Office of Management and Budget			
	Standard Operating Procedure/Policy	SOP #	BFP-GN-01-INT-001
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	Louisville Metro Government Debt Management Policy	Created Date:	10/05/2016
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Page #	Page 1 of 17	Last Revised Date:	3/12/2018
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1. Introduction

In managing its debt, shall be Louisville Metro Government's (LMG) policy to:

- achieve the lowest cost of capital,
- ensure the highest credit ratings possible consistent with the current economic and demographic conditions of the community,
- assure access to the capital credit markets at all times,
- preserve financial flexibility as it relates to the timing and structure of debt, and
- manage interest rate risk exposure.

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3. Purpose

Debt policies and procedures are tools which ensure that financial resources are adequate to meet LMG's long-term capital planning objectives. In addition, this policy helps to ensure that financings undertaken by LMG satisfy certain clear objective standards which allow LMG to protect its financial resources in order to meet its long-term capital needs. The adoption of clear and comprehensive financial policies enhances the internal financial management of LMG.

The Policy formally establishes parameters for issuing debt and managing a debt portfolio, which considers LMG's specific capital improvement needs; ability to repay financial obligations; the existing legal, economic, and financial and debt market conditions. Specifically, the policies outlined in this document are intended to assist in the following:

- To guide LMG and its managers in policy and debt issuance decisions;
- To maintain appropriate capital assets for present and future needs;
- To promote sound financial management;
- To protect and enhance LMG's credit rating;
- To ensure the legal use of LMG's debt issuance authority;

- To promote cooperation and coordination with other stakeholders in the financing and delivery of services;
- To evaluate debt issuance options; and
- To manage the interest rate risk associated with the issuance of debt.

4. Scope

This policy is applicable to the Mayor, LMG Council, Chief Financial Officer, Budget Director, Finance Director and the Revenue Commission Director.

5. Prerequisites

N/A.

6. Responsibilities

The Chief Financial Officer (CFO) will act at the direction of the Mayor and LMG Council to issue debt within the scope of this policy.

Both the Budget Director and Finance Director will assist in the completion of the debt issues.

The Revenue Commission Director will manage the payments of debt service.

7. Disclaimer

Failure to comply with LMG policy carries consequences of employee disciplinary action. This policy does not constitute a contract and may be supplemented, amended, or repealed at any time at management's discretion.

8. Procedure/Policy

8.1 Issuance Process

The Kentucky Revised Statutes related to the creation of the Consolidated Local Government of LMG, as amended, and the Kentucky Revised Statutes relating to the bond issuance and certain rulings of the appellate courts of the Commonwealth authorize LMG to issue general obligation bonds subject to the adoption of a bond resolution or ordinance by the LMG Metro Council. Other sections of the Kentucky Revised Statutes, certain rulings of the appellate courts of the Commonwealth and the Federal Tax Code may govern the issuance or structure of LMG's bonds.

These provisions serve as a basis for LMG's affordability guidelines described later in this policy.

8.2 Credit Quality and Credit Enhancement

LMG's debt management activities will be conducted to receive the highest practical credit ratings possible, consistent with LMG's financing objectives. The Chief Financial Officer will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to LMG's debt.

The Chief Financial Officer will provide the rating agencies with periodic updates of the general financial condition of LMG. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. LMG, together with its Financial Advisor, may prepare presentations to the rating agencies to assist credit analysts in making an informed decision. The Chief Financial Officer shall be responsible for determining whether or not a rating will be requested on a particular financing, and which of the major rating agencies will be asked to provide such rating.

LMG will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when clearly demonstrable financial savings can be shown will an enhancement be considered. LMG will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

8.2.1 Bond Insurance.

LMG may purchase bond insurance when such purchase is deemed prudent and advantageous for sales. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds. For competitive sales, the purchaser of the bonds may be offered the option of paying for bond insurance.

LMG may solicit quotes from time to time for bond insurance from interested providers, or in the case of a competitive sale, allow bidders to request bond insurance. In the cases where LMG purchases the insurance directly, LMG will select a provider whose bid is most cost-effective and whose terms and conditions governing the guarantee are satisfactory to LMG. The winning bidder in a competitive sale where the bond purchaser is acquiring the insurance will determine the provider of bond insurance.

