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|  | Orange County Sanitation District<br><br>Financial Management Policy<br>and Procedure | Section Number: 201-3-1                                   |
|                                                                                   |                                                                                       | Effective Date: <del>12/14/2023</del><br><u>5/29/2025</u> |
|                                                                                   |                                                                                       | Supersedes: <del>12/15/2024</del><br><u>12/14/2023</u>    |
| <b>SUBJECT: DEBT POLICY</b>                                                       |                                                                                       | Approved by:<br><br>Board of Directors                    |

## 1. PURPOSE

The foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, methods of sale that may be used and structural features that may be incorporated. The debt policy should recognize a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. The goals of a debt policy are to ensure that a government maintains a sound debt position, and that credit quality is protected, and is intended to comply with applicable California Government Code Sections prescribed by the California Debt and Investment Advisory Commission (CDIAC) to ensure all debt issuance is consistent with the Orange County Sanitation District's (OC San) debt policy and all the required reports are submitted to CDIAC on time.

## 2. OBJECTIVES

Each debt issuance ~~must~~shall accomplish one or more of the following objectives:

- a. Accelerate the delivery of projects. Debt financing allows the delivery of projects on an accelerated basis;
- b. Spread cost over the useful life of an asset. Debt financing allows OC San to spread the cost of a project over its useful life rather than paying for it at one time;
- c. Smooth out annual cash flow. Debt financing spreads the cost of a project over a period of years, thereby smoothing out OC San's cash flow;
- d. Optimize overall financial resources. To enable existing cash to be invested at a rate higher than the cost of borrowing;
- e. Refundings: It may become desirable for OC San to issue bonds or other securities to refinance outstanding obligations. The reasons for refinancing may include:

- i) To Achieve Debt Service Savings. In general, the net present value savings generated by the refunding bonds shall be at least 3% of the refunded bond amount.
  - ii) For Programmatic Reasons. Such as: restructuring outstanding debt, changing the type of debt instruments originally used, retiring a bond issue, removing covenants/pledges that have become restrictive, or retiring debt prior to maturity.
- f. The debt policy must be viewed as an integral component of its overall financial practices and in the context of OC San's capital-intensive expenditure plans. OC San's issuance of debt must be generally consistent with its planning goals, capital improvement programs and budget. OC San's financial practices, including the issuance of debt, must be designed to assure sufficient resources to fund ~~all-of-all~~ its operating and capital requirements in all foreseeable circumstances.

Advantages of a debt policy are as follows:

- 1.1 enhances the quality of decisions by imposing order and discipline, and promotes consistency and continuity in decision making;
- 1.2 rationalizes the decision-making process;
- 1.3 identifies objectives for staff to implement;
- 1.4 demonstrates a commitment to long-term financial planning objectives;
- 1.5 is viewed positively by the rating agencies in reviewing credit quality;
- 1.6 minimizes debt service and issuance costs;
- 1.7 ensures full and timely repayment of debt;
- 1.8 maintains full and complete financial disclosures and reporting and adequate internal controls;
- 1.9 ensures use of debt is consistent with OC San's policies and the proceeds will be directed to the intended use;

### **3. ORGANIZATIONS AFFECTED**

General Manager's Department, Financial Management Division, General Counsel, bond rating agencies, municipal advisors, bond underwriters, bond counsel and external independent auditors.

## 4. REFERENCES

- 4.1 Strategic Plan 2023<sup>4</sup>
- 4.2 2017 Facilities Master Plan
- 4.3 Government Finance Officers Association's Best Practice on Debt Management Policy.
- 4.4 California Debt and Investment Advisory Commission's "Employing a Debt Management Policy – Practices Among California Local Agencies" (CDIAC No. 14.02)

## 5. POLICY

### 5.1 Limitations on Indebtedness

~~5.1.1~~ OC San's debt capacity is limited by the additional bonds test within outstanding bond documents. shall not exceed legal limitations such as coverage requirements or additional bonds tests imposed by existing bond covenants.

5.1.1 Before any new debt is issued, the impact of debt service payments on total annual fixed costs shall be analyzed. In accordance with existing COP indenture agreements, Net Operating Revenues must be at least a 1.25 coverage ratio to the maximum annual debt service.

5.1.2 OC San's bond documents include rate covenants which set the minimum debt service coverage ratio that must be maintained at all times always maintained.

5.1.3 OC San shall restrict long-term borrowing to capital improvements that provide long-term benefits to OC San.

5.1.4 Proceeds from long-term debt shall not be used for current on-going operations.

5.1.5 The decision to incur new indebtedness shall be integrated with the OC San's biennial Operating Budget and Capital Improvement Program Budget. The annual debt service payment shall be included in the Operating Budget.

5.1.6 OC San shall integrate its debt issuances with the goals of its Capital Improvement Program by timing the issuance of debt to ensure that funds for projects are available when needed.

