditions of the municipal market, and is available to assist in structuring the issue, pricing, and monitoring of sales activities. The City shall not use a firm to serve as both the financial advisor and underwriter.

The Pension and Treasury Procurement Procedures outlines the requirements for selection of bond counsel and related legal services in Section 308, with trustee, registrar, paying agent, escrow agent selection requirements described in Section 309.

Use of Credit Enhancement - The City will evaluate the economic benefit of using bond insurance or other credit enhancements for each transaction. This analysis will incorporate the benefits of credit enhancement to the call date, to maturity date, and any intermediate date. If, based on the analysis of the enhancement, the City determines that bond insurance will add economic benefit to the transaction an insurance provider will be selected pursuant to the City Purchasing Code. Financial institutions which insure bonds for investors of the City must have, at the time the bonds are issued, the top rating of AAA from at least two of the three rating agencies: Moody's, Standard & Poor's, and

Fitch Ratings.

Refunding Guidelines- Refunding of outstanding debt represents unique opportunities for the City to realize savings in debt service cost. Refunding also allows the City to re-structure its existing debt or debt profile to enable the City to operate in a more competitive manner. Many of the policies and practices applicable to new money fixed and variable rate financings are applicable to debt refundings as well and those polices and practices shall be adhered to in any debt refunding issue unless specifically addressed below.

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refundings will be considered within federal tax law constraints. The City and the financial advisor shall monitor the municipal bond market for opportunities to obtain interest savings. Current tax regulations permit one Advance Refunding opportunity for a post 1986 issue of bonds. There are no similar limitations with respect to a current refunding of bonds.

The following guidelines should apply to advance and current refunding bonds:

(a) The following shall apply to refunding deal sizes of less than $100 million: The City shall not commence a refunding process with deal-wide projected savings at the outset of less than or equal to 5% without prior City Council approval. If the city commences a refunding with greater than 5% projected savings and the savings fall below 5% but above 4%, the Director of Finance/CFO shall notify City Council in writing within 30 days following closing. Should the city commence a refunding with greater than 5% projected savings but the savings fall below 4% prior City Council approval shall be required to proceed.

(b) The following shall apply to refunding deal sizes of greater than $100 million: The City shall not commence a refunding process with deal-wide projected savings at the outset of less than or equal to 5% without prior City Council approval. If the city commences a refunding with greater than 5% projected savings and the savings fall below 5% but above 3.5%, the Director of Finance/CFO shall notify City Council in writing within 30 days following closing. Should the city commence a refunding with greater than 5% projected savings but the savings fall below 3.5% prior City Council approval shall be required to proceed.

(c) Conversion of variable rate bonds to fixed rate debt are not considered a refunding for the purposes of this section. The long term bonds replacing the variable rate debt shall be structured in accordance with the same concepts of matching asset lives as mentioned elsewhere in this document and under IRS regulations.

(d) The average maturity of the refunding bonds shall be structured within +/-

one year of the refunded bonds. This allows for flexibility to effectively position the refunding bonds' maturities along the most efficient areas of the yield curve but controls for excessive shortening or extending of debt. Prior Council approval shall be necessary to structure a bond deal outside of this range. Nothing in this section is meant to conflict with the proper matching of useful lives as required by the IRS and the section titled "Maximum Maturity and Amortization" above.

(e) The City, in working with its Financial Advisor, will structure the refunding bond issue in the most efficient manner practical with regard to savings. Individual principal maturities will not be extended from one year to a date more than two years later, for a purpose other than achieving greater interest savings. Moving principal out into future years, for the sole purpose of creating short term budget relief, may be accomplished only with prior council approval. The refunding bonds will carry savings in every year, unless market conditions are such that this reduces the refunding bond's savings efficiency. In the event that substantially non-level or front-loaded savings are proposed when structuring the deal, prior Council Authorization is required.

(f) For the purposes of this section, the term "savings" refers to the calculated Present Value savings, net of all related costs.

4. Establish debt management practices that reflect the City's objectives of achieving the most efficient debt structure, responsibility, corporate image, flexibility, and due care.