8.2.2 Letters of Credit

LMG may enter into a letter-of-credit (LOC) agreement or similar credit enhancement such as a standby bond purchase agreement when such an agreement is deemed prudent and advantageous. LMG expects to prepare and distribute from time to time a request for qualifications to qualified banks or other qualified financial institutions which includes terms and conditions that are acceptable to LMG.

8.2.3 Debt Affordability

It is the intent of LMG to promote the most efficient and cost-effective use of debt financing in order to facilitate long-term access to capital while ensuring that financial leveraging decisions do not negatively impact the LMG annual operations. To this end, the government will periodically review basic measures of debt affordability, including but not limited to, average live of new debt, percentage of principal paid within 10 years, per capita debt/per capita income, per capita debt/per capita assessed value, and debt service/general fund operating expenses.

8.3 Bond Structure

LMG shall establish all terms and conditions relating to the issuance of bonds and invest all bond proceeds pursuant to the terms of LMG's Investment Policy. Unless otherwise authorized by LMG, the following shall serve as bond requirements:

8.3.1 Term.

All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful life of the improvements.

8.3.2 Capitalized Interest.

From time to time certain financings may require the use of capitalized interest from the issuance date until LMG has beneficial use and/or occupancy of the financed project. Interest shall be minimized within statutory authority. Interest earnings may, at LMG's discretion, be applied to extend the term of capitalized interest but in no event beyond the term statutorily authorized.

8.3.3 Debt Service Structure.

Debt issuance shall be planned to achieve relatively level debt service or level principal amortization for an individual bond issue, while still matching debt service to the useful life of facilities. LMG shall generally avoid the use of bullet or balloon maturities except in those instances where these maturities serve to make existing overall debt service level, match a specific income stream, or relate to a BAN.

8.3.4 Call Provisions.

In general, LMG's securities will include a call feature, which is no later than ten (10) years from the date of delivery of the bonds. LMG will avoid the sale of long-term non-callable bonds absent careful evaluation by LMG and its financial advisor with respect to the value of the call option.

8.3.5 Original Issuance Discount/Premium.

Bonds with original issuance discount/premium will be permitted.

8.3.6 Deep Discount Bonds.

Deep discount bonds may provide a lower cost of borrowing in certain markets. LMG will carefully consider their value and effect on any future refinancing as a result of the lower-than-market coupon.

8.3.7 Structured Products.

The determination of LMG to consider the use of structured products as a hedge against interest rate risk or a method to lower its cost of borrowing shall be made by the Chief Financial Officer. At such time as the Chief Financial Officer deems it appropriate, LMG will comply with any applicable state guidelines and will be able to quantify and understand the potential risks or to achieve fixed and/or variable rate exposure targets. LMG shall not use structured products for speculative purposes.

8.4 Types of Debt

When LMG determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

Structure

8.4.1 General Obligation Bonds.

LMG may issue obligation bonds supported by the full faith and credit of LMG. General obligation bonds shall be used to finance capital projects that do not have independent creditworthiness and significant ongoing revenue streams.

LMG may also use its general obligation pledge to support other bond issues, if such support improves the economics of the other bond issue and is used in accordance with these guidelines.

8.4.2 Revenue Bonds.

Revenue bonds are typically issued for capital projects which can be supported by the project or enterprise-related revenues. LMG may issue revenue bonds or cause an "on-behalf-of corporation" to issue revenue bonds on LMG's behalf, where repayment of the bonds will be made through revenues generated from other sources. These may be termed Industrial Revenue Bonds or IRB's.

8.4.3 Capital Leases.

LMG may use capital leases to finance short-term projects.

Duration

8.4.4 Long-Term Debt.

LMG may issue long-term debt where it is deemed that capital improvements should not be financed from current revenues or short-term borrowings.

- Long-term debt will be structured such that financial obligations do not exceed the expected useful life of the project.
- Long-term borrowing shall not be used to finance current operations or normal maintenance.

a) *Serial and Term Bonds* may be issued in either fixed or variable rate modes to finance capital infrastructure projects with an expected life of five years or greater.

b) *Capital Outlay Notes* may be issued to finance capital infrastructure projects with an expected life of fewer than seven years.