## 5.2 Types of Debt

- 5.2.1 OC San may use short-term debt to cover temporary or emergency cash flow shortages as well as provide interim financing in anticipation of a future long-term debt takeout. All short-term borrowing shall be subject to Board of Directors approval by resolution.
- 5.2.2 ~~Commercial Paper~~Short-Term Debt – OC San may issue short-term debt including but not limited to in the form of Commercial Paper or a Revolving Line of Credit.
- 5.2.3 **Revenue Bonds** – OC San may issue as special obligations various types of revenue securities including notes, warrants, interim debentures, bonds and temporary bonds. Securities issued as special obligations do not constitute outstanding indebtedness of OC San nor do they exhaust its legal debt-incurring power. Bonding should be limited to projects with available revenue sources, whether self-generated or dedicated from other sources such as user fees. Adequate financing feasibility studies should be performed for each revenue issue. Sufficiency of revenues should continue throughout the life of the bonds.
- 5.2.4 **Certificates of Participation** – Certificates of participation are essentially leases which are sold to the public. The lease payments are subject to annual appropriation. Investors purchase certificates representing their participation in the lease. Often, equipment or facilities being acquired serve as collateral. These securities are most useful when other means to finance are not available under state law.
- 5.2.5 **Refundings** – A refunding is generally the underwriting of a new bond issue whose proceeds are used to redeem an outstanding issue.
- 5.2.5.1 Prior to beginning a refunding bond issue, OC San shall review and estimate the savings achievable from the refunding. OC San may also review a pro forma schedule estimating the savings assuming that the refunding is done at various points in the future. Following are the conditions under which OC San shall consider refunding outstanding bonds:
- 5.2.5.1.1 Net present value savings are at least three (3) percent of the par amount of the refunded bonds. Net present value savings of less than three (3) percent of refunded bonds are

acceptable when compared to savings that could be achieved by waiting for more favorable interest rates and/or call premiums.

[5.2.5.1.1](#)

5.2.5.1.2 Net present value savings exceed the costs of issuing the bonds.

5.2.5.1.3 The bonds to be refunded have restrictive or outdated covenants.

5.2.5.1.4 Restructuring debt is deemed to be desirable.

### 5.3 Debt Structure

5.3.1 Debt shall be structured to achieve the lowest possible net overall cost to OC San balanced against potential risks given market conditions, the urgency of the capital program and the nature and type of security to be provided. Structuring options shall also consider available opportunities related to maximizing earnings and minimizing costs while complying with all Arbitrage federal tax regulations, including the timing of issuance and current market conditions.

5.3.2 The term of OC San debt issues shall not extend beyond the useful life of the project and generally shall not extend beyond 30 years unless there are compelling factors which make it necessary or advantageous to extend the term further.

5.3.3 For the issuance of new money debt, OC San shall consider the appropriate amount to be sold based on the overall debt versus revenue funding targets as part of its long-term capital plan and prior to each issuance of new money debt.

5.3.4 New money debt issued by OC San shall be structured to provide for either level principal or level debt service on an individual issuance or aggregate debt service basis. Deferring the repayment of principal shall be avoided except in select instances where it will take a period of time before project revenues are sufficient to pay debt service. Ascending debt service shall generally be avoided.

5.3.4.1 OC San shall consider target financial ratios (including debt service coverage) and future financial flexibility when determining the structure of its new money debt.

5.3.5 **Variable Rate Obligations** – When appropriate, OC San may choose to issue variable rate obligations or securities that pay a rate

of interest that varies according to a predetermined formula or results from a periodic remarketing or auction of the securities.

- 5.3.5.1 The maximum level of net variable rate obligations incurred shall not exceed 150% of the level of available invested reserves. The percentage is intended to reflect the inherent relationship between taxable and tax-exempt interest rates based on the highest marginal federal income tax rate. Such percentage should be adjusted as the highest marginal federal income tax changes.

## 5.4 Credit Objectives

- 5.4.1 OC San's goal is to maintain or improve its bond ratings. To that end, prudent financial management policies shall be adhered to in all areas.

- 5.4.1.1 OC San shall monitor its current and projected key financial ratios (e.g., debt service coverage, debt-to-equity, net floating rate exposure, reserve level) in comparison to those of other similar municipal entities. These ratios shall be updated and compared prior to the issuance of new money debt or the restructuring of existing debt. OC San shall consider these ratios in its financial management policies.

### 5.4.2 Rating Agencies

- 5.4.2.1 Full disclosure of operations shall be made to the bond rating agencies. OC San staff, with the assistance of the municipal advisors and bond counsel, shall prepare the necessary materials for and presentation to the rating agencies.

