City of Palm Coast - Debt Management Policy

November 5, 2013

OVERVIEW:

The City of Palm Coast (City) recognizes the foundation of any well-managed debt program is a comprehensive debt policy. The debt policy sets forth the parameters for issuing debt and managing outstanding debt. The policy also provides guidance to Management and the City Council regarding the timing and purpose for which debt may be issued, types and amounts of permissible debt, the method of sale that may be used and structural features that may be incorporated. The debt policy recognizes a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into capital markets. Adherence to the debt policy helps to ensure that the City maintains a sound debt position and that credit quality is protected. The debt policy promotes consistency and continuity in decision-making, rationalizes the decision-making process, and demonstrates a commitment to long-term financial planning objectives.

PURPOSES AND USES OF DEBT:

The City may issue debt using several types of securities including: general obligation credit that is secured by the City's ability to levy ad valorem taxes on real and personal property within the City; assessment bonds that are secured by a special assessment placed upon the property owners benefiting from specific improvements to their community; and revenue bonds that are secured by dedicated revenue streams arising from sales taxes, special taxes and charges for services, such as, water, sewer and solid waste collection and disposal fees.

Additionally, the City may utilize a covenant to budget and appropriate legally available non-ad valorem revenues in its short-term borrowings. This can provide valuable cash flow and cash management capabilities in managing the City's ongoing capital improvements programs by providing interim or gap financing for the City's pay-as-you-go capital programs.

Other types of debt subject to this Debt Management Policy include State Revolving Fund Loans (SRF Loans), anticipation notes and other promissory notes that may be issued for the repayment of short, intermediate or long-term debt. Several guiding principles have been identified which provide the framework for the issuance, management, continuing evaluation of, and reporting on all debt obligations issued by the City.

PLANNING AND STRUCTURE OF CITY INDEBTEDNESS:

To enhance creditworthiness and prudent financial management, the City is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning is demonstrated through adoption and periodic adjustment of a Comprehensive Plan pursuant to Chapter 163, Florida Statutes, the Florida Growth Management Act and Rule 9 J (5), and the adoption of the five-year Capital Improvement Plan (CIP). The CIP will identify, rank, and assess capital projects, determine useful life, and recommend specific funding sources for the projects for the five-year period. Annually, management will also prepare and submit to City Council a 10-year capital infrastructure plan, which will be incorporated into the long-term financial planning process.

Capital Financing: The City normally will rely on specifically generated funds and/or grants and contributions from other governments to finance its capital needs on a pay-as-you-go basis. To achieve this, it may become necessary to secure short-term (not exceeding a three-year amortization schedule) construction funding. Such financing, allows maximum flexibility in CIP implementation. Debt of longer amortization periods (long-term debt) will be issued for capital projects when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries. In general, debt shall not be used for projects solely because insufficient funds are budgeted at the time of acquisition or construction.

General Obligation Securities: The City will seek voter authorization (per the City Charter) to issue general obligation bonds only for essential projects. In addition, such authority will be sought only after it is determined by the Council that no other funds are available to meet project costs.

Term of Debt Repayment: Borrowings by the City will mature over a term that does not exceed the economic life of the improvements that they finance or exceed the term of the revenue securing such debt. The City will consider long-term financing for the acquisition, replacement, or expansion of physical assets (including land).

Method of Sale: The City will market its debt through the use of competitive bid whenever deemed feasible, cost-effective and advantageous to do so. However, in some situations, certain complexities and intricacies of a particular debt issue are such that it may be beneficial to market the debt via negotiated sale.

Interest Rate: In order to maintain a stable debt service burden, the City will attempt to issue debt that carries a fixed interest rate. Conversely, it is recognized that certain circumstances may warrant the issuance of variable rate debt. In those instances, the City should attempt to stabilize debt service payments through the use of an appropriate stabilization arrangement or maintain a manageable amount of variable rate debt.

Revenue Pledge: Revenue sources will only be pledged for debt when legally available, and when it can be justified that residents or others that receive the benefits of the pledged revenue should repay the related debt.

Debt Guarantees: The City may consider, on case-by-case basis, the use of its debt capacity for legally allowable capital projects by public development authorities or other special purpose units of the government.

