The Metropolitan Government of Nashville and Davidson County

DEBT MANAGEMENT POLICY

2023

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Debt Management Policy

Introduction

Debt management policies provide written guidance about the amount and type of debt issued by governments, the issuance process, and the management of the debt portfolio. A debt management policy tailored to the needs of The Metropolitan Government of Nashville and Davidson County (the "Metropolitan Government" or “Metro”): (l) identifies policy goals and demonstrates a commitment to long-term financial planning; including a multi-year capital plan; (2) improves the quality of decisions; and (3) provides justification for the structure of debt issuance. Adherence to its debt management policy signals to rating agencies and the capital markets that the Metropolitan Government is well-managed and should meet its obligations in a timely manner.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for the Metropolitan Government to manage its debt programs in line with those resources.

The debt programs for the Metropolitan Government include general obligation debt issued by the Metropolitan Government for which the Metropolitan Government has pledged its full faith and credit for the payment of both principal and interest; and (2) revenue debt issued by the Metropolitan Government for which the Metropolitan Government has pledged the revenues of one or more or revenue-generating systems or facilities for the payment of both principal and interest. These policies shall be administered by the Metropolitan Government's Finance Department.

These policies will apply to all debt issued by the Metropolitan Government, with the exception of revenue debt issued on behalf of Nashville Electric Service (NES). Under applicable State law, NES is charged with the operation and management of the Metropolitan Government's electric system. NES shall at all times maintain debt management policies with respect to electric system revenue debt that are consistent with the requirements of applicable State law. Upon requesting or recommending that the Metropolitan Council authorize the issuance of any revenue debt on behalf of NES, NES shall certify that the recommended debt will be issued in a manner consistent with NES’s debt management policies and/or identify any deviations from NES debt management policies that have been specifically approved by NES.

The Metropolitan Government's Sports Authority and Convention Center Authority are both authorized to issue debt on their own behalf. Applicable State law requires the Metropolitan Council to approve any debt issued by the Sports Authority or the Convention Center Authority. Both Authorities shall at all times maintain debt management policies with respect to their respective debt issuances that are consistent with the requirements of applicable State law. Upon requesting or recommending that the Metropolitan Council approve the issuance of any debt on behalf of the Sports Authority or the Convention Center Authority, the applicable Authority shall certify that the recommended debt will be issued in a manner consistent with the Authority's debt management policies and/or identify any deviations from the Authority's debt management policies that have been specifically approved by the Authority.

These policies do not apply to the debt of any other instrumentality of the Metropolitan Government which is authorized to issue debt without the approval of the Metropolitan Council, including without limitation the Airport Authority, the Industrial Development Board, and the Health and Educational Facilities Board of the Metropolitan Government. Each of these instrumentalities is required to maintain debt management policies consistent with the requirements of applicable State law.

Goals and Objectives

The Metropolitan Government maintains a debt policy as a tool to ensure that financial resources are adequate to meet the Metropolitan Government's long-term capital programs and financial planning. In addition, this Debt Management Policy (the "Policy") helps to ensure that financings undertaken by the Metropolitan Government satisfy certain clear objective standards designed to protect the Metropolitan Government's financial resources and to meet its long-term capital needs.

1. The goals of this policy are:

    a. To document responsibility for the oversight and management of debt related transactions;

    b. To define the criteria for the issuance of debt;

    c. To define the types of debt approved for use within the constraints established by applicable State law and the Charter of the Metropolitan Government (the "Charter");

    d. To define the appropriate uses of debt;

    e. To define the criteria for evaluating refunding candidates or alternative debt structures; and

    f. To minimize the cost of debt.

2. The objectives of this policy are:

    a. To establish clear criteria and promote prudent financial management for the issuance of all debt obligations;

    b. To identify legal and administrative limitations on the issuance of debt;

    c. To ensure the legal use of the Metropolitan Government's debt issuance authority;

    d. To maintain appropriate resources and funding capacity for present and future capital needs;

    e. To protect and enhance the Metropolitan Government's credit ratings;

    f. To evaluate debt issuance options;

    g. To promote cooperation and coordination with other stakeholders in the financing and delivery of services;

    h. To manage interest rate exposure and other risks; and

    i. To comply with applicable federal laws and Generally Accepted Accounting Principles ("GAAP").

Debt Management/General

A team from the Finance Department and advisors shall determine the details of all debt transactions to be proposed to and approved by the Metropolitan Council. The debt management team shall, at a minimum, consist of the personnel listed below. Others may be assigned as needed.