- 5.4.2.2 OC San shall maintain a line of communications with the rating agencies (Fitch [Ratings](#), Moody's [Ratings](#) and/or ~~Standard & P~~ [Global Ratingseer's](#)), informing them of major financial events at OC San as they occur. The Annual Comprehensive Financial Report (ACFR) shall be distributed to the rating agencies after it has been accepted by the Board of Directors.

- [5.4.2.3](#) The rating agencies shall be notified when OC San begins preparation for a debt issuance. After the initial contact, a formal ratings application shall be prepared and sent along with the draft of the Official Statement relating to the bond

sale to the rating agencies. This application and related documentation shall be sent several weeks prior to the bond sale to give the rating agencies sufficient time to perform their review.

~~5.4.2.3~~ 5.4.2.4 The number of ratings to be utilized for a bond issuance will be determined according to the size of the issuance, final maturity as well as investor preferences at the time of sale. This decision will be made based on a ~~number of factors including~~ the number of ratings needed to achieve the lowest possible interest rates weighed against the cost of ratings

~~5.4.2.4~~ 5.4.2.5 A meeting with representatives of the rating agencies shall be scheduled at least once every three years or whenever a major project is initiated.

**5.4.3 Credit Enhancements** – Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, shall sometimes bring a higher rating from the rating agencies and a lower interest rate on debt, thus lowering overall costs. Certain types of bonds such as Variable Rate Demand Bonds or Commercial Paper may require a credit enhancement such as a letter of credit. Credit enhancements shall only be used when net debt service is reduced by more than the cost of the ~~enhancement~~ enhancement, or it is required by investors (such as the case of Variable Rate Demand Bonds and Commercial Paper). During the debt issuance planning, the municipal advisor or underwriter shall advise OC San which credit enhancements if any, should be purchased.

**5.4.4 Dedicated Revenue Sources** – In order to ensure the most favorable credit ratings, OC San revenues are dedicated to debt service in the following order:

5.4.4.1 Ad valorem property tax.

5.4.4.2 Sanitary sewer service charges.

5.4.4.3 Other revenues.

## **5.5 Method of Sale**

**5.5.1** OC San shall select a method of sale that is the most appropriate ~~in~~ light of ~~considering~~ financial, market, transaction-specific, and issuer-related conditions and explain the rationale for its decision.

5.5.1.1 **Competitive Sales** – Debt obligations are generally issued through a competitive sale. OC San and its municipal advisor shall set the terms of the sale to encourage as many bidders as possible. By maximizing bidding, OC San seeks to obtain the lowest possible interest rates on its bonds.

5.5.1.2 **Negotiated Sales** – When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to OC San that would not be achieved through a competitive sale, OC San may elect to sell its debt obligations through a private or negotiated sale. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program upon approval by the Administration Committee.

5.5.1.3 **Direct Purchase** - a direct purchase is a borrowing typically made directly from a bank in the form of a loan. Direct purchases are more applicable in situations where the borrowing term is less than 15 years and for smaller borrowing sizes. The availability and interest rates on Direct Purchase is subject to market conditions and bank lending capacity. The cost/benefit of Direct Purchases will be measured against those of competitive and negotiated sales.

5.5.1.2 ~~WIFIA~~ **Federal Loans** — Financing mechanisms offered by the federal government to fund projects.

5.5.1.4 **Water Infrastructure Finance and Innovation Act (“WIFIA”)** loans are a current example of federal loans administered by the EPA. WIFIA loans are available for eligible water and wastewater projects and are based on the comparable US Treasury rate + 1 basis point. WIFIA loans have certain terms which may be more favorable than competitive and negotiated bond sales. WIFIA loans are typically most applicable for larger projects given the time and cost associated with the application and execution timeline. The cost/benefit of WIFIA loans will be measured against those of other methods of sale.

## 5.6 Methods of Selecting Consultants

5.6.1 **Municipal Advisor** – OC San shall retain an external independent municipal advisor, selected through a competitive process, and

renewed at the discretion of the Administration Committee. The municipal advisor contract shall be administered by the OC San Financial Management Division. The utilization of the municipal advisor for a particular bond sale shall be on a case by case basis upon recommendation by the Director of Finance and approval by the Administration Committee, pursuant to a municipal advisory service contract.