Financing Proposals: Any capital financing proposal involving a pledge or other extension of the City's credit through the sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the City's credit, is referred to and reviewed by members of the Financing Team.

Conduit Bond Financing: Periodically, the City may be approached with a request to provide conduit bond financing for qualified projects. Examples may include infrastructure as part of a special assessment district. Applications for such issues will be processed by the Financing Team, which will provide funding recommendations to the City Council.

Public-Private Partnerships: There may be opportunities presented to the City in which a private party provides a public service or project and assumes substantial financial, technical and operational risk in the project. These partnerships will be carefully evaluated to ensure that any related debt issuance has a minimal impact on the City.

CREDITWORTHINESS:

The City seeks to maintain the highest possible credit ratings for all categories of short and long-term debt that can be achieved without compromising the delivery of basic City services and the achievement of the adopted City Strategic Action Plan. For those agencies that maintain a credit rating on the City, the Finance Department will provide these organizations with all of the necessary budgetary and financial information as published and upon request.

Financial Disclosure: The City is committed to full and complete financial disclosure and to cooperating copiously with rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, and accurate financial and other relevant information. The City is committed to meeting secondary disclosure requirements on a timely and broad basis. The Finance Department is responsible for ongoing disclosures to established national information repositories and for maintaining compliance with disclosure standards promulgated by State and national regulatory bodies, and may carry-out such responsibility through the engagement of an outside dissemination agent.

Debt Limits: The City will keep outstanding debt within the limits prescribed by State Statute and the City Charter and at levels consistent with its creditworthiness, best-practices needs and affordability objectives.

DEBT STRUCTURE:

Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project and the nature and type of the security provided. Moreover, to the extent possible, the City will design the re-payment of its overall debt to re-capture its credit capacity for future use.

Length of Debt: Debt will be structured for the shortest amortization period consistent with a fair allocation of costs to current and future beneficiaries or users.

Back Loading (Back-end Load): The City will seek to structure debt with level principal and interest costs over the life of the obligation. Back loading of costs will be considered under extraordinary circumstances, such as, natural disasters or where unanticipated external factors make it necessary for short-term costs of the debt to be prohibitive. Further, where the benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present and/or when such structuring is beneficial to the City's overall amortization schedule, or will allow the debt service to more closely match project revenues during the early years of the venture's operation.

Refunding: The City's staff and advisors will undertake periodic reviews of all outstanding debt to determine refunding opportunities. Refunding will be considered (within Federal tax law constraints) if, and when, there is a net economic benefit of the refunding or it is necessary to modernize covenants essential to operations and management. An advance refunding for the purpose of economic advantage will be considered if there exists the opportunity to secure a net present value savings of at least three percent of the refunded debt. A current refunding that produce a net present value saving of less than three percent will be considered on a case-by-case basis. A refunding that result in a negative savings will not be deliberated unless there is a compelling public policy or legal objective.

Credit Enhancements: Examples include letters of credit and bond insurance. These types of guarantees will only be considered if the net debt service on the bonds is reduced by more than the costs of the enhancement.

Fixed Interest Debt: Fixed interest debt will be issued by the City if management anticipates that interest rates may rise over the term of the loan.

Variable Rate Debt: The City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities that is consistent with State law and covenants of pre-existing bonds, as well as, dependent on market conditions. The City will limit its outstanding variable rate bonds to reasonable levels in relation to total debt.

Subordinate Debt: The City may issue subordinate debt only if it is financially beneficial to the City or consistent with creditworthiness objectives.

Short Term Notes: Use of short-term borrowing, such as bond anticipation notes and tax-exempt commercial paper, will be undertaken only if the transaction costs plus interest on the debt are less than the cost of internal financing or if available cash is insufficient to meet working capital requirements.

State Revolving Fund Program: This program provides funds for projects involving water supply and distribution facilities, storm water control and treatment projects, air and water pollution control, and solid waste disposal facilities. Whenever possible, this program will be utilized since the costs associated with issuing the notes are low and local agencies benefit from the strength of the State's credit.

Bank Term Loan Program: The City reserves the possibility of using bank loans where financially feasible and appropriate.

