



Unified Government of Wyandotte County
and Kansas City, Kansas

Commission Resolution:
R-18-19
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Debt Policy

I. Authority and Introduction:

The Mayor and the Board of Commissioners are responsible for legislation, policy formulation, and overall direction setting of the government. This includes the approval of financial policies which establish and direct the operations of Unified Government (UG) and the Public Building Commission (PBC). Further, the Unified Government issues debt on behalf of the Board of Public Utilities (BPU), which is an administrative agency of the UG. The County Administrator is responsible for carrying out the policy directives of the UG Board of Commissioners and Public Building Commission and managing the day-to-day operations of the executive departments, including the Finance Department. This policy shall be administered on behalf of the County Administrator by the Chief Financial Officer.

The Unified Government, through the County Administrator and Chief Financial Officer, executes debt instruments, administers debt proceeds, manages ongoing disclosure and debt compliance, and makes debt service payments, acting with prudence and diligence and with attention to prevailing economic conditions. The UG believes that debt is an equitable means of financing projects and represents an important means of meeting fiscal responsibilities.

The debt policy primarily addresses debt instruments/securities issued by the UG in public or private bond markets. This is consistent with examples of debt policies of other comparable municipalities, Government Finance Officers Association (GFOA) guidelines, and rating agency guidelines. The debt policies pertain to debt that is typically incurred when capital is raised in the public or private markets, including borrowings from sophisticated qualified institutional buyers, to meet the UG's funding needs (the purpose and need for financings is discussed as in Section 1). Such debt constitutes obligations whereby a third-party has provided funds, which is evidenced by the formal execution of a bond or certificate (or a similar instrument) and is held by the third-party until it is repaid.

The policy does not cover other obligations like contracts payable, notes payable, loans payable (e.g., HUD section 108 loans), arbitrage liability, and net pension obligation (NPO) and/or pension Unfunded Actuarial Liability (UAL) and Other Post-Employment Benefits (OPEB). The UG's Comprehensive Annual Financial Reports (CAFRs) provide a complete list of the outstanding long term liabilities. The sections in the CAFR listing the long term liabilities are: Governmental Activities Long-Term Liabilities and Business Type Activities Long-Term Liabilities. Consistent with Governmental Accounting Standards Board (GASB) standards, the net pension obligation (NPO) and OPEB obligation is reflected in the Governmental Activities Note to the Financial Statements of the CAFR as a long term liability.

The policy documents the UG's procedures and goals for the use of debt to finance UG needs. A regularly updated debt policy, in conjunction with the Five-Year Capital and Maintenance Improvement Program (CMIP), UG's Capital Improvements Plan, the Five-Year Long Term Financial Forecast, the Cash and Investment Policy, and the Reserve Policies, serves as an important tool that supports the use of the UG's resources to meet its financial commitments and to maintain sound financial management practices. This policy is enacted in an effort to standardize and plan the issuance and management of debt by the UG. While the Debt Policy serves as a guideline for general use, it allows for exceptions in extraordinary conditions.

II. Purpose of the Debt Policy:

The primary objectives of this debt policy are to establish guidelines for the use of various categories of debt; create procedures and policies that minimize the UG's debt service and issuance costs; retain the highest practical credit ratings; and to provide full and complete financial disclosure and reporting.

The UG's Debt Policy is also designed to:

- Establish parameters for issuing and managing debt;
- Provide guidance to decision makers related to debt affordability standards;
- Provides information to the public on the use of debt and to industry participants on the standards of the UG;
- Document the pre- and post-issuance objectives to be achieved by staff;
- Promote objectivity in the debt approval decision making process; and
- Facilitate the actual financing process by establishing important policy decisions in advance.

A biennial review of the Debt Policy will be performed and any changes to the Debt Policy will be brought forward for UG Commission consideration and approval. Further, in the event there are any deviations or exceptions from the Debt Policy when a certain bond issue is structured, those exceptions will be discussed in the staff reports when the bond issue is docketed for Commission consideration.