- 5.6.2 **Underwriters** – For negotiated sales, underwriters shall be required to demonstrate sufficient capitalization and experience related to the debt issuance. The selection of underwriters may be for an individual or series of financings or a specified time period.
- 5.6.3 **Bond Counsel** – OC San shall retain external bond counsel for all debt issues. All debt issued by OC San shall include a written opinion by bond counsel affirming that OC San is authorized to issue the debt, stating that OC San has met all state constitutional and statutory requirements necessary for issuance and determining the debt's federal income tax status. Bond counsel shall be selected through a competitive process administered by OC San's Financial Management Division. The selection process shall require comprehensive municipal debt experience.
- 5.6.4 **Disclosure Counsel** – OC San shall retain, when appropriate, Disclosure Counsel for debt issues. Disclosure Counsel shall be responsible for ensuring that the official statement complies with all applicable rules, regulations and guidelines. Disclosure Counsel for a particular transaction may also serve OC San as bond counsel on the same issue. Disclosure counsel shall be selected through a competitive process administered by OC San's Financial Management Division. The selection process shall require comprehensive municipal debt experience.
- 5.6.5 **Trustee and Paying Agent** – OC San shall retain a trustee and paying agent for all debt issues. The trustee and paying agent shall be responsible for carrying out the administrative functions that are required under the bond documents. These functions include, but are not limited to, establishing the accounts and holding the funds relating to bond issues, maintaining a list of bondholders, and paying principal and interest on the debt. Trustee and paying agent shall be selected through a competitive process administered by OC San's Financial Management Division. Selection shall be based on the cost of providing such services, along with other qualitative measurements.
- 5.6.6 Compensation for municipal advisor, underwriters, bond counsel, disclosure counsel, trustee and paying agent and other financial

service providers shall be as low as possible, given desired qualification levels and consistent with industry standards. All costs and fees related issuance of bonds shall be paid out of bond proceeds.

## **5.7 Disclosure of Arbitrage Compliance**

- 5.7.1 OC San shall follow all State and Federal regulations and requirements regarding bond provisions, issuance, taxation and disclosure.
- 5.7.2 The Financial Management Division shall be responsible for providing trustees and/or dissemination agents ongoing disclosure information for filing with the Municipal Standards Rulemaking Board (MSRB) via the Electronic Municipal Market Access (EMMA). OC San may elect to utilize the services of a dissemination agent for continuing disclosure reporting; however, the responsibility for ensuring the reports are filed timely remains with OC San.
  - 5.7.2.1 Copies of the ACFR and updated tables from the Official Statement shall be provided to EMMA within six months of year end.
- 5.7.3 OC San shall maintain compliance with disclosure standards promulgated by State and Federal regulatory bodies, such as annual reporting to the California Debt and Investment Commission of the State Treasurer's Office in accordance with SB 1029 for debt issued after January 1, 2017.
- 5.7.4 Official Statements accompanying debt issues, ACFRs and continuing disclosure statements shall meet, at a minimum, the standards articulated by the MSRB, the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC) and Accounting Principles Generally Accepted in the United States (US GAAP).
- 5.7.5 OC San shall monitor compliance with bond covenants, continuing disclosure requirements and adhere to federal arbitrage regulations. Occurrence of any event, specified in Rule 15c2-12 under the Securities and Exchange Act of 1934, which must be filed with EMMA shall be immediately reported to the Administration Committee. Examples of such events are credit rating downgrades, major disasters, major litigation, default on existing debt, bankruptcy, etc.

- 5.7.6 OC San shall maintain good communications with bond rating agencies about its financial condition and shall follow a policy of full disclosure in every financial report and bond prospectus (Official Statement).

## **5.8 Administration and Internal Control Procedures**

- 5.8.1 **Expenditure of Proceeds** – Whenever reasonably possible, proceeds of OC San’s debt shall be held by a third party trustee which shall release such proceeds upon written requisition signed by the Director of Finance, or authorized designee. The bank statements for money managed by trustees shall be reconciled on a monthly basis.
- 5.8.2 **Requisition of Bond Proceeds** – To reimburse OC San for expenditures incurred, bond proceeds requisitions shall be prepared by staff and shall include summary expenditure data listing the projects funded and related dollar amounts, all totaling to the requisition amount.
- 5.8.3 **Investment of Debt Proceeds** – Proceeds raised in a debt financing shall be invested in a manner that is consistent with the bond indenture and pursuant to OC San’s Investment policy for investments not addressed by the indenture.
- 5.8.4 **Continuing Disclosure** – OC San shall remain in compliance with SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within the period required by each Continuing Disclosure Agreement.
- 5.8.5 **Reporting and Filing Requirements** – OC San shall comply with the applicable reporting and filing requirements in California Government Code Section 8855.
- 5.8.6 **Federal Tax Compliance** – OC San shall comply with any federal tax requirements, including without limitation, private use tracking, Arbitrage and Arbitrage Rebate Compliance.
- 5.8.7 **Debt Service Payments** – OC San shall make debt service payments electronically, on time and error free.

## **6. DEFINITIONS**

- 6.1 **ACCRUED INTEREST** – In the sale of a new issue of municipal bonds, the dollar amount, based on the stated rate or rates of interest, which has

accrued on the bonds from the dated date, or other stated date, up to but not including the date of delivery. When a bond is purchased in the secondary market, the dollar amount, based upon the stated rate of interest, which has accrued on the bond from the most recent interest payment date, up to but not including the date of settlement. Accrued interest is paid to the seller by the purchaser and is usually calculated on a 360-day year basis (assumes each month has 30 days).