DEBT ADMINISTRATION AND COMPLIANCE:

The City shall comply with all covenants and requirements of bond resolutions, and State and Federal laws authorizing and governing the issuance and administration of debt obligations.

Report to Bondholders: The City, through the Finance Department, shall prepare and release to all interested parties the Comprehensive Annual Financial Report (CAFR), which will act as the ongoing disclosure document required under the Continuing Disclosure Rules promulgated by the Securities Exchange Commission (SEC). This report shall contain general and demographic information on City, and a discussion of the general government, the solid waste system, the water and wastewater utility system, the storm water utility system, and any additional systems that may subsequently be established by the City. The information presented on the general government and on the enterprise system shall comply with the disclosure obligations set forth in the Continuing Disclosure Certificates issued in connection with its debt obligations, and may include information on the following: service areas; rates and charges; financial statement excerpts; outstanding and proposed debt; material events; a summary of certain bond resolution provisions; a management discussion of operations; and other such information that the City may deem to be important. The report shall also include Notes to the Financial Statements, and to the extent available, information on conduit debt obligations issued by the City on behalf of another entity.

Tax-Exempt Debt Compliance: The City will comply with all applicable Federal tax rules related to its tax-exempt debt issuances. This includes compliance with all applicable Federal tax documentation and filing requirements, yield restriction limitations, arbitrage rebate requirements, use of proceeds and financed projects limitations and recordkeeping requirements. Given the increasing complexity of the Federal tax law applicable to tax-exempt debt issuances, the Finance Department has separately created a tax-exempt debt policy.

Arbitrage Compliance: The Finance Department maintains a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirements of the Federal tax code. Arbitrage rebate liabilities will be calculated annually and the liability will be reported in the City's annual financial statements.

FINANCING TEAM SELECTION:

As part of the debt management process, the Financing Team (FT) currently operates to review and make recommendations regarding the issuance of debt obligations and the management of outstanding debt. The FT will consider all outstanding and proposed debt obligations, and develops recommended actions on issues affecting or relating to the creditworthiness; security; and repayment of such debt obligations; consisting, but not limited to procurement of services and investment of all borrowed funds; structure; repayment terms; and covenants of the proposed debt obligation; and issues, which may affect the security of the bonds and primary and secondary market disclosures to bondholders.

The FT consists of the City Manager or designee and the City Attorney or designee, department management and the Finance Director. Other participants, as required, will include the City's financial advisor, bond counsel, the underwriter (in a negotiated sale), disclosure counsel, paying agent/registrar, trustee and other specialists who provide the following services: credit enhancements, feasibility studies, auditing, arbitrage compliance, and printing. These specialists will also assist with the development of bond issuance strategies, the preparation of bond documents, and will coordinate marketing efforts for sales to investors.

The Financing Team Selection Process: The Finance Director will provide recommendations to the City Council on the selection of underwriters, bond counsel, disclosure counsel, financial advisors and any other necessary participant. The City Council will make all final determinations. The Finance Director's recommendations will be made following an independent review of responses to requests for proposals (RFPs) or requests for qualifications (RFQs) by the evaluation team.

Underwriters: For all competitive sales, underwriters are selected by competitive bids. For negotiated sales, underwriters are selected through an RFP. The City Manager or designee, the Finance Director, and the Financial Advisor will conduct the evaluation of responses of the RFPs.

Bond Counsel: The City retains external bond counsel for all debt issues. Further, that all debt issued by the City, includes a written opinion by the bond counsel affirming that the City is authorized to issue the debt. Bond counsel is also responsible for determining the debt's Federal income tax status, the preparation of the ordinance authorizing issuance of the obligations and all of the closing documents to complete a bond sale, as well as, performing any other services defined by their contract with the City. Bond counsel will also coordinate activities with the City Attorney and/or other Counsel and the other members of the FT including, but not limited to the Finance Director. The City Attorney, Bond Counsel and FT will review all public-private partnerships to ensure compliance with State and Federal laws and regulations. Bond counsel is engaged through the purchasing process outlined in the COPC Purchasing Policy. The selection criteria will include a requirement for comprehensive municipal debt experience.