Investors' Relations Program- In order to meet its responsibilities to provide comprehensive disclosure in a timely manner to the marketplace, the City is committed to develop and maintain an investors' relations program consistent with federal, state, and local laws. Stakeholders in this process are investors, bond insurers, rating analysts, trustees, credit enhancers, counterparties, and constituents. The City intends to exceed the minimum mandated disclosures in order to promote the efficient sale of its debt instruments in both the primary and secondary markets and improve the receptiveness to the City's offerings.

The City is committed to making both positive and negative information, including material events notices, available to the diverse audience within the marketplace.

The core of the City's Investor Relations initiative will be electronic access to at least the following:

(a) Summary Term Sheet for each outstanding issue including CUSIPs and amortization schedule (see attached sample).
(b) Frequently Asked Questions (FAQs)
(c) Comprehensive Annual Financial Reports

(d) Financial Plans (budget)
(e) Debt Affordability Study
(f) Debt Management Policy Statement
(g) Investment Policy Statement

Credit Ratings - The City recognizes that strong credit ratings are necessary to ensure the lowest possible borrowing costs which will factor into maintaining low tax rates for our citizens. The City will strive to achieve the highest possible municipal ratings. The City will maintain published issuer or underlying ratings.

Arbitrage Compliance - The City will identify and have prepared annual arbitrage rebate calculations on all variable rate and other at risk issues to be used in the monitoring of the City's unspent bond proceeds, and to allow timely recording of arbitrage related liabilities and filing in compliance with federal tax laws.

Banking Fund Objectives - The City created its Banking Fund as a conduit device to distribute the debt proceeds into loans to various operating funds of the City. Initial objectives of this program were and are to:

- Alleviate the need for small inefficient borrowing;
- Provide a blended cost of money with a variety of interest rates and interest rate methodology resulting in lower debt service requirement than would be present in a long-term fixed rate only program;
- Provide a revolving device which would allow for the individual loan repayments to be available for loans for new projects.
- Expand the potential use of the covenant (a private sector styled promise to pay) pledge, and
- Provide flexibility of loan terms to meet the needs of the borrower.

5. Establish appropriate limits on the use of risk management techniques through derivative products.

The prudent use of hedging instruments, including interest rate swaps, caps, options, and collars, can be an effective tool in meeting funding needs and structuring a balance sheet while managing risk associated with the movement of interest rates. Utilizing hedging products can provide the City with cost effective alternatives to traditional debt financing choices.

Interest rate swaps and related hedging instruments may introduce additional risks to the City's credit profile. These risks include, but are not necessarily limited to:

(a) Termination- the need to terminate the transaction in a market that requires a termination payment by the issuer.
(b) Counterparty- the failure of the counterparty to make required payments.
(c) Interest rate- how the movement of interest rates over time affects the

market value of the swap and termination payments.

(d) Amortization- the mismatch of the maturity or amortization of the swap and the maturity or amortization of the underlying debt.
(e) Basis- the mismatch between actual variable rate debt service and variable rate index used to determine swap payments.
(f) Tax- potential for tax events that could effect swap payments.
(g) Credit- the occurrence of an event modifying the credit rating of the issuer or its counterparty.
(h) Market access- the risk that the government will not be able to enter the credit markets or that the credit markets have become more costly.

Prior to entering into each interest rate swap, cap, or collar transaction, these risks will be evaluated to ensure adequate provisions are in place to minimize the downside and provide the maximum benefit the transaction originally intended.

Utilizing interest rate swaps to achieve substantially lower interest cost is one component in building the desired capital structure to allow the City to finance efficiently. There are two types of interest rate swaps the City is authorized to enter into:

1. *Floating to fixed rate swaps*: these transactions are intended to hedge the interest rate risk on variable debt or take advantage of fixed swap rates that are lower than comparable fixed rate bonds.

2. *Fixed rate to floating rate swaps*: these types of swaps are used to increase the amount of variable rate exposure without incurring remarketing and liquidity costs and eliminate the "put" risk associated with variable rate debt.

Fixed to Floating Rate Swap Management

The Committee shall determine the size of the total interest rate swap program and the maturity date for the swaps within the parameters of the Policy which has been approved by the Council. Interest rate swaps should be executed quarterly to achieve an averaging into the market philosophy.