8.4.5 Short-Term Debt.

Short-term borrowing may be utilized for the temporary funding of operating cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates) subject to the following policies:

a) *Bond Anticipation Notes (BANs)*, including commercial paper notes issued as BANs, may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall not mature more than five (5) years from the date of issuance. BANs shall mature within 6 months after substantial completion of the financed facility.

b) *Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (TANs)* shall be issued only to meet cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to applicable Federal IRS and state requirements and limitations.

c) *Lines of Credit* shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code if intended to be tax-exempt.

d) *Other Short-Term Debt*, including commercial paper notes, may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable. LMG shall determine and utilize the least costly method for short-term borrowing.

Interest

8.4.6 Variable Rate Debt.

To maintain a predictable debt service burden, LMG shall give preference to debt that carries a fixed interest rate. LMG, however, may consider variable rate debt. The percentage of net variable rate debt outstanding (excluding debt which has been converted to synthetic fixed rate debt and debt matched to assets) shall not exceed 20% of LMG's total outstanding debt and will take into consideration the amount and investment strategy of LMG's operating cash.

The following circumstances may result in the consideration of issuing variable rate debt:

a) *Asset-Liability Matching.*

b) *Construction Funding.*

c) *High-Interest Rates.* Interest rates are above historic averages.

d) *Variable Revenue Stream.* The revenue stream for repayment is variable and is anticipated to move in the same direction as market-generated variable interest rates or the dedication of revenues allows capacity for variability.

e) *Adequate Safeguards Against Risk.* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include but are not limited to, interest rate caps and short-term cash investments in LMG's General Fund.

f) *Financial Advisor Analysis*. An analysis from LMG's Financial Advisor evaluating and quantifying the risks and returns involved in the variable rate financing and recommending variable rate as the lowest cost option.

g) *As a Component to Synthetic Fixed Rate Debt.* Variable rate bonds may be used in conjunction with a financial strategy, which results in synthetic fixed rate debt.

8.4.7 Fixed Rate Debt.

The remaining debt issued by LMG is fixed rate debt.

8.5 Use of Synthetic Debt

The Chief Financial Officer shall determine whether the use of synthetic debt is appropriate and comply with any applicable state statutes regulating the use of synthetic debt.

LMG does not currently use swaps or options. If and prior to their use, LMG will develop specific guidelines for the use and administration of these products and will submit such policy to the LMG Metro Council, along with an analysis of the risks and benefits of the proposed structure.

8.6 Refinancing Outstanding Debt

The Director of LMG's Finance Division, with assistance from LMG's Financial Advisor, shall have the responsibility to analyze outstanding bond issues for refunding opportunities. LMG will consider the following issues when analyzing possible refunding opportunities:

8.6.1 Debt Service Savings

Absent other compelling considerations such as the opportunity to eliminate onerous or restrictive covenants contained in existing debt documents, LMG will normally require an anticipated estimated minimum present value savings threshold of 3.5% of the refunded bond principal amount. The present value savings will be net of all costs related to the refinancing.

If present value savings are less than 3.5%, LMG may consider the option value captured as a percent of total savings. If the option value exceeds 70% and present value savings is less than 3.5%, LMG may opt to complete a refunding. The decision to take savings partially or entirely on an upfront or deferred basis will be at the discretion of LMG.

8.6.2 Restructuring.

LMG will restructure debt when it is in the best financial and economic interest of LMG to do so. Such refunding normally will be limited to restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.

8.6.3 Term of Refunding Issues.

LMG will generally refund bonds within the term of the originally issued debt. However, LMG may consider maturity extension, when necessary to achieve the desired outcome, provided that such extension is legally permissible. LMG may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should be major factors in this decision.

8.6.4 Escrow Structuring.

LMG shall utilize the least costly securities available in structuring refunding escrows. In the case of open market securities, a certificate will be provided by a third party agent, who is not a broker-dealer stating that the securities were procured through an arms-length, competitive bid process, that such securities were more cost-effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. Under no circumstances shall an underwriter, agent, or financial advisor sell escrow securities to LMG from its own account.

8.6.5 Arbitrage.

LMG shall take all necessary and appropriate steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to all applicable Federal guidelines. Refer to LMG Investment Policy and LMG Federal Tax Compliance policy and procedure.

8.7 Method of Issuance

LMG will determine the method of issuance on a case-by-case basis in compliance with Kentucky Revised Statutes and in consultation with the Jefferson County Attorney, Bond Counsel, and Financial Advisor.