Disclosure Counsel: The City retains external disclosure counsel for all public offerings. The disclosure counsel renders an opinion to the City and a reliance letter to the underwriters; if requested, that indicates that the offering document contains no untrue statements or omits any material fact. The disclosure counsel shall provide legal advice to the City to assist in meeting its secondary market disclosure obligations. The disclosure counsel is engaged in the same manner as bond counsel.

Underwriter's Counsel: In negotiated public offerings, the senior managing underwriter may select counsel, subject to approval by the City, to be compensated as an expense item to be negotiated as part of the gross underwriting spread.

Financial Advisor: The City retains a financial advisor selected through the purchasing process outlined in the COPC Purchasing Policy. The financial advisors are required to have comprehensive municipal debt experience including diverse financial structuring and pricing of municipal securities. For each City bond sale, the financial advisor will assist the City in determining the optimum structure of the debt and negotiating favorable pricing terms and managing the debt issuance process. In addition to transactional tasks, the financial advisor will advise the City on strategic financial planning matters and assist in management and operational evaluations and improvements, where appropriate, and as directed by the City. To ensure independence, the financial advisor will not bid on nor underwrite any City debt issues.

A Paying Agent: The City may utilize a paying agent on all City bonded indebtedness; the fees and expenses for servicing outstanding bonds are paid from the appropriate debt service fund unless specified otherwise by the City.

Other Service Providers: The City may periodically select other service providers (e.g., escrow agents, verification agents, trustees, arbitrage and other consultants; etc.) as necessary to meet legal requirements and minimize net City debt costs. These services can include debt restructuring services and security or escrow purchases. The City may select a firm or firms to provide such financial services related to debt through the public purchasing process outlined in the COPC Purchasing Policy.

DEBT ISSUANCE PROCESS:

The debt issuance process provides a framework for reporting and evaluating the different types of securities, as well as, a means for dealing with the costs and proceeds associated with such securities.

Debt Evaluation Report: The FT will be responsible for preparing and presenting a report to the City Council relating to current and future debt options and challenges; as needed. Such a report, may include the following elements: (1) calculations of the appropriate ratios and measurements necessary to evaluate the City's credit as compared with acceptable municipal standards; (2) information related to any significant events affecting outstanding debt, including conduit debt obligations; (3) an evaluation of savings related to any refinancing activity; (4) a summary of any changes in Federal or State laws affecting the City's debt program; and (5) a summary statement by the FT as to the overall status of the City's debt obligations and debt management activities.

Investment of Bond and Note Proceeds: All proceeds of debt incurred by the City other than conduit debt obligations are invested as part of the City's consolidated cash pool unless otherwise specified by the bond covenants and approved by the Finance Director. The City will develop detailed draw schedules for each project funded with borrowed monies. The City will invest the proceeds of all borrowings consistent with those authorized by the City's investment policy, and in a manner that will ensure the availability of funds as described in the draw schedules.

Costs and Fees: All costs and fees related to the issuance of bonds other than conduit bonds are paid out of bond proceeds or by the related department budget.

Bond insurance (also known as financial guarantee insurance): The City may consider the use of bond insurance to enhance its credit rating and marketability of its securities based upon an assessment of its cost- effectiveness.

Competitive Sale: In general, City debt is issued through a competitive bidding process. Bids are awarded on a True Interest Cost basis (TIC), provided other bidding requirements are satisfied. The FT shall review all bids and provide bid evaluations to the City Council. If the FT determines that the bids are unsatisfactory it may enter into negotiations of sales of securities.

Negotiated Sale: A negotiated sale of debt may be considered when the complexity of the issue requires specialized expertise; or when the negotiated sale would result in substantial savings in time or money; or when market conditions are unusually volatile; or if the City's credit is problematic; or when a negotiated sale is otherwise in the best interest of the City.

PERIODIC REVIEW AND AMENDMENT:

The debt policies above will be subject to review and revision annually. The Finance Department will make recommendations on any proposed amendments or revisions to City Council for approval.

CITATIONS & GLOSSARY:

The Internal Revenue Code, the Florida Statutes, the Local City Charter and/or the City Ordinances outline legal borrowing authority, restrictions and compliance requirements with the Florida Constitution and Statutes authorize the issuance of bonds by Counties, Municipalities and certain Special Districts.