- 6.2 ADDITIONAL BONDS TEST** – Refers to legal test found in resolution or ordinance securing bonds; governs ability to issue additional bonds having the same lien on pledged revenues. Usually expressed as a ratio in which historic earnings meet certain levels of future debt service coverage.
- 6.3 ADDITIONAL OBLIGATIONS TEST** – Refers to legal test found in the resolution which governs an agency’s ability to issue additional obligations having the same lien on pledged revenues. OC San’s additional obligations test is expressed as a ratio in which historic earnings must meet or exceed certain levels of future obligation service coverage.
- 6.4 AD VALOREM TAX** – A direct tax based “according to value” of property. Counties and school districts and municipalities usually are, and special tax districts may be, authorized by law to levy ad valorem taxes on property other than intangible personal property. Local government bodies with taxing powers may issue bonds or short-term certificates payable from ad valorem taxation.
- 6.5 ADVANCE REFUNDING** – A transaction in which new debt is issued to provide monies to pay interest on old, outstanding debt as it becomes due and to pay the principal on the old debt either as it matures or at an earlier call date. An advance refunding occurs before the maturity or call date (more than 90 days before the maturity or call date) of the old debt and the proceeds of the new debt are invested until the maturity or call date of the old debt. Most advance refundings result in defeasance of debt.
- 6.6 AMORTIZATION** – The process of paying the principal amount of an issue of bonds by periodic payments either directly to certificate holders or to a sinking fund for the benefit of certificate holders. Payments are usually calculated to include interest in addition to a partial payment of the original principal amount.
- 6.7 ARBITRAGE** – Classically, the simultaneous purchase and sale of the same or an equivalent security ~~in order to~~ profit from price discrepancies. The most common occurrence in the public sector involves the investment of the proceeds from the sale of tax-exempt securities in a

taxable money market instrument that yields a higher rate, resulting in interest revenue in excess of interest costs.

- 6.8 ARBITRAGE REBATE REQUIREMENTS** – Arbitrage profits (interest revenue in excess of interest costs) from investment bond proceeds that are invested in taxable instruments must be rebated to the U.S. Treasury Department.
- 6.9 AVERAGE COUPON** – Weighted average interest cost of an issue.
- 6.10 BANK INVESTMENT CONTRACT** – A separate account at a financial institution that functions like a guaranteed investment contract, whereby the contract is designed to provide guarantees of principal and interest on funds deposited for a specified period.
- 6.11 BASIS POINT** – Yields on municipal securities are usually quoted in basis points where one basis point is equal to 1/100 of one percent.
- 6.12 BOND** – Written evidence of the issuer's obligation to repay a specified principal amount on a date certain (maturity date), together with interest at a stated rate, or according to a formula for determining that rate. Bonds are distinguishable from notes, which mature in a much shorter period of time.
- 6.13 BOND COUNSEL** – An attorney (or firm of attorneys) retained by the issuer to give a legal opinion on the legality and security of the issue and its tax exemption or taxability. Typically, bond counsel may prepare, or review and advise the issuer regarding, authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.
- 6.14 BONDED DEBT** – The portion of an issuer's total indebtedness as represented by outstanding bonds.
- 6.15 BOND INSURANCE** – An insurance policy purchased by an issuer or an underwriter for either an entire issue or specific maturities, which guarantees the payment of principal and interest. This security provides a higher credit rating and thus a lower borrowing cost for an issuer. Bond insurance can be purchased directly by OC San prior to the bond sale (direct purchase) or at the underwriter's option and expense (bidder's option).
- 6.16 BOND RESOLUTION OR ORDINANCE** – The document or documents representing action of the issuer authorizing the issuance and sale of municipal bonds. Issuance of the bonds is usually approved in the authorizing resolution or ordinance and the sale is usually authorized in a

separate document known as the “sale” or “award” resolution. All of such resolutions, read together, constitute the bond resolution, which describes the nature of the obligation and the issuer’s duties to the bondholders.