8.7.1 Competitive Sale.

In a competitive sale, LMG's bonds shall be awarded to the bidder providing the lowest true interest cost, as long as the bid adheres to the requirements set forth in the official notice of sale.

8.7.2 Negotiated Sale.

While LMG prefers the use of a competitive process, LMG recognizes that some securities may be best sold through negotiation when permitted by state statutes. In its consideration of a negotiated sale, LMG shall assess the following circumstances:

a. A structure which may require a strong pre-marketing effort such as a complex transaction or a "story" bond;

b. Size of the issue which may limit the number of potential bidders;

c. Market volatility and whether LMG would be better served by additional flexibility in timing a sale;

d. Whether the Bonds are issued as variable rate demand obligations;

e. Whether LMG might view an idea or financing structure as a proprietary product of a single firm.

8.7.3 Private Placement.

From time to time LMG may elect to privately place its debt if permitted by state law. Such placement shall only be considered if this method is expected to result in cost savings to LMG relative to other methods of debt issuance.

8.8 Underwriter Selection (Negotiated Transaction)

8.8.1 Senior Manager Selection.

LMG shall select the senior manager for a proposed negotiated sale. The selection criteria shall include, but not be limited to the following:

- The firm's ability and experience in managing complex transactions;
- Prior knowledge and experience with LMG;
- The firm's willingness to risk capital and demonstration of such risk;
- Quality and experience of personnel assigned to LMG's engagement;
- Financing plan presented;
- Underwriting fees.

8.8.2 Co-Manager Selection.

Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of LMG's bonds.

8.8.3 Selling Groups.

LMG may establish selling groups in certain transactions. To the extent that selling groups are used, the Chief Financial Officer at his or her discretion may make appointments to selling groups as the transaction dictates.

8.8.4 Underwriter's Counsel.

In any negotiated sale of LMG debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with input from LMG.

8.8.5 Underwriter's Discount.

The Chief Financial Officer will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Chief Financial Officer will determine the allocation of fees, if any, with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction.

All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties by the Chief Financial Officer. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

8.8.6 Evaluation of Underwriter Performance.

LMG's selected Bond Counsel and Financial Advisor may evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

8.8.7 Syndicate Policies.

For each negotiated transaction, the Chief Financial Officer will prepare syndicate policies that will describe the designation policies governing the upcoming sale. The Chief Financial Officer shall ensure receipt of each member's acknowledgment of the syndicate policies for the upcoming sale prior to the sale date.

8.8.8 Designation Policies.

To encourage the pre-marketing efforts of each member of the underwriting team, orders for LMG's bonds will be net designated, unless otherwise expressly stated. LMG shall require the senior manager to:

- Equitably allocate bonds to other managers and the selling group;
- Provide evidence of compliance with MSRB regulations governing the priority of orders and allocations;
- Within 10 working days after the sale date, submit to the Chief Financial Officer a detail of orders, allocations and other relevant information pertaining to LMG's sale.

8.9 Consultants

8.9.1 Financial Advisor.

LMG may select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes. Financial advisory services provided by the financial advisor may include, but may not be limited to the following:

- Review of existing debt structure and financial resources of Metro and PARC to determine available borrowing capacity.
- Design all features of the bond issue and perform all functions to facilitate the marketing and sales of the bond issue, such as, but not limited to, the following:
  - Recommend sizing, timing, structuring, maturity schedules, types of bonds, coupon rates, registration, call features, etc.
  - Coordinate and prepare all official statements, advertisements, bond calendar, and notice of sale for a bond issue in conjunction with bond counsel, the Office of Management and Budget, and the PARC Board.
  - Assist at bond closings and coordinate the printing, signing, and delivery of bonds, as well as, expedite the transfer of funds.
  - Assist with the preparation of cash flow forecasts for proposed bond issues addressing debt service requirements and sources of funding including compliance with arbitrage requirements. Perform debt affordability studies, including key debt ratios.

  - Assist in selecting trustees, paying agents, remarketing agents, and other financial intermediaries, as necessary.