- Section 125.013 – General Obligation; Revenue Bonds
- Chapters 130 & 132 – County Bonds & General Refunding Law
- Section 154.219 – Revenue Bonds
- Chapter 159 – Bond Financing
- Section 163.01(7) – Florida Inter-local Cooperation Act of 1969
- Chapter 166, Part II – Municipal Borrowing
- Chapter 215 – Financial Matters: General Provisions
- Chapter 218, Part III – Local Financial Management & Reporting

TYPES OF DEBT DEFINED:

<u>*Bond Anticipation Notes*</u>: Are notes issued by a governmental unit in anticipation of the issuance of general obligation or revenue bonds.

<u>*Commercial Paper*</u>: Is short-term debt (from 1 to 270 days) to finance capital projects.

<u>*General Obligation Bonds*</u>: Are obligations secured by the full faith and credit of a governmental unit payable from the proceeds of ad valorem taxes.

<u>*Limited Revenue Bonds*</u>: Are obligations issued by a governmental unit to pay the cost of improvements of a project or combination of projects payable from funds of a governmental unit, exclusive of ad valorem taxes, special assessments, or earnings from such projects.

<u>*Revenue Bonds*</u>: Are obligations of a governmental unit issued to pay the cost of improvements of a self-liquidating project or a combination of projects payable from the earnings of the project and any other special funds authorized to be pledged as additional security.

<u>*Special Assessment Bonds*</u>: Are bonds that provide for capital improvements paid in whole or in part by the levying and collecting of special assessments on the abutting, adjoining, contiguous, or other specially benefited property.

<u>*Bond Pools*</u>: Offer governmental units an opportunity to participate in a joint venture with other entities to borrow funds for capital improvements, renovations, fixed asset additions or the refinancing of existing debt. The advantages of bond pools may include improved marketability and reduction in issuance costs through economies of scale. Bond pools provide either long-term fixed or variable rate debt products.

<u>*Bank Borrowings*</u>: Financial institutions offer short-term financing needs for governmental units to alleviate temporary cash flow timing differences (e.g. bond, revenue, or tax anticipation notes). In addition, banks can

provide long-term financing solutions for capital projects. Traditional revolving credit facilities and other financing vehicles, such as leasing arrangements, can also provide local governmental units an additional source of funds.

PARTIES ENGAGED IN A DEBT OBLIGATION:

Independent Financial Advisor: In many cases, debt financing involves complex transactions requiring specific expertise not always available in small governments. Depending on the funding purpose, and level of debt required, it is recommended that an independent financial advisor be engaged to represent the governmental unit during the debt issuance process. This individual or firm would be responsible to the appropriate governmental decision-makers and recommend the best method of sale and structure for the debt issue. An independent financial advisor can also provide assistance with the selection of other financial professionals.

Underwriter: The underwriter purchases the bonds of the local government and usually on a percentage fee basis of the issue, markets the bonds to the ultimate bond purchaser. The underwriter may be chosen through a competitive RFP process for a negotiated sale, or public bid process through a competitive sale process. The underwriter is compensated from the proceeds of the bond sale.

Bond Counsel: The bond counsel works on behalf of the bondholders (but is hired by the local government) to ensure compliance with Federal laws and regulations related to the issuance of tax-exempt debt. The bond counsel prepares the legal documents related to the financing and oversees the closing process for the bonds. Additionally, the bond counsel may be chosen through a competitive RFP process, and in most cases, is paid from the proceeds of the debt issuance.

Credit Rating and Credit Enhancements: Various independent bond rating agencies assess the credit quality of the borrowing entity and debt offerings. Superior ratings by these organizations command favorable borrowing rates resulting in lower overall cost of funds. Many governmental units strive to maintain or improve their bond rating in order to preserve easy access to credit markets.

These and other variables affect the overall rate of interest paid by the governmental unit. The use of credit enhancements can also reduce overall borrowing costs and improve the quality of the debt issuance. Surety bonds or insurance (guaranteeing the repayment of the obligation) enhance the offering to potential investors by providing additional strength to the issue.