- 6.17 BROKER** – A person or firm, other than a bank, which acts as an intermediary by purchasing and selling securities for others rather than for its own account.
- 6.18 CALLABLE BOND** – A bond which permits or requires the issuer to redeem the obligation before the stated maturity date at a specified price, usually at or above par by giving notice of redemption in a manner specified in the bond contract.
- 6.19 CAPITALIZED INTEREST** – Interest paid on long-term obligations during the period of time required to complete and prepare an asset for its intended use is capitalized as part of the acquisition cost of an asset.
- 6.20 CERTIFICATES OF PARTICIPATION** – Obligations of a public entity based on a lease or installment sale agreement. These are not considered debt under Article 13 of the California Constitution.
- 6.21 CERTIFICATE HOLDER** – The owner of a municipal certificate of participation to whom payments of principal and interest are made. Generally, certificates are registered and the owner is the person whose name is noted on the certificate register.
- 6.22 CERTIFICATE REGISTER** – The listing of names and addresses of the current registered owners of the certificates, as maintained by the trustee or certificate registrar.
- 6.23 COMPETITIVE SALE** – The sale of bonds through sealed bids.
- 6.24 COST OF ISSUANCE** – The expenses associated with the sale of a new issue of municipal securities, including such items as underwriter’s spread, printing, legal fees and rating costs.
- 6.25 COVENANTS** – The issuer’s enforceable promise to perform or refrain from performing certain actions. With respect to municipal bonds, covenants are generally stated in the bond contract, resolution, or indenture.
- 6.26 COVERAGE** – The ratio of pledged revenues available annually to pay debt service obligations, as compared to the annual debt service obligation requirement. This ratio is one indication of the margin of safety for debt service obligations.

**6.27 CREDIT ENHANCEMENT** – The availability of additional outside support designed to improve an issuer’s own credit standing. Examples include bank lines of credit or collateralized funds.

**6.27**

**6.28 CURRENT REFUNDING** – A refunding transaction in which the proceeds of the refunding debt are applied immediately (no more than 90 days from issuance) to redeem the debt to be refunded. This situation differs from an advance refunding, where the proceeds of the refunding bonds are placed in escrow pending the call date or maturity of the debt to be refunded.

**6.29 CURRENT YIELD** – The ratio of the annual dollar amount of interest to the purchase price of a bond, stated as a percentage.

**6.30 CUSIP NUMBERS (COMMITTEE ON UNIFORM SECURITY IDENTIFICATION PROCEDURES)** – Identification numbers assigned each maturity of a bond issue and usually printed on the face of each individual bond in the issue. The CUSIP numbers are intended to facilitate identification and clearance of municipal securities.

**6.31 DEBT LIMIT** – The maximum amount of debt which an issuer of municipal securities is permitted to incur under constitutional, statutory, or charter provisions.

**6.32 DEBT PER CAPITA** – Bonded debt divided by population.

**6.33 DEBT SERVICE OBLIGATION** – The amount of funds necessary to pay principal and interest, and the required contributions to an amortization sinking fund for term certificates on an outstanding obligation. Debt service obligation on certificates may be calculated on a calendar-year or on a fiscal-year basis.

**6.34 DEBT SERVICE RESERVE FUND** – A fund usually amounting to principal and interest payments for one year and used only if pledged revenues do not generate sufficient funds to satisfy the debt service requirement. The reserve fund is typically funded in whole or in part from the proceeds of the debt issuance. The size and investment of the reserve fund are usually subject to arbitrage regulations.

**6.35 DEBT SERVICE SCHEDULE** – A table listing the annual payments necessary to meet debt service requirements over the period of time the bonds are to be outstanding.

**6.36 DEFAULT** – Failure to make timely payment of principal and interest or to comply with other features of the indenture.

- 6.37 DEFEASANCE** – Eliminating bonded indebtedness off an issuer's books through creation of a portfolio of allowable securities sufficient to make all debt service payments on pre-refunded, outstanding bonds.
- 6.38 DIRECT DEBT** – The debt that a governmental agency incurs in its own name.
- 6.39 DISCOUNT** – The amount by which par value exceeds the price paid for a security which generally represents the difference between the nominal interest rate and the actual or effective return to the investor.
- 6.40 DOUBLE-BARRELED BOND** – Traditionally, a bond secured by a defined source of revenue plus the full faith and credit of the issuer. The term is occasionally, although erroneously, used to refer to bonds secured by any two sources of pledged revenue.
- 6.41 DOWNGRADE** – The lowering of a bond rating by a rating service. A downgrade would be considered if the issuer encountered major financial difficulties or an economic decline, which may be viewed by the rating service as reducing the credit quality of the bond issue.
- 6.42 EFFECTIVE INTEREST RATE** – The actual rate of interest earned by the investor on bonds purchased, after allowing for premiums, discounts, or accrued interest over the period of the investment.
- 6.43 FEASIBILITY STUDY** – A report by an independent expert on the economic need and practicality of a proposed debt program.
- 6.44 FLOATER** – A security sold with a variable rate that changes at intervals ranging from daily to annually.
- 6.45 FULL FAITH AND CREDIT** – The pledge of a government's general taxing power to pay off its debt obligations.
- 6.46 GENERAL OBLIGATION BONDS** – Bonds which are secured by the full faith and credit of the issuer. General obligation bonds are secured by a pledge of a portion of the ad valorem taxing power. Such bonds constitute debts of the issuer and require approval by election prior to issuance.
- 6.47 GUARANTEED INVESTMENT CONTRACT (GIC)** – A group annuity contract designed to provide guarantees of principal and interest on funds deposited with an insurance company for a specified period.
- 6.48 HIGH GRADE BONDS** – Top-rated bonds, usually triple-A.