- Metropolitan Treasurer
- Finance Director
- Finance Manager
- Municipal Advisor(s)
- Metro Legal (as necessary)
- Bond Counsel (as necessary)
- Bond Disclosure Counsel (as necessary)

The debt management team, headed by the Metropolitan Treasurer, shall be responsible for administering Metro's debt programs, including monitoring ongoing compliance.

Legal Requirements Regarding the Authorization, Use and Administration of Debt

1. Metropolitan Government financings will be conducted and maintained in accordance with applicable federal, state and local laws, including without limitation the requirements of:

    a. Section 103 of the Internal Revenue Code, relative to tax-exempt debt obligations,

    b. the Securities Act of 1933 and the Securities Exchange Act of 1934, relative to securities,

    c. the Constitution and laws of the State of Tennessee (including without limitation Title 9, Chapter 21, Tennessee Code Annotated (the "LGPOA"), and Title 7, Chapter 34, Tennessee Code Annotated (together, the "State Debt Statutes"), and

    d. Metropolitan Charter and Code provisions.

2. No officer or agency shall be entitled to issue or incur any debt obligation without first obtaining express approval thereof by resolution of the Metropolitan Council, in addition to any other requirements required by applicable law, including without limitation:

    a. In the case of financings of public works projects pursuant to the LGPOA (other than school projected or LGPOA- defined "mandated projects"), the prior adoption by the Council of an initial resolution, the publication of the initial resolution, and in the case of general obligation bonds, the failure of voters to protest the initial resolution, as required by the LGPOA,

    b. In the case of a refunding, the prior receipt from the Division of Local Government Finance of a report on plan of refunding,

    c. In the case of tax anticipation, bond anticipation, capital outlay or other notes, the approval of the Division of Local Government Finance, and

    d. In the case of debt that meets the definition of "balloon indebtedness", the prior approval of the State Comptroller.

3. Debt authorizing resolutions shall be approved by the Finance Department, the Department of Law, and the Metropolitan Government's bond counsel, prior to their filing with the Metropolitan Council for consideration.

4. Prior to submitting a bond resolution to the Metropolitan Council for approval, a member of the debt management team will present to the Metropolitan Council the purpose of the financing, the estimated amount of the financing, the proposed structure of the financing, the proposed method of sale for the financing, members of the proposed financing team, and an estimate of all the costs associated with the financing.

Purpose and Use of Debt Issuance

1. Debt may be issued for public purposes of the Metropolitan Government as permitted by the State Debt Statutes.

2. Debt may be used to finance capital projects authorized by resolutions of the Metropolitan Council and to fund costs of issuance, capitalized interest and debt service reserves.

3. Debt may only be used to fund operating expenditures in the form of tax anticipation notes, as contemplated by Title 9, Chapter 21, Part 8, Tennessee Code Annotated.

4. Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of costs of projects.

5. Bonds may be issued to refinance outstanding debt.

Security and Source of Payment for Debt

Pursuant to State Debt Statues, the Metropolitan Government may issue general obligation bonds, which are direct general obligations of the Metropolitan Government payable as to both principal and interest from any funds or monies of the Metropolitan Government from whatever source derived. The full faith and credit of the Metropolitan Government is pledged to the payment of principal of and interest on all general obligation bonds. General obligation bonds may be additionally secured by a pledge of the revenues of one or more revenue-producing systems or facilities.

Pursuant to State Debt Statutes, the Metropolitan Government may issue revenue bonds, which are limited obligations of the Metropolitan Government, payable solely from the revenues of one or more revenue-producing systems or facilities.

Debt Capacity Assessment

1. General Obligation Bonds

    a. During development and consideration of a capital-spending plan, impact of the resulting debt and debt service will be evaluated to determine appropriate level of debt to the overall financial position of the Metropolitan Government. To accomplish this evaluation, a calculation of the various metrics, discussed herein, will be performed on existing debt as compared to projected debt resulting from the capital spending plan. An analysis of historical financial trends and current and projected economic factors will be considered in evaluating the appropriate level of debt to be approved in a capital spending plan.

b. Metrics considered in evaluating a capital spending plan are based on recommendations of Metro's Municipal Advisor and approved by the Director of Finance. Selected metrics are those considered by rating agencies in assigning Metro's bond rating(s) and represent best practices of municipal bond issuers, while ensuring the Metropolitan Government's local government structure is also considered. Direct comparisons to other municipal debt issuers will be considered from time to time, but only to the extent those municipal debt issuers are responsible for similar capital responsibilities as the Metropolitan Government (i.e. county, municipal and school system functions).