TERMS DEFINED:

Ad Valorem Tax: The phrase ad valorem is Latin for "according to value". In the case of municipal property taxes, property owners have their property assessed on a periodic basis by a public tax assessor. The assessed value of the property is then used to compute an annual tax, which is levied on the owner by his or her municipality. Ad valorem taxes are incurred through ownership of an asset, in contrast to transactional taxes, such as sales taxes, which are incurred only at the time of transaction.

Advance Refunding: In an advance refunding transaction, 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 of the old debt, and the proceeds of the new debt are invested until the maturity or call date of the old debt.

Amortization: The paying off of debt in regular installments over a period of time.

Arbitrage: The simultaneous purchase and sale of an asset in order to profit from a difference in the price. It is a trade that profits by exploiting price differences of identical or similar financial instruments, on different markets or in different forms. Arbitrage exists as a result of market inefficiencies; it provides a mechanism to ensure prices do not deviate substantially from fair value for long periods of time. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

Back Loading (Back-end Load): To defer payment of something until the end of a budget period or the end of the contract.

Bond: A security that represents an obligation to pay a specified amount of money on a specific date in the future, typically with periodic interest payments.

Bond Anticipation Note (BAN): A short-term interest-bearing security issued in advance of a larger, future bond issue. Bond anticipation notes are smaller short-term bonds that are issued by corporations and governments, such as local municipalities wishing to generate funds for upcoming projects. The issuing bodies use the bond anticipation notes as short-term financing, with the expectation that the proceeds of the larger, future bond issue will cover the anticipation notes. Bond anticipation notes may be used when the issuer wants to delay a bond issue, or if the issuer wishes to combine several projects into one larger issue. Bond anticipation notes are typically payable from the proceeds of the sale of the bonds.

Bond Insurance: Bond insurance is a type of insurance whereby an insurance company guarantees scheduled payments of interest and principal on a bond other security in the event of a payment default by the issuer of the bond or security. As compensation for its insurance, the insurer is paid a premium (as a lump sum or in installments) by the issuer or owner of the security to be insured. Bond insurance is a form of "credit enhancement" that generally results in the rating of the insured security being the higher of (i) the claims-paying rating of the insurer and (ii) the rating the bond would have absent insurance (also known as the “underlying” or “shadow” rating).

The economic value of bond insurance to the governmental unit, agency, or other issuer offering bonds or other securities is a saving in interest costs reflecting the difference in yield payable on an insured bond from that on the same bond if uninsured. The economic value of bond insurance to the investor purchasing or holding insured securities is based upon (i) the additional payment source provided by the insurer if the issuer fails to pay principal or interest when due (which reduces the probability of a missed payment to the joint probability that both the issuer and insurer default), (ii) rating downgrade protection so long as the insurer is more highly rated than the issuer, (iii) improved liquidity, and (iv) services provided by the insurer such as credit underwriting, due diligence, negotiation of terms, surveillance, and remediation.

Capital Lease: A capital lease is usually used to finance equipment for the major part of its useful life, and there is a reasonable assurance that the lessee will obtain ownership of the equipment by the end of the lease term.

Commercial Paper: An unsecured, short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meeting short-term liabilities. Maturities on commercial paper rarely range any longer than 270 days. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Competitive Sale: In a competitive sale, bonds are advertised for sale. The advertisement, by way of a notice of sale, includes both the terms of the sale and the terms of the bond issue. Any broker dealer or dealer bank may bid on the bonds at the designated date and time.

Conduit Bond Financing: A financing arrangement involving a government or other qualified agency using its name in an issuance of fixed income securities for a non-profit organization's large capital project. The government or other qualified agency is not responsible for paying the required cash flows to investors; all cash flows come directly from the project.

Continuing Disclosure: Disclosure of material information relating to municipal securities provided to the marketplace by the issuer of the securities or any other entity obligated with respect to the securities after the initial issuance of municipal securities. Such disclosures include, but are not limited to, annual financial information, certain operating information and notices about specified events affecting the issuer, the obligor, the municipal securities or the project financed. Such disclosures are required to be provided by the issuer or obligor to the MSRB's EMMA system for the benefit of bondholders of the issuer's securities under continuing disclosure agreements entered into as contemplated under SEC Rule 15c2-12 or on a voluntary basis.