III. Applicability and Scope:

This policy shall apply to all Funds under the budgetary and fiscal control of the Mayor and the Board of Commissioners. Further, the Unified Government issues debt on behalf of the Board of Public Utilities (BPU), which is an administrative agency of the UG, and as a result this Policy is applicable to the BPU.

IV. Policy:

Section 1 – Purpose and Need for Financing

1.1 Purpose of Financing

The UG borrows money primarily to fund long-term capital improvement projects, essential equipment and vehicle needs, and to refinance existing debt. The issuance of debt to fund

operating deficits is not permitted. Debt will be used to finance eligible projects only if it is the most cost-effective means available to the UG.

While the “pay-go” means of using current revenues to pay for capital projects is often considered the preferred means of financing because it avoids interest payments, it may not be entirely equitable. The “pay- go” funding option requires current citizens to pay taxes over long periods of time in order to accumulate reserves sufficient to pay for capital projects. The UG would be able to undertake capital projects under this method only if sufficient cash accumulates. Prudent use of debt financing rather than pay-go funding of capital projects can facilitate better allocation of resources and increased financial flexibility. [Refer to the Capital Asset and Equipment Investment and Management Policy for criteria for “pay-go” funding.]

The four primary borrowing purposes for which bond proceeds may be used are summarized below:

- A. Long-Term Capital Improvements: The UG prepares a multi-year Capital and Maintenance Improvements Program (CMIP) budget working with asset managing departments in accordance with Commission approved Capital Asset and Equipment Investment and Management Policy. The CMIP budget includes projections for upcoming fiscal years and is updated during each Annual Budget process or if there are significant changes to the scope and/or cost of projects. In accordance with the Capital Asset Policy, future operations and maintenance costs associated with capital improvement projects are developed and identified prior to submission of the project for approval. The Financial Department works with the Public Works Department to ensure that accurate and complete budgeting of the CMIP is prepared as part of the Annual Budget process.

Since the aggregate cost of desired capital projects generally exceeds available funds, the capital planning process prioritizes projects and identifies the funding needs. The UG will initially rely on internally-generated funds and/or grants and contributions from other governments to finance its capital needs. Debt is issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries and if a secure revenue source is identified to repay the debt.

The Finance Department, working with UG departments within the context of the Capital and Maintenance Improvements Program and the UG’s Five-Year Long Term Financial Forecast, oversees and coordinates the timing, processing, and marketing of the UG’s borrowing and capital funding activities. Close coordination of capital planning and debt planning ensures that the maximum benefit is achieved with the limited capital funds. The debt management process determines the availability of funds which can be raised through debt based upon the debt capacity/affordability analysis.

- B. Essential Vehicle and Equipment Needs: In addition to capital projects, the UG regularly finances certain essential equipment and vehicles. These assets range from public safety vehicles to information technology systems. The underlying asset must have a minimum useful life of three years. Short-term financings, including loans and capital lease purchase agreements, are executed to meet such needs.

- C. **Economic Development Needs:** The Unified Government strives to foster an environment in which small and large businesses thrive, jobs are created, redevelopment continues, tourism grows, and businesses locate in the community. To achieve these objectives, The UG regularly finances certain land acquisition, site preparation and infrastructure improvements related to economic development projects as a means of incentivizing private sector firms to invest in the community.
- D. **Refinancings/Refunding of Existing Debt:** The Chief Financial Officer working with the Municipal Advisor periodically evaluates the UG's existing debt and executes refinancings to achieve one or more of three objectives: reduce future interest costs, restructure debt to reflect changing debt service revenues, and to redefine bond-related legal requirements. A refinancing may include the issuance of bonds to refund existing bonds or the issuance of bonds in order to refund other obligations.

1.2 Financing Priorities

All borrowing requests or debt refunding proposals shall be reviewed by the Chief Financial Officer. The Finance Department shall be responsible for analyzing the proposal to determine if it is beneficial to the UG and complies with the UG's long-term financial planning objectives. Borrowing requests include any debt or refunding proposals made to the UG involving a pledge or other extension of the UG's credit through the sale of securities, execution of loans or leases, or making of guarantees or otherwise involving directly or indirectly the lending or pledging of the UG's credit.