c. The factors and metrics described below provide a broad information base for the Metropolitan Government's decision makers to consider in determining appropriate level of new debt authorizations:

   i. Financial trends provide a review of the financial progress of the government over multiple years. Fund balance demonstrates the government's ability to maintain reserves at appropriate levels while meeting funding needs. Annual comparison of revenue and expenses indicates effectiveness of the budget process and ability of management to operate within financial limitations. Ongoing review of these elements is part of the debt management program and the debt authorization process.

   ii. Pension funding and Other Post-Employment Benefits ("OPEB") obligations are important considerations to a government's financial stability. As of the date of this policy, the Metropolitan Government believes that its pension plan is well-funded. The Charter requires that annual contributions be based on funding necessary to keep the retirement plan actuarially sound as determined by a qualified independent actuary, which such requirement has been viewed favorably by rating agencies. As of the date of this policy, the Metropolitan Government's OPEB obligations are 0% funded, and the required contribution for OPEB obligations is based on projected pay-as-you-go financing requirements under which contributions are made in amounts sufficient to cover benefits paid, administrative costs and anticipated inflationary increases. As of the date of this policy, the Metropolitan Government believes that its treatment of OPEB obligations has not affected the Metropolitan Government's ability to authorize debt nor has it negatively influenced bond ratings. This will be regularly assessed and should there become a potential for the OPEB liability or funding method to negatively impact bond ratings and interest rates in the future, a determination of policy actions necessary to mitigate potential negative impacts would be made at that time.

   iii. Recognizing that the strength and resiliency of the local economy are the ultimate basis for the ability to repay debt, the economic factors listed below were selected to gauge multiple elements of the economic strength. Individually they provide insight to specific areas and combined provide a broad picture of the direction the economy is headed.

   iv. Quantitative debt metrics provide a method of comparison. As mentioned above, Metro's structure with combined city, county and school's capital funding does not translate to comparison with other municipal debt issuers; a fact recognized

by rating agencies. It is still important to annually document the debt relationship to tangible factors and compare those to prior years.

v. The Financial trends considered include:

1. Annual comparison of general fund balance
2. Annual comparison of revenue
3. Annual comparison of expenses
4. Review of pension funded status and OPEB obligations

vi. The economic factors considered include:

1. Population change
2. Unemployment
3. Personal income change
4. New business creation and relocations
5. Volume and amount of building permits

vii. The metrics for evaluation that are used include:

1. Debt service as percentage of annual general expenses
2. Debt as percentage of actual value of taxable property
3. Debt per capita
4. Debt per capita personal income

viii. While these metrics provide a broad range of information using both financial trends and economic factors as a comparison for determining the government's appropriate debt level, the primary consideration in determining debt capacity related to new capital spending plans is the impact of the resulting future debt service payments in relation to current, projected and proposed revenues over the term of future bonds and in relation to the retirement of other bonds outstanding.

2. Revenue Bonds

In considering the issuance of revenue debt, the Metropolitan Council will consider whether the revenues pledged to the repayment of the debt are sufficient to meet the revenue demands of the applicable system or facility, including any legal or contractual debt service coverage requirements, based on information provided by the debt management team and the Metropolitan Government’s municipal advisor.

Federal Tax Exemption

Due to its typically lower interest cost, the Metropolitan Government will seek to issue debt on a tax-exempt basis, when legally possible and when the applicable restrictions of federal tax law do not effectively offset the economic advantage of issuing tax-exempt debt. The debt management team will administer any tax-exempt debt in accordance with the post-issuance compliance policies described herein.

Types of Debt

1. Except as otherwise described below, each type of debt listed below (i) may be issued to finance capital expenditures or to refinance outstanding bonds, notes or other debt obligations; and (ii) may be issued as general obligation bonds or revenue bonds.