Credit Enhancements: A method whereby an entity attempts to improve its' debt or creditworthiness. Through credit enhancement, the lender is provided with reassurance that the borrower will honor the obligation through additional collateral, insurance, or a third party guarantee. Credit enhancement reduces credit/default risk of a debt, thereby increasing the overall credit rating and lowering interest rates.

Debt Guarantee: A Debt Guarantee provides for a guarantor for the repayment of a debt. This guarantor basically acts as a co-signer for the borrower's obligations to a specific lender. The guarantor will agree that if any of the borrower's payments are late or not paid, they will make the payments. The guarantor may also agree that the guarantee may be enforced without having to first sue the borrower for defaulting on the debt.

Debt Service: The amount set aside annually in a fund to pay the interest and the part of the principal due on a debt.

Default: The failure to make timely payment of interest or principal on a debt security or to otherwise comply with the provisions of a bond indenture; a breach of a covenant. In context of project financing, a technical default signals a project parameter is outside defined or agreed limits or a legal matter is not yet resolved.

Financial Disclosure: The act of releasing all relevant information pertaining to the City that may influence an investment decision.

Fixed Interest Rate: A Fixed interest rate is the interest rate on a liability, such as a loan, that remains fixed either for the entire term of the loan or a part therein. A fixed interest rate, avoids the interest rate risk that comes with a floating or variable interest rates where the interest rate payable on a debt obligation depends on a benchmark interest rate or index.

Long-Term Debt: Loans and financial obligations lasting over one-year. Long-term debt for the City would include any financing or leasing obligations that are to come due in a greater than 12-month period. Such obligations would include bond issues or long-term leases that have been capitalized on the balance sheet.

Options: The right, but not the obligation, to buy (for a call option) or sell (for a put option) a specific amount of a given stock, commodity, currency, index, or debt, at a specified price (the strike price) during a specified period of time.

Premium: The difference between the higher prices paid for a fixed-income security and the security's face amount at issue.

Present Value (Discounted Value): The current worth of a future sum of money or stream of cash flows given a specified rate of return. Future cash flows are discounted at the discount rate, and the higher the discount rate, the lower the present value of the future cash flows. Determining the appropriate discount rate is the key to properly valuing future cash flows, whether they are earnings or obligations.

Public-Private Partnerships: Agreement between government and the private sector regarding the provision of public services or infrastructure. It is a means of bringing together social priorities with the managerial skills of the private sector, relieving government of the burden of large capital expenditure, and transferring the risk of cost overruns to the private sector.

Revenue Bond: A municipal bond supported by the revenue from a specific project, such as a toll bridge, highway or local stadium. Revenue bonds are municipal bonds that finance income-producing projects and are secured by a specified revenue source. Typically, revenue bonds can be issued by any government agency or fund that is run in the manner of a business; those entities having both operating revenues and expenses. Revenue bonds differ from general obligation bonds (GO bonds) that can be repaid through a variety of tax sources.

Revenue Pledge: A stipulation in a municipal bond indenture that requires the issuer (the municipality selling the bonds to fund a given development project) first to use revenues to pay down the issue's debt-servicing costs, delegating operating costs as second priority and likely funding them from other revenue sources. These bonds are most often tax free at the Federal level.

Secondary Market: Is a market where investors purchase securities or assets from other investors, rather than from issuing company directly. The national exchanges, such as, the New York Stock Exchange and the NASDAQ are secondary markets. Secondary markets exist for other securities as well, such as, when funds, investment banks, or entities such as Fannie Mae purchase mortgages from issuing lenders. In any secondary market trade, the cash proceeds go to an investor rather than to the underlying company/entity directly.

Short-Term Debt: An account shown in the current liabilities portion of a company's balance sheet. This account is comprised of any debt incurred by a company that is due within one year. The debt in this account is usually made up of short-term bank loans taken out by a company.

Special Assessments: A real property tax proportionately levied on homeowners and landowners to cover the costs of improvements that will be for the benefit of all upon whom it is imposed. For example, a special assessment might be made to pay for sidewalks or sewer connections.

Yield: The income return on an investment. This refers to the interest or dividends received from a security and are usually expressed annually as a percentage based on the investment's cost, its current market value or its face value.