For each financing proposal related to a new capital improvement project, the Finance Department will work with the department or other client parties to assess the feasibility and the impact of debt to fund the project based on the following assessments:

- A. **Nature of Project and Use of Funds:** Each proposal is evaluated by comparing the nature of the project and use of funds with competing proposals on the basis of the benefits derived and how it furthers the UG's policy objectives as laid out in the UG's Annual Budget, Five-Year Long Term Financial Forecast, Capital and Maintenance Improvement Program.
- B. **Cost-Benefit Analysis of Project:** A cost-benefit analysis is required for each project:
 - a. The benefits of a proposed project must be defined and, where appropriate, quantified in monetary terms. The funding sources are identified and estimated. Where revenues are part of the benefits, all assumptions made in deriving the revenues are documented. The validity of the assumptions and the risk associated with the revenue streams are assessed.
 - b. The costs of the project are estimated, with the basis documented and the risk associated with the estimates assessed. The uses of funds are identified and estimated. Identify whether the project will increase or reduce ongoing operation and maintenance expenses.
- C. **Expenditure Plan:** A detailed plan for the expenditure of funds is developed for each project. The underlying assumptions of the project cost expenditure plan are documented and the risk associated with these projections are analyzed.
- D. **Revenue for Debt Service Payment:** A detailed plan for the debt repayment is developed for each project. The underlying assumptions of revenue cash flow estimates

are documented and the risk associated with these revenue streams is analyzed. Where general fund or bond and Interest funds' revenues are proposed to service debt, the impact upon budgets is assessed. For all bonds an impact analysis on the repayment sources over time will be completed.

- E. Compliance with statutory provisions and bond covenants. Each issue will be evaluated for its impact on statutory debt limits, and in the case of revenue-only secured obligations existing bond covenants.

All requests are prioritized based upon this evaluation. If the Chief Financial Officer recommends the financing proposal and the County Administrator is in concurrence, the Debt Management Division will prepare the financing proposal for the Commission's authorization.

1.3 Asset Life

Consistent with its philosophy of keeping its capital facilities and infrastructure systems in good condition and to maximize a capital asset's useful life, the UG makes every effort to set aside sufficient current revenues to finance ongoing maintenance needs and to provide reserves for periodic replacement and renewal. Generally, no debt will be issued for periods exceeding the useful life or average useful lives of projects to be financed.

The UG will consider short or long-term financing for the acquisition, maintenance, replacement, or expansion of capital assets, including land. For short-term financing, the capital asset and/or rolling stock must have a minimum useful life of three years; for long-term financing, the physical asset must have a minimum useful life of ten years.

Section 2 – Credit Ratings

2.1 Credit Ratings

The UG seeks to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the UG's policy objectives. Ratings are a reflection of the general fiscal soundness of the UG, the local economy and other regional economic factors, and the capabilities of UG management. By maintaining the highest possible credit ratings, the UG can issue its debt at a lower interest cost, hence lowering the demands on repayment revenue sources such as the property taxes and user fees. To enhance creditworthiness, the UG is committed to prudent financial management, systematic capital planning, interdepartmental cooperation and coordination, and long-term financial planning.

Rating agencies consider various factors in issuing a credit rating; these typically include:

- UG's fiscal status
- Socio-economic and demographic profile of the revenue base
- UG's financial and general management capabilities
- Economic conditions that may impact the stability and reliability of debt repayment sources
- UG's general reserve levels
- UG's debt history and current debt structure
- The capital improvement project(s) being funded
- Covenants and conditions in the governing legal documents

The UG recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Each proposal for additional debt will be analyzed for its impact upon the UG's debt rating on outstanding debt. There are no predetermined credit rating formulas available from the rating agencies, although recent updates to rating methodologies from certain rating agencies have added transparency to their credit evaluation processes. This information provides a better understanding of how key quantitative and qualitative factors and risk factors are likely to affect rating outcomes. The UG Finance Department will monitor rating agency guidelines and methodologies regularly to stay informed of changes to the rating metrics and processes.