- 6.49 INDENTURE** – Legal document describing the terms and conditions of a bond offering, the rights of the bondholder and the obligations of the issuer to the bondholder. The document is alternatively referred to as a bond resolution or deed of trust.
- 6.50 INTEREST RATE SWAP** – An agreement between two parties to exchange future flows of interest payments. Swap payments may be based on actual bond payments and/or based on various market indices.
- 6.51 INVERTED YIELD CURVE** – When short-term rates are higher than long-term rates.
- 6.52 INVESTMENT GRADE** – The broad credit designation given bonds which have a high probability of being paid. Such bonds, have few, if any, speculative features and are rated by the rating agencies in one of their top four categories, ranging from triple-A to BBB and Baa.
- 6.53 ISSUER** – A state, political subdivision, agency, or authority that borrows money through the sale of bonds or notes.
- 6.54 JUNIOR LIEN BONDS** – Bond with a subordinate claim against pledged revenues.
- 6.55 LETTER OF CREDIT** – An agreement, usually with a commercial bank, to guarantee demands for payment upon compliance with conditions established in the agreement. Bank letters of credit are typically used as additional sources of security and liquidity with variable rate obligations.
- 6.56 LIQUIDITY** – The ability to convert assets, such as investments, readily into cash.
- 6.57 MATURITY** – The date on which the principal amount of a security is due and payable to the certificate holder.
- 6.58 MUNICIPAL ADVISOR** – Performs analysis as to the appropriateness of a bond sale and, if the governing body of the agency determines that a bond sale is necessary, they then assist in its planning and preparation.
- 6.59 NEGOTIATED SALE** – The sale of a new issue of municipal securities by an issuer through an exclusive agreement with a previously selected underwriter or underwriting syndicate. A negotiated sale should be distinguished from a competitive sale, which requires public bidding by the underwriters. Primary points of negotiation for the issuer are the interest rate and purchase price, which reflect the issuer's cost of offering its securities in the market.

- 6.60 NET INTEREST COST (NIC)** – Traditional method of calculating an issuer's borrowing cost. NIC is derived by adding the total volume of interest payments for the entire offering and dividing by the amount of certificates outstanding times the years they are outstanding.
- 6.61 NET PRESENT VALUE SAVINGS** – Present value of gross savings discounted at the refunding bond yield to the closing date plus accrued interest less any contribution from a reserve or debt service fund and anticipated loss investment earnings.
- 6.62 NOTES** – A written, short-term promise of the issuer to repay a specified principal amount on a certain date, together with interest at a stated rate, or according to a formula for determining that rate, payable from a defined source of anticipated revenue. Notes usually mature in less than five years. Notes are used to cover seasonal cash flow needs or interim financings.
- 6.63 OFFICIAL STATEMENT (OS)** – A document published by the issuer who generally discloses material information on a bond issue, including the purpose of the bond issue, how the bonds will be repaid, and the financial, economic and demographic characteristics of the issuer. Investors may use this information to evaluate the credit quality of the bonds.
- 6.64 ORIGINAL ISSUE DISCOUNT (OID)** – The discount from par at which a new issue comes to market. For tax-exempt bonds, the capital gain represented by the OID is deemed tax-exempt by the IRS.
- 6.65 OVERLAPPING DEBT** – The issuer's share of the debt of other local units.
- 6.66 PAR VALUE** – The principal amount of a security, which must be paid at maturity. Par value is also referred to as the face amount of a security.
- 6.67 PARITY BONDS** – Separate bond issues that have the same lien against pledged revenues.
- 6.68 PAY-AS-YOU GO BASIS** – The financial policy of a municipality that finances all capital outlays from current revenues rather than from borrowing.
- 6.69 PAYING AGENT** – The entity responsible for the payment of principal and interest on municipal obligations on behalf of the issuer. The paying agent is usually a bank or trust company.
- 6.70 PLEDGED REVENUES** – Funds obligated for the payment of debt service and other deposits as required by the bond contract.