- Coordinate applications for credit ratings in order to obtain the highest possible credit rating; specifically by maintain open communication with rating agencies regarding Metro and PARC, and preparing presentation packages.
- Prepare applications for bond insurance, letter of credit, and other credit enhancement devices. Analyze the savings, which will result from the use of the recommended credit enhancement devices. Develop and recommend strategies to maintain and/or improve credit ratings.
- Advise on proposed and actual changes in tax laws and changes in financial markets that could affect the bond financing plans. Identify new strategies and initiatives to enhance debt performance and lower costs.
- Provide investment advice on arbitrage rules relative to individual bond issuances.
- Provide and interpret market information including interest rates, debt issuance, and current information on financial trends in the municipal debt markets on a monthly basis.
- Act as an expert witness or spokesperson before governmental bodies, organizations, or public forums. Periodically, give presentations to the Metro Council and/or the PARC Board regarding the issuance of bonds.
- Provide financial advice as needed and requested by Metro through its Chief Financial Officer, or other designated person(s).

8.9.2 Bond Counsel.

LMG debt will include a written opinion by legal counsel affirming that LMG is authorized to issue the proposed debt, that LMG has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The counsel will be selected by LMG.

- Recommend and advise Metro and/or PARC regarding legal aspects of the selected financing plan.
- Assure that Metro and/or PARC conform to all legal requirements regarding bond offerings.
- Assist in obtaining necessary approvals from governmental authorities.
- Attest to the validity and enforceability of the bonds.
- Confirm tax-exempt status of the offerings.
- Prepare bond issuance and closing documents, including regulatory agreement, indenture, arbitrage certification and rebate instructions and provisions regarding continuing disclosure requirements.
- Assist in preparation of preliminary and final official statement.
- Provide post issuance services, as required.

8.9.3 Conflict of Interest.

LMG requires that its consultants and advisors provide objective advice and analysis, maintain the confidentiality of LMG financial plans, comply with any federal and state statutes, and remain free from any conflicts of interest.

8.9.4 Disclosure by Financing Team Members.

All financing team members (advisors to LMG for purposes of issuing debt) will be required to provide full and complete disclosure, which would be required by regulatory agencies governing their respective industries. In addition, the team shall disclose any matters of potential conflicts of interest of employees assigned to any project and potential conflicts with any LMG staff or elected officials and the team member, which may exist or arise.

8.10 Disclosure

LMG will provide annual financial and economic information to the Municipal Securities Rulemaking Board (MSRB) via their online portal Electronic Municipal Market Access (EMMA). LMG will also notify the EMMA of any of any material events when required by bond covenants in compliance with SEC Rule 15c2-12.

- – Financial information and operating data;
- – Audited financial statements for state or local government or other obligated persons, if available;
- – Principal and interest payment delinquencies;
- – Non-payment related defaults;
- – Unscheduled draws on debt service reserves reflecting financial difficulties;
- – Unscheduled draws on credit enhancements reflecting financial difficulties;
- – Substitution of credit or liquidity providers, or their failure to perform;
- – Adverse tax opinions or events affecting the tax-exempt status of the security;
- – Modifications to rights of security holders;
- – Bond calls and tender offers;
- – Defeasances;
- – Release, substitution or sale of property securing repayment of the securities;
- – Rating changes;
- – Bankruptcy, insolvency or receivership;
- – Merger, acquisition or sale of all issuer assets;
- – Appointment of successor trustee.

- ▪ The most compelling filing is the annual CAFR which must be filed within 180 days from the fiscal year end (December 27th).

8.11 Debt Policy Review

- The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt, interest rate swaps and options.
  - LMG 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, swap or option achieves LMG's goals.
- This policy will be reviewed no less frequently than annually.
  - At that time the Chief Financial Officer will consider any recommendations for any amendments, deletions, additions, improvements or clarification.
- LMG will also maintain a system of record keeping and reporting which complies with any applicable arbitrage rebate compliance requirements of the Federal Tax Code.

9. References

Review applicable Kentucky Revised Statutes (KRS) for more information.
Refer to current Federal Tax Code for additional guidance.
LMG Investment Policy: https://powerdms.com/link/IDS/document/?id=1193900
LMG Federal Tax Compliance Policy (Link will be provided once available online)

10. Definitions

Term	***Explanation***
Anticipated Revenue	An assured source of income with the anticipated amount based on conservative estimates.
Arbitrage	Usually refers to the difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from the issuance of municipal securities.
Balloon Maturity	A later maturity, within a serial issue of bonds, which contains a disproportionately large percentage of the principal amount of the original issue.
Bond Anticipation Notes (BANs)	Method of interim financing of capital projects by the sale and issuance of notes, which are paid from the proceeds of the issuance of long-term bonds.