Interest rate caps and related hedging instruments may be utilized to help manage interest rate risk in the Debt Management Program. From time to time, the Committee will evaluate the use of collar (cap and floor instrument) transactions as a hedging tool to minimize the cost and risk of a cap only alternative.

Forecasts of interest rate volatility over the intermediate term (4 to 7 years) and expected performance of the swaps, caps, collars, and related hedging instruments under various interest rate scenarios shall be updated not less than semi-annually. Short and long term interest rates will be monitored over varying time periods. If current interest rates are either above or below the moving averages as measured by varying time periods, the Committee may elect to alter the timing of adding additional fixed to variable swaps to either increase or decrease the amount of variable exposure. Furthermore, the

Committee may elect to enter into “reversing” swaps to take advantage of market opportunities.

Floating to Fixed Rate Swap Management

An additional component of the debt management strategy is to use floating to fixed rate swaps to lock in the lowest possible borrowing costs over a long period of time. Floating to fixed rate swaps can be used in conjunction with issuing variable rate debt to obtain the lowest fixed rate when compared to traditional forms of fixed rate financings. In addition, floating to fixed swaps may be desirable when the cycle of long-term rates moves down to or near historical lows and “fixing” a portion of the outstanding variable rate debt appears advantageous. Swaps will be evaluated as alternatives to traditional financing instruments considering their comparable costs, ease of entry and exit provisions, and the amount of potential risk exposure.

Interest rate swaps will be executed for notional amounts, maturities and other related terms and conditions as determined by the Committee. Each of the risks associated with derivative products as described previously will be evaluated in order to minimize any potential negative results.

Forecasts of interest rate volatility over the term of the swaps and expected performance of the swaps under various interest rate scenarios shall be analyzed prior to the execution of the swaps. Short and long term interest rates will be monitored over varying time periods. The Committee may elect to enter into “reversing” swaps to take advantage of market opportunities.

Compliance and Reporting Requirements

The City’s Financial Advisor shall perform an annual review relating to fixed to float interest rate swap management. If and when appropriate, collateral reports will be updated no less than quarterly providing information relating to specific swap transactions that may require collateral posted based on mark to market valuations.

Approval for Swaps

The Committee shall have the responsibility for the approval of all interest rate swaps. The Chief Financial Officer will be responsible for execution and management of interest rate swaps.

The Chief Financial Officer and the Treasurer must approve the interest rate swap term sheet prior to execution. The Chief Financial Officer and Treasurer must sign all interest rate swap, cap, option, or collar confirmations. In addition, the purpose of the transaction, (asset matched, debt management, etc.) will be included as part of the swap paperwork file kept for each executed swap transaction.

Selection of Providers

Financial institutions and dealers executing interest rate swaps, caps, options, and other hedging instruments for the City shall be selected pursuant to Section 302 of the City's Pension and Treasury Procurement Code as established in City Ordinance Section 126.313. The City shall require that all institutions and dealers entering into interest rate swap, cap, option, and other hedging instrument agreements execute a Master Swap Agreement (the ISDA Master Agreement must be used as a part of the Master Swap Agreement) that is signed by both parties. All transactions entered into shall adhere to the requirements of the Master Swap Agreement.

The Master Swap Agreement will contain, among other things, language regarding credit rating maintenance standards. All providers will either, (1) be rated AA-/Aa3 or better by at least two of the rating agencies (Fitch, Moody's, or Standard & Poor's) at the time of execution and enter into a collateral agreement to provide collateral as determined by the Credit Support Annex in the event that the credit rating falls below the AA-/Aa3 level or (2) be rated A/A2 by at least two of the rating agencies or better at the time the Agreement is executed, which shall include a lower threshold for collateral posting. The City will strive, in either circumstance to use a third party trustee/custodian to hold posted collateral.

SWAP Limits

- No more than $100 million of net interest rate swap and cap or other hedging instruments shall be outstanding in the aggregate with any one provider or affiliate thereof. This provision includes all interest rate swap, cap, option, and other hedging instruments the City may utilize to manage interest rate risk including, but not limited to, debt management.

- The maximum outstanding notional amount of interest rate swaps is established at $400 million.