2. Each type of debt may be structured with interest payments on a fixed or variable rate basis:

    a. Fixed-Rate Long-Term Debt: Debt that has an interest rate that remains constant throughout the life of the bond. Fixed rate debt may be issued to finance essential capital facilities, projects, or certain equipment where it is appropriate to spread the cost of future years.

    b. Variable Long-Term Debt: Debt which bears a variable interest rate. Provisions as to the calculation or change of variable interest rates shall be included in the authorizing resolution. Variable rate debt may be issued as permanent financing for projects; however, Metro will avoid overuse of variable rate debt due to the volatility of these instruments.

    c. Short-Term Debt: Debt used for certain capital equipment purchases to reduce debt service during construction periods to satisfy the cashflow needs. Short-term debt may be used as either fixed or variable rate debt. Metro may use short-term debt including BANS, commercial paper, lines of credit and tender notes subject to Metro ordinance.

    d. Bonds: Bonds may be issued on a long- or short-term basis to finance capital expenditures or to refinance outstanding bonds, notes or other debt obligations.

    e. Bond Anticipation Notes ("BANs"): BANs are short term debt obligations that will be repaid by proceeds of a subsequent long-term bond issue. BANs include Commercial Paper ("CP"), which is a form of bond anticipation note that has a maturity up to 270 days, may be rolled to a subsequent maturity date and is commonly used to finance a capital project during construction. It can be issued incrementally as funds are needed and then refunded with a bond once projects are completed to take advantage of lower short-term rates during the construction period.

    f. Tax and Revenue Anticipation Notes ("TRANS"): TRANs are short term notes secured by a pledge of taxes and other revenues in the current fiscal year of the Metropolitan Government. TRANs, if issued, will constitute direct obligations of the Metropolitan Government backed by the full faith and credit of the Metropolitan Government. TRANs must be used to fund operating expenses within the fiscal year of issuance and must be retired in the same fiscal year in which they are issued, except for TRANs issued pursuant to Title 9, Chapter 13, Part 2, Tennessee Code Annotated, in response to certain FEMA-certified natural disasters.

    g. Capital Outlay Notes ("CONs"): CONs general obligation notes which mature between one and twelve years of issuance.

    h. Governmental Financings Programs: The Metropolitan Government may incur loans from the State and Federal governments (e.g., State Revolving Fund loans, TIFIA and WIFIA loans) pursuant to established State and Federal loan programs, and as specifically authorized by State Debt Statutes.

i. Financing Leases: The Metropolitan Government may enter financing leases for the acquisition of capital assets pursuant to Title 9, Chapter 24, Part 1, Tennessee Code Annotated and Title 7, Chapter 51, Part 9, Tennessee Code Annotated.

Debt Management Structure

1. The Metropolitan Government shall establish by resolution all terms and conditions relating to the issuance of debt and will invest all proceeds pursuant to the terms of the Metropolitan Government's authorizing resolution and the Metropolitan Government's investment policy.

2. Term: The average life of any debt will not exceed the weighted average lives of the projects financed thereby, and the final maturity of debt will be limited to 30 years after the date of issuance, unless otherwise specifically approved by the Metropolitan Council in the debt authorizing resolution.

3. Debt Service Structure: Debt will be structured to amortize in a manner that does not result in the debt constituting "balloon indebtedness" as defined below, without first complying with the Balloon Indebtedness provisions set forth below.

4. Call Provisions: Call features should be structured to provide the maximum flexibility relative to cost. The Metropolitan Government will avoid the sale of long-term non-callable bonds absent careful evaluation by the Metropolitan Government with respect to the value of the call option.

5. Original Issuance Discount/Premium: Where applicable, debt will be issued at a premium or discount based on market conditions, the goal of minimizing true interest cost, and the goal of preserving the value of future refunding opportunities.

6. Capitalized Interest: From time-to-time certain financings may benefit from the use of capitalized interest. Interest may be financed (capitalized) through a period permitted by federal law, State Debt Statutes, and the authorizing resolution of the Metropolitan Council if it is determined that doing so is in the Metropolitan Government's best interest.

7. Debt Service Reserve Funds: If the Metropolitan Council determines that it is necessary or advisable to fund a debt service reserve fund in connection with revenue debt, it may agree to fund such a reserve. The size of any debt service reserve fund established in connection with the tax-exempt debt will follow the applicable federal tax rules.

Balloon Debt

The Metropolitan Government will not present to the Metropolitan Council a resolution authorizing the issuance of debt that would now constitute "balloon indebtedness," as defined by Tennessee Code Annotated Section 9-21-133, without first submitting a plan of balloon indebtedness to the State Comptroller and, provided the Comptroller responds within the time frame set forth in Tennessee Code Annotated Section 9-21-133, receiving his or her approval thereof and report thereon. The plan of balloon indebtedness and the Comptroller's report and approval (if applicable) shall be presented to the Metropolitan Council prior to its consideration of the debt authorizing resolution.