- 6.71 PRELIMINARY OFFICIAL STATEMENT (POS)** – A preliminary version of the official statement which is used by the issuer or underwriter to describe the proposed issue of municipal bonds prior to the determination of an interest rate and offering price. The preliminary official statement is a marketing tool used to gauge buyer's interest in the issue and is relied upon by potential purchasers in making their investment decisions.
- 6.72 PREMIUM** – The amount by which the price paid for a security exceeds par value, generally representing the difference between the nominal interest rate and the actual or effective return to the investor.
- 6.73 PRINCIPAL** – The par value or face amount of a bond payable or issue of bonds payable on stated dates of maturity.
- 6.74 PRIMARY MARKET** – The market for new issues of municipal securities.
- 6.75 PRIVATE PLACEMENT** – An original issue of municipal securities sold directly to an institutional or private investor by way of a negotiated sale rather than through a public offering.
- 6.76 RATE COVENANT** – A bond indenture provision requiring rate changes necessary to meet annual debt service payments.
- 6.77 RATING AGENCIES** – Credit quality evaluation of an issuer's securities made by independent rating services. The three primary rating agencies with regard to municipal debt are Moody's Investors Services, S&P Global Ratings, Standard & Poor's Corporation and Fitch.
- 6.78 RATINGS** – Evaluations of the credit quality of obligations usually made by independent rating services. Ratings generally measure the probability of the timely repayment of principal and interest on municipal obligations. The higher the credit rating, the more favorable the effect on the marketability of the security.
- 6.79 REDEMPTION** – A transaction in which the issuer pays an outstanding obligation at a specified price, usually at or above par prior to the specified maturity date. Also known as a call.
- 6.80 REFUNDING** – Selling a new bond issue for redemption or defeasance of an outstanding bond issue. There are generally two reasons for refunding: to reduce the issuer's interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced.

- 6.81 REGISTRAR** – The person or entity responsible for maintaining records on behalf of the issuer for the purpose of noting the owners of registered obligations. The paying agent frequently performs this function.
- 6.82 REVENUE BONDS** – Bonds payable from a specific source of revenue and which do not pledge the full faith and credit of the issuer.
- 6.83 SECONDARY MARKET** – Market for bonds previously offered and sold.
- 6.84 SENIOR LIEN OBLIGATIONS** – Obligations having a prior claim on pledge revenues.
- 6.85 SERIAL BONDS** – Bonds of an issue in which some bonds mature in each year over a period of years.
- 6.86 SETTLEMENT** – Delivery of and payment for a new issue of municipal bonds. Settlement usually occurs within 30 days after the bonds are awarded to the underwriters, which allows for the printing of the bonds and the completion of certain legal matters.
- 6.87 SETTLEMENT DATE** – The date used in price and interest computations, usually the date of delivery.
- 6.88 SINKING FUND** – A fund established in a bond indenture that contains money available to call bonds prior to maturity.
- 6.89 STANDBY BOND PURCHASE AGREEMENT** – A legal agreement with a commercial bank or trust company whereby the bank agrees to purchase demand bonds which the remarketing agent was unable to remarket to other parties and chose not to purchase for itself.
- 6.90 SUBORDINATE (JUNIOR) LIEN OBLIGATIONS** – Obligations having a subordinate claim against pledged revenues.
- 6.91 TAX-EXEMPT OBLIGATIONS** – Obligations whose interest is exempt from federal income taxation pursuant to Section 103 of the Internal Revenue Code and may or may not be exempt from state income or personal property taxation in the jurisdiction where issued.
- 6.92 TERM BONDS** – Bonds coming due in a single maturity. The issuer usually agrees to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.
- 6.93 TRUE INTEREST COST (TIC)** – The present value borrowing cost of the issuer is reflected by taking into account the costs of issuance and

underwriting. TIC is similar to NIC, but also accounts for the time value of money.

- 6.94 TRUSTEE** – A financial institution with trust powers which acts in a fiduciary capacity for the benefit of bond holders in enforcing the terms of the bond indenture agreement.
- 6.95 TRUST INDENTURE** – A contract between the issuer of municipal securities and a trustee, serving for the benefit of the security holders.
- 6.96 UNDERWRITER** – A dealer at a bank or brokerage house who buys an agency's bonds in order for the firm's sales force to resell them to both institutional and retail investors. The underwriter may acquire the bonds either by negotiation with the issuer, or by award on the basis of competitive bidding.
- 6.97 UNDERWRITERS COUNSEL** – A lawyer involved in the transaction, who represents the securities firm buying an issuer's bonds.
- 6.98 VARIABLE RATE OBLIGATIONS** – A security whose interest rate is reset periodically by the remarketing agent according to a preset formula defined in the indenture agreement. The variable interest rate, also known as a "floater", is determined by the remarketing agent as the level at which all bonds trade at par.
- 6.99 YIELD CURVE** – Graph displaying the term structure of interest rates by plotting the yields of all bonds of the same quality with maturities ranging from shortest to the longest available.
- 6.100 YIELD TO MATURITY** – The rate of return to the investor earned from payments of principal and interest, which is compounded semiannually and assumes that interest paid is reinvested at the same rate. Yield to maturity takes into consideration the time value of the investment.
- 6.101 ZERO-COUPON BONDS** – Bonds sold at a deep discount from par, which pay no interest and appreciate to full value at maturity. Also known as capital appreciation bonds.

## 7. RELATED DOCUMENTS

N/A

## 8. ATTACHMENTS

N/A