The Chief Financial Officer is responsible for managing the rating reviews associated with the UG's various debt obligations. This effort includes providing periodic updates, both formal and informal, on the UG's general financial condition and coordinating meetings and presentations in conjunction with a new debt issuance when determined necessary.

The Chief Financial Officer, working with the Debt Management Division and, if applicable, a Municipal Advisor, shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

The UG recognizes the need to maintain ongoing communications with the rating agencies in order to provide information and demonstrate management engagement in the debt management system.

Section 3 – Types of Financing Instruments

There are many different types of financing instruments available to the UG; long term financing debt obligations like General Obligation Bonds, Lease Revenue Bonds and Revenue Bonds would typically constitute direct debt of the UG. The UG issues various types of debt for economic development projects. The UG issues conduit financings to benefit third parties where public benefit can be achieved. The following are brief summaries of different types of long- and short-term financing instruments that the UG may consider.

Direct Debt Obligations

3.1 General Obligation Bonds

General Obligation (GO) Bonds are secured either by a pledge of full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. GO Bonds usually achieve lower rates of interest than other financing instruments since they are considered to be a lower risk. Such bonds are issued pursuant to K.S.A. 10-101 et seq., K.S.A. 10-620 et seq., and Article 12, Section 5 of the Constitution of the State of Kansas, all as amended and supplemented, for the purpose of paying a portion of the cost of certain street, sewer, public utility, and other public improvement projects. Adoption of a bond resolution by the UG commission is required for the issuance of general obligation bonds.

While typically general obligation bond debt repayment is reliant on property tax revenues, the UG also relies on charges for services deriving from the wastewater and stormwater enterprise utilities as the revenue source for repayment for such projects financed with general obligation bonds. As a result, these business-type activities general obligation debt outstanding is separately reporting in the UG's financial statements and reports.

3.2 Lease Revenue Bonds

Lease Revenue Bonds (LRBs) are lease obligations secured by an installment sale or by a lease-back arrangement between the UG and another public entity (such as the Public Building Commission (PBC)), where the general operating revenues of the UG are used to make lease payments, which are, in turn, used to pay debt service on the bonds. Lease Revenue Bonds of the PBC are authorized by the Constitution and statutes of the State of Kansas, including K.S.A. 12-1757 et seq.

Payments to be made under valid leases are payable only in the year in which use, and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the annual fair market rental value of the leased property to be equal to or greater than the lease payment. The governmental lessee is obligated to place in its Annual Budget the payments that are due and payable during each fiscal year that the lessee has use of the leased property.

3.3 Revenue Bonds

A. Revenue Bonds are obligations payable from revenues generated by an enterprise, such as water, wastewater and stormwater utilities, electric utility, public golf courses, levee or parking facilities. Because the debt service is directly paid by the facility, such debt is considered self-liquidating and generally does not constitute a debt obligation of the issuer under the State of Kansas' debt limit criteria.

The UG's utility Revenue Bonds are payable solely from the UG's and BPU's Utility Enterprise Funds and are not secured by any pledge of ad valorem taxes or general fund revenues of the UG. In accordance with the agreed upon bond covenants, the revenues generated by these Enterprise Funds must be sufficient to maintain required coverage levels, or the rates of the enterprise have to be raised to maintain the revenue coverages. Revenue Bonds are issued under the authority and pursuant to the Constitution and laws of the State of Kansas, including the provisions of K.S.A. 10-1201 et seq., Article 12, Section 5 of the Constitution.

B. Revenue Bonds issued to provide incentives for economic development and repaid by revenues generated by the development project or from the adjacent area. Typically, these bonds are less secure as the repayment is linked to the performance of a private development over time. The UG will exercise significant diligence in determining the need and amount of the public financial participation, the probability of the forecasted revenues to actually occur, and include provisions in the bond structuring and security to minimize the risk of default.