- The term of each floating to fixed rate swap will be determined based on the life of the related underlying instrument being hedged, but shall not exceed twenty years. Floating to fixed swaps will not be executed unless the spread between the fixed rate and floating rate is a positive 25 basis points or more.

- The term of fixed to floating rate swaps shall not exceed five years.

- Debt-Backed Swaps. The total notional amount of all outstanding variable rate debt and variable rate debt swaps shall not exceed 25% of the City's total outstanding debt.

- The Committee will consider splitting the counterparty risk per transaction to further diversify the related risk.

GLOSSARY OF TERMS

Advance Refunding: A bond is treated as issued to advance refund another bond if it is issued more than 90 days before the redemption of the refunded bond.

Auction Rate Bonds: Means “Short-term Adjustable Rate Securities” which are issued and outstanding under the “Auction Rate Mode” and which bear interest for each Auction Period, payable in arrears, at the Auction Rate in effect on the Auction Date (as defined in the respective Supplemental Ordinance) for the Auction Period as defined. Such securities do not normally required Liquidity Facility support, but may require Bond Insurance.

Basis Risk: Movement in the underlying variable rate indices may not be perfectly in tandem, creating a cost differential that could result in a net cash outflow from the issuer. The mismatch that can occur in a swap with both sides using floating, but different, rates.

Commercial Paper: Note shall mean any Bond which has a maturity date which is not more than 270 days after the date of issuance thereof.

Competitive Bid: A method of submitting proposals for the purchase of new issue of municipal securities by which the securities are awarded to the underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale.

Counterparty risk: The risk that the other party in the derivative transaction fails to meet its obligations under the contract.

Credit Enhancement: Shall mean the issuance of an insurance policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes unconditionally obligated to pay when due, to the extent not paid by the City or otherwise, the principal of and interest on such Bonds.

Current Refunding: A bond is treated as issued to current refund another bond if the refunding issue is issued not more than 90 days before the redemption of the refunded bond.

Hedge: A transaction entered into to reduce exposure to market fluctuations.

Interest rate swap: A transaction in which two parties agree to exchange future net cash flows based on predetermined interest rate indices calculated on an agreed notional amount. The swap is not a debt instrument between the issuer and the counterparty, and there is no exchange of principal.

ISDA: International Swap Dealers Association, the global trade association with over 550 members that include dealers in the derivatives industry.

ISDA Master Agreement: The standardized master agreement for all swaps between the Issuer and the dealer that identifies the definitions and terms governing the swap transaction.

LIBOR: The principal benchmark for floating rate payments for taxable issuers. The London Inter Bank Offer Rate (LIBOR) is calculated as the average interest rate on Eurodollars traded between banks in London and can vary depending upon the maturity (e.g. one month or six months).

Long-dated swap: A swap with a term of more than ten years. Often used in the municipal market, as issuers often prefer to use a hedge that matches the maturity of the underlying debt or investment.

Mark-to-market: The calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying instrument (i.e. the variable on which the derivative is based).

Medium Term Note: Any bond which has a maturity date which is more than 365 days, but not more than 15 years, after the date of issuance and is designated as a medium term note in the supplemental ordinance authorizing such bond.

Negotiated Sale: The sale of a new issue of municipal securities by an issuer through an exclusive agreement with an underwriter or underwriting syndicate selected by the issuer.

SIFMA Index: The principal benchmark for the floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day tax-exempt variable rate bond issues.

Termination risk: The risk that a swap will be terminated by the counterparty before maturity that could require the issuer to make a cash termination payment to the counterparty.

True Interest Cost**:** The rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment date to the purchase price received for the bonds.

Variable Rate Bond: Any Bond not bearing interest throughout its term at a specified rate or specified rates determined at the time of initial issuance.

Variable Rate Demand Obligations (VRDO): A long term maturity security which is subject to a frequently available put option or tender option feature under which the holder may put the security back to the issuer or its agent at a predetermined price (generally par) after giving specified notice or as a result of a mandatory tender. Optional tenders are typically available to investors on a daily basis while in the daily or weekly mode and mandatory tenders are required upon a change in the interest rate while in the flexible or term mode. The frequency of a change in the interest rate of a variable rate demand obligation is based upon the particular mode the security is in at the time.