Bullet Maturity — Repayment of a bond in a single lump sum at final maturity, and for which there are no principal and/or sinking fund payments prior to the stated maturity date.

Call Provisions — Provision in a bond giving the issuer the right to redeem all or a portion of a bond prior to its stated date of maturity at a specific price, usually at or above par.

Capitalized Interest — A portion of the proceeds of a bond issue which is set aside to pay interest on the same bond issue for a specific period of time. Interest is commonly capitalized for the construction period of the project.

Commercial Paper — Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

Competitive Sale — A method of sale/auction of securities by an issuer in which underwriters or syndicates of underwriters submit sealed or electronic bids to purchase the securities for reoffering to the public. Contrast to a negotiated sale.

Continuing Disclosure — The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities, shall be made available on an ongoing basis.

Credit Enhancement — Credit support, purchased by the issuer, to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, standby bond purchase agreements, and lines of credit.

Debt Service Coverage — Net Revenue available for debt service divided by debt service.

Debt Service Reserve Fund — Reserve fund established to service interest and principal payments on short- and long-term debt.

Deep Discount Bonds — Bonds which are priced for sale at a substantial discount from their face or par value.

Derivatives — A financial instrument whose value is derived from some underlying asset value

Designation Policies — Outline how an investor's order is filled when a maturity is oversubscribed and there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders which form the designation policy: Group Net orders; Net Designated orders and Member orders.

Escrow	A fund established to hold monies pledged and to be used to pay debt service on an outstanding issue.
Expenses	Costs incurred by senior managers for out-of-pocket fees including, but not limited to, underwriter's counsel, Depository Trust Company charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time, and postage.
Letters of Credit	Correspondence from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount; typically used as a form of credit enhancement and/or liquidity guarantee for the transaction.
Management Fee	The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.
Members	Underwriters in a syndicate, other than the senior underwriter
Moody's Median	Key financial, debt, economic and tax base statistics with median values for each statistic presented.
Negotiated Sale	A method of offering municipal bonds or similar financial instruments in which the issuing entity and a selected underwriter negotiate the terms of the issue, rather than having multiple underwriting groups competitively bidding on the issue to establish its terms.
Net Revenue	Generally, is the difference between gross revenue and operating and maintenance expenses. See also LMG's Indentures or other bond documents.
Original Issue Discount	The amount by which the original par amount of a bond exceeds its public offering price at the time it is originally offered to investors.
Pay-As-You-Go	An issuer elects to finance a project in whole or in part with existing cash flow rather than issuing debt obligations.
Present Value	The current value of a future cash flow, given a specified rate of return.
Private Placement	The original placement of an issue with one or more investors as opposed to being publicly offered or sold.

Rebate	A requirement imposed by Tax Reform Act of 1986 whereby the issuer of tax-exempt bonds must (subject to certain exceptions) pay the IRS an amount equal to its profit earned from investment of tax-exempt bond proceeds at rates exceeding the tax-exempt borrowing rate. The tax-exempt borrowing rate (or "bond yield") is calculated pursuant to the IRS code together with all income earned on the accumulated profit pending payment.
Selling Groups	The group of securities dealers who participate in an offering, not as underwriters but rather who receive securities less the selling concession from the managing underwriter for distribution at the public offering price.
Syndicate Policies	The contractual obligations placed on the underwriting group relating to distribution, price limitations, and market transactions.
Story Bond	A bond so unusual or having such complicated features that sales people are frequently called on to explain its intricacies to customers. Story bonds sometimes offer slightly higher yields than ordinary bonds as a way of convincing investors that they are worth holding.
Underwriter	A dealer that purchases new issues of municipal securities from the Issuer and resells them to investors.
Underwriter's Discount	The difference between the price at which bonds are bought by the Underwriter from the Issuer and the price at which they are initially reoffered to a significant portion of investors.
Variable Rate Debt	An interest rate on a security which changes at intervals according to an index or a formula or other standard of measurement as stated in the bond documents.

11. Appendices

N/A