3.4 Temporary Notes and Draw Bonds

Temporary Notes and Draw Bonds are short-term interest-bearing bonds issued in the anticipation of long-term future bond issuances. The UG may choose to issue temporary notes or draw bonds as a source of interim financing when it is considered by the Chief

Financial Officer to be prudent and advantageous to the UG. Such bonds are issued pursuant to K.S.A. 10-101 et seq., K.S.A. 10-620 et seq., and Article 12, Section 5 of the Constitution of the State of Kansas, all as amended and supplemented, for the purpose of paying a portion of the cost of certain street, sewer, public utility, and other public improvement projects. Adoption of a bond resolution by the UG commission is required for the issuance of temporary notes and draw bonds. While the UG practice is to renew temporary notes on an annual basis, State statute limits the interim financing period for individual capital projects financed with the note proceeds to four years.

3.5 Lines of Credit/ Direct Bank Loan

A Line of Credit / Direct Bank Loan is a contract between the issuer and a bank that provides a source of borrowed monies to the issuer in the event that monies available to pay debt service or to purchase a demand bond are insufficient for that purpose. Direct Bank loans are an important tool in a government's financing toolkit. The term bank loans include fixed-rate loans with defined maturities and loans or lines of credit that have variable interest rates and flexible payment provisions.

In entering into a direct bank loan, the UG in consultation with the Municipal Advisor will become knowledgeable as to how the bank loan is characterized for legal and accounting purposes, including how they are treated in the financial statements, and what types of disclosures should be made about these loans. State and local laws should be reviewed to ensure these financings are within legal limits and the financing is characterized appropriately. In the event that a Line of Credit is under consideration as an interim financing mechanism for a long-term capital need, before entering into any such agreements, takeout financing for such lines of credit must be planned for and determined to be feasible by the Chief Financial Officer.

When it is considered by the Chief Financial Officer to be prudent and advantageous to the UG, the UG may enter into agreements with commercial banks or other financial entities for purposes of acquiring a Line of Credit or Direct Bank Loan.

3.6 Lease Purchase Financings

The UG's equipment and vehicle financing program provides a mechanism for the short-term financing of essential equipment through a lease-purchase mechanism. The lease purchase terms are typically three to ten years. Under this program, the UG enters into a master lease agreement with a lessor to finance the lease purchase of essential equipment up to a certain amount. Equipment is funded on an as needed basis under this master lease agreement. The UG may enter into other standalone operating leases and lease purchase agreements on an as-needed basis.

3.7 State and Federal Loans

State and federal loan proceeds are an important source of funds for capital projects in addition to the bond proceeds. State Revolving Funds (SRFs) and the Water Infrastructure Finance and Innovation Act (WIFIA) program make low cost loans available to local agencies to fund certain public infrastructure projects. Through these programs, various state and federal agencies offer local agencies loans to fund qualifying public infrastructure projects. Benefiting departments within the UG will evaluate such programs in conjunction with Debt

Management on a case by case basis. Commission approval is required to apply for these loans.

3.8 HUD Section 108 Loan Guarantee Program

The U. S. Department of Housing and Urban Development (HUD) Section 108 Loan Guarantee Program allows municipalities to use their annual Community Development Block Grant (CDBG) entitlement grants to apply for federally guaranteed loans large enough to finance major community development and economic development projects. In order to utilize the Program, the UG must include the use of Section 108 Loans in its Consolidated Plan for HUD Programs.

The Finance Department currently oversees the fiduciary and reporting requirements of the UG's current HUD Section 108 loans.

Economic Development Debt Obligations

3.9 Special Districts Financing

The UG's special districts primarily consist of Community Improvement Districts (CID), Transportation Development Districts (TDD), Tax Increment Financing (TIF) and Sales Tax and Revenue Districts (STAR). Special Districts are typically developer initiated, whereby a developer seeks a public financing mechanism to fund public infrastructure required by the UG in connection with development permits or agreements, and/or tentative subdivision maps. Special District formation may also be initiated by an established community. Subject to approvals dictated by State statute, once a district is formed special taxes or assessments may be levied upon properties within the district to pay for facilities and services directly, or to repay bonds issued to finance public improvements.