Refinancing Outstanding Debt

1. The Department of Finance and the Metropolitan Government's Municipal Advisor shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The Municipal Advisor will regularly conduct an analysis of all refunding candidates to identify potential refunding candidates from the outstanding bond maturities.

2. The Metropolitan Government will consider the following issues when analyzing possible refunding opportunities:

    a. Debt Service Savings: A present value analysis must be prepared that identifies the economic effects of any refunding. The Debt Management Team will aim for a minimum present value savings on an advance refunding candidate of at least 3% of the refunded debt. Currently callable candidates must have minimum present value savings of 0.25%. The Debt Management Team also will evaluate the level of negative arbitrage in the escrow in making the refunding decision. The target savings amounts described above are not applicable for refunding transactions that are not solely undertaken to achieve cost savings but to restructure outstanding debt service (i) when existing debt covenants or other financial structures impinge on prudent and sound financial management, or (ii) to convert debt from a federally tax-exempt to taxable basis in response to change in use of a financed facility or other application of federal tax law.

    b. Term of Refunding Issues: The Metropolitan Government will aim to structure all refundings in a manner that does not result in any material extension of the average life of the refunded debt. Metro will evaluate the level of negative arbitrage in the escrow when making the refunding decision.

Methods of Sale

The Metropolitan Government will use one of three methods for the sale of debt: competitive, negotiated, and private placement. Metro will use the method it deems most effective to market, price, and place its bonds. The Metropolitan Government will consider other worthy policy goals, such as previous commitments to the encouragement of greater participation in the underwriting syndicate by minority, women-owned, and disabled veteran enterprises firms in its method of sale decision while evaluating bond financing costs.

Bond Rating Agency Strategy

Metro's use of rating agencies is determined on a deal-by-deal, credit-by-credit basis. Metro retains discretion to determine the number and the specific rating agency firms (if any) to use on any specific financing. Metro will maintain good communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on Metro's general financial condition, as requested, and coordinating meetings and presentations in conjunction with a new debt issuance. Metro will continually strive to maintain, and improve where applicable, its bond ratings by improving financial policies, budgets, forecasts, and the financial health of Metro.

Credit Enhancements

The Metropolitan Government shall seek to use credit enhancement (letters of credit, liquidity agreements, bond insurance, etc.) when such credit enhancement strengthens its creditworthiness and/or achieves a lower cost of borrowing. Selection of credit enhancement providers shall be subject to the approval of the Finance Director in consultation with the Metropolitan Government's Municipal Advisor. The Metropolitan Government will consider the use of credit enhancement on a case-by-case basis. The debt management team or Municipal Advisor will conduct a cost-benefit analysis to determine whether to use credit enhancement. If the analysis of the entire bond issue as well as individual maturities demonstrate that it is not cost effective to use an enhancement, Metro may choose to issue the bonds unenhanced.

Interest Rate Hedging and Forward Delivery Agreements

No interest rate hedging agreements or forward purchase agreements will be considered unless a policy defining the use of such products is approved before the transaction is considered and approval of the Comptroller of the State of Tennessee is obtained.

Risk Assessment

1. The Office of the Treasurer will evaluate each transaction to assess the types and amounts of risk associated with that transaction, considering all available means to mitigate those risks. The Finance Department will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy.

2. The following risks should be assessed before issuing debt:

    a. Change in Public/Private Use: The change in the public/private use of a project that is funded by tax-exempt funds could potentially cause a bond issue to become taxable.

    b. Default Risk: The risk that debt service payments cannot be made by the due date.

    c. Liquidity Risk: The risk of having to pay a higher rate to the liquidity provider in the event of a failed remarketing.

    d. Interest Rate Risk: The risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issued had been fixed.

    e. Rollover Risk: The risk of the inability to obtain a suitable liquidity facility at an acceptable price to replace a facility upon termination or expiration of a contract period.

Transparency

1. The Metropolitan Government shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered.

2. All costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens in a timely manner including:

    a. Within four weeks of closing on a bond transaction, the debt service schedule outlining the rate of retirement of the principal amount shall be posted to the Metropolitan Government's website; and

    b. Within 45 days from closing, costs related to the issuance and other information set forth in Section 9-21-134, Tennessee Code Annotated, shall be prepared, a copy filed with the Office of the Director of Finance, and the original presented at the next meeting of the Metropolitan Council;

Professional Services

1. The Metropolitan Government requires all professionals engaged to assist in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by the Metropolitan Government. This includes "soft" costs or compensations in lieu of direct payments.

2. Issuer's Counsel: The Metropolitan Government will enter into an engagement letter agreement with each lawyer or law firm representing the Metropolitan Government in a debt transaction. No engagement letter is required for any lawyer who is an employee of the Metropolitan Department of Law who serves as counsel to the Metropolitan Government.

3. Bond Counsel: Bond counsel is contracted by the Metropolitan Department of Law and serves to assist the Metropolitan Government in all its general obligation and revenue debt issues.

4. Municipal Advisor: The Municipal Advisor is contracted by the Office of the Treasurer and serves and assists the Metropolitan Government on financial matters. The Metropolitan Government shall approve the written agreement between the Office of the Treasurer and each person of the firm serving as municipal advisor in debt management advisory services and debt issuance transactions. However, when in a competitive or negotiated sale, the Municipal Advisor shall not be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance. The Municipal Advisor will be subject to a fiduciary duty which includes a duty of loyalty and a duty of care.

5. Disclosure Counsel: The Metropolitan Government may choose to engage counsel to act as disclosure counsel to the Metropolitan Government to assist the Metropolitan Government in preparing all of its primary offering and reoffering documents, continuing disclosure undertakings, bond purchase agreements, and to assist the Metropolitan Government in developing policies and procedures regarding its primary and secondary market disclosure obligations, including continuing disclosure compliance obligations.

Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the Metropolitan Government shall be required to disclose to the Metropolitan Government existing client and business relationships between and among the professionals to a transaction (including but not limited to municipal advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators and other issuers whom they may serve. This disclosure shall include that information reasonably sufficient to allow the Metropolitan Government to appreciate the significance of the relationships.

Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

Post-Closing Regulatory Compliance and Debt Administration

1. Federal Tax Compliance: The Department of Finance has adopted Federal Tax Compliance Policies and Procedures regarding the administration of all of its tax-exempt and tax-advantaged debt. The Finance Department will comply with these Federal Tax Compliance Policies and Procedures, as they may be amended from time to time.

2. Investment of Debt Proceeds: Any debt proceeds will be deposited with the Metropolitan Treasurer's Office. The proceeds shall be invested in permitted investments pursuant to the Metropolitan Government's investment policy, applicable provisions of State law and governing debt documents.

3. Continuing Disclosure: The Metropolitan Government will comply with Securities Exchange Act Rule 15c2-12, by timely providing financial information, operating data, and event notices, as set forth in any continuing disclosure undertakings entered into in connection with debt.

Review of the Policy

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. The Metropolitan Government maintains the right to modify these guidelines and may make exceptions to any of them at any time to the extent that the execution of such debt achieves the Metropolitan Government's goals.

This policy will be reviewed by the Metropolitan Government no less frequently than annually. At that time, the Finance Department will present any recommendations for any amendments, deletions, additions, improvement, or clarification.

Reporting Schedule

In accordance with Metropolitan Code of Ordinance section 5.04.110 the Department of Finance shall prepare quarterly reports and an annual report on the Metropolitan Government’s outstanding debt. The Director of Finance shall submit the annual report to the Metropolitan Council providing a summary of the Metropolitan Government’s outstanding debt no later than May 1, of each year. Such report shall be presented to the Metropolitan Council in conjunction with the presentation of the mayor’s proposed operating budget. The Director of Finance shall submit the quarterly reports to the Metropolitan Council the month following the end of quarter.

Glossary of Terms

Amortize - To retire the principal of an issue by periodic payments either directly to bondholders or first to a sinking fund and then to bondholders.

Arbitrage - The difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the bonds in higher yielding taxable securities. Federal tax laws generally restrict the ability to retain any arbitrage in connection with tax-exempt bonds.

Bond or Bonds - A bond is a debt instrument issued for a period of more than one year, which allows the issuer to finance capital needs or refinance prior debt. The bond bears a stated rate(s) of interest or states a formula for determining that rate and pays this interest periodically, usually semi-annually. The issuer is obligated to repay the investor a specified principal amount on a certain date, together with interest.

Bond Anticipation Notes - Short-term debt, issued by a state or municipality, usually for capital projects, to borrow funds that are expected to be refinanced by a future long-term bond issue.

Bond Counsel - An attorney (or firm of attorneys) retained by the issuer to give a legal opinion that the issuer is authorized to issue proposed securities, the issuer has met all legal requirements necessary for issuance, and interest on the proposed securities will be exempt from federal income taxation and, where applicable, from state and local taxation.

Bond Insurance - A municipal insurance policy purchased by the City which guarantees the timely payment of principal of, and interest on debt.

Callable - A debt instrument with redemption provisions in which the issuer/borrower reserves the right, but not the obligation, to return the investor's principal during a specified time before the bond's maturity date.

Capital Project(s) - Any capital project or capital projects of the Metropolitan Government or its instrumentality that are deemed to be for public purpose.

Capitalized Interest - Interest is commonly capitalized for the construction period of a revenue-producing project or a project financed with a lease, and sometimes for a period thereafter, so that the debt service expense does not begin until the project is expected to be operational and producing revenues.

Commercial Paper - Short-term notes with maturities ranging from one to 270 days, usually backed by a letter of credit with a bank, which are intended to be “rolled over” in a series of current refinancing as portions of the issue mature from time to time. Generally, the maturity of the commercial paper sold on each rollover is determined by market conditions at the time of rollover.

Competitive Sale - The sale of bonds to the bidder presenting the best sealed bid at the time and place specified in a published notice of sale.

Continuing Disclosure - Disclosure of material information relating to municipal securities provided to the marketplace on a periodic basis.

Costs of Issuance - The expenses associated with the sale of municipal securities. These expenses may include, but are not limited to, legal fees, trustee fees, municipal advisor fees, printing, and rating agency fees.

Credit Ratings - Evaluations of the credit quality of notes and bonds usually made by independent rating services. Credit ratings are intended to measure the probability of the full and timely repayment of principal and interest on municipal securities. Ratings are initially made before issuance, are periodically reviewed and are subject to change over time to reflect changes in an issuer's credit profile.

Debt Service - The amount of money necessary to pay interest on the outstanding bonds, the principal of maturing or redeemed bonds, and the required contributions to a sinking fund for term bonds.

Discount - Amount (stated in dollars or as a percentage) by which the selling or purchase price of a bond is less than its face amount and/or amount bid for a bond that is less than the aggregate principal amount of that bond.

General Obligation Bond - A bond that is secured by the taxing power of an issuer. General Obligation Bonds issued by local governments are secured by a pledge of the issuer's ad valorem taxes.

Generally Accepted Accounting Principles (GAAP) - Rules adopted by the Governmental Accounting Standards Board that establish standards for preparing financial statements of an enterprise, and by the Governmental Accounting Standards Board for preparing financial statements of state and local governments.

Governmental Accounting Standards Board (GASB) - A standard-setting body, associated with the Financial Accounting Foundation. GASB prescribes standard accounting practices for governmental units in maintaining their financial records and releasing financial data to the public.

Interest Rate - The annual rate, expressed as a percentage of principal, payable for use of borrowed money.

Interest Rate Risk - The risk associated with changes in general interest rate levels or Yield Curves.

Issuer - A legal entity that develops, registers and sells securities to finance its operations.

Municipal Advisor - A consultant who advises and makes recommendations to the City on matters pertinent to debt including compliance, issuance and market conditions.

Negotiated Sale - The sale of notes or bonds, by an issuer, directly to a selected underwriter or underwriting syndicate in which the terms and price are negotiated.

Paying Agent - One who accepts payments from the issuer of a security and then distributes the funds to holders of the security.

Remarketing Agent - A broker-dealer who is responsible for reselling variable rate bonds that have been tendered for purchase by the issuer.

Revenue Bonds - Revenue bonds are supported solely from fees generated from non-ad valorem revenue. The City's various enterprise funds: water, storm water, sanitation, and wastewater issue bonds are backed by said revenues and thus issue revenue bonds.

Private Placement - A private placement is a type of negotiated sale in which the issuer sells bonds or places another form of loan directly to a private investor, generally a bank.

Rating Agency - An organization that provides ratings that indicate the relative credit quality of liquidity characteristics of bonds.

Redemption - The payment of principal of a bond at maturity or prior to maturity pursuant to redemption provisions in the bond documents.

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

Trustee - A financial institution with trust powers that acts in a fiduciary capacity for the benefit of the bondholders in enforcing the terms of the trust indenture.

Underwriter(s) - Investment banking firms and/or dealers which purchase bonds for resale.