The UG will consider requests for Special District formation and debt issuance when such requests address a public need or provide a public benefit. Each application will be considered on a case by case basis, and the Chief Financial Officer may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the UG.

Conduit Debt

3.10 Industrial Revenue Bonds

Industrial Revenue Bonds (IRBs) are tax-exempt private activity bonds that provide manufacturing and processing companies financing for capital expenditures. Industrial Revenue Bonds are not an obligation of the UG and are considered conduit debt. While the authorization to issue IRBs is provided by K.S.A. 12-1740 et seq, the tax-exempt status of these bonds is derived from federal law (Internal Revenue Code Section 103(b) (2)). Under state law, IRBs are issued by a local government agency, which can be a city, county, economic development authority, or a joint powers authority. Since IRBs are tax-exempt municipal bonds, interest rates are substantially lower than commercial financing rates. The bonds also allow long-term amortization periods up to 30 years (depending on the useful life of the assets financed), so a growing company will also devote less cash-flow to service loan principal repayment. The UG typically issues IRBs in order to exempt industries from paying property taxes or sales and use tax on building materials. IRB's require a governmental

entity (the Unified Government) to act as the "Issuer" of the bonds, who will hold an ownership interest in the property for as long as the IRBs are outstanding.

Section 4 – Debt Ratio Guidelines

Given the significant restrictions on local agency revenue sources, the UG is aware of the need to gauge the effect of ongoing debt service and other fixed obligations on its budgets and fiscal priorities over time. To provide a debt affordability plan and keep debt levels within acceptable ranges, the UG will consider generally accepted debt affordability standards in evaluating when, why, and how much debt should be incurred. Debt ratio guidelines discussed in sections 4.1 and 4.2 below pertain only to the City's long-term general fund debt supported by tax levy or General Funds, and coverage ratios in section 4.3 pertain to revenue bonds such as those issued by the UG's and BPU's Electric, Water, Wastewater and Stormwater utilities, as well as levee and golf course enterprises.

4.1 General Obligation Bonds

As discussed in Section 3.1, General Obligation Bonds are secured either by a pledge of full faith and credit of an issuer or by a promise to levy taxes in an unlimited amount as necessary to pay debt service, or both. Generally accepted measures of assessing the impact of general obligation bonds include:

- Debt per capita: This is the outstanding principal as a percentage of Kansas City, Kansas population.
- Debt as a percent of assessed valuation: This is the outstanding principal as a percentage of Kansas City, Kansas assessed valuation (excluding motor vehicle valuation).

This measure excludes general obligation bonds issued for wastewater, stormwater, levee or golf course enterprise funds capital projects. Included in the "debt" classification will be the estimated portion of temporary notes. The UG shall monitor and strive to achieve and/or maintain these debt statistics at a low to moderate classification, as generally viewed by the municipal bond market.

4.2 General Fund-Supported Debt

An important ratio used in analyzing the UG's debt position with respect to General Fund supported debt securities (including lease revenue obligations and annual appropriation clauses for certain economic development financings) is the required annual debt service/lease payment as a percentage of total general fund expenditures ("Debt Ratio"). This analysis includes the annual debt service/lease payment for all long-term fixed obligations of the UG backed by the UG General Fund. The UG shall strive to maintain this Debt Ratio below 10% of total General Fund expenditures.

It is a strong financial management practice and an important planning tool to also evaluate the effects of other significant long-term fixed costs, such as pension and retiree health care (OPEB) costs, on the UG's General Fund. Pension and OPEB costs and the UG's annual contributions to meet these obligations are not controlled by this Debt Policy. However, these contributions need to be taken into account in calculating the UG's overall debt burden. To that end, the ratio of the Actuarially Determined Contribution (ADC) to the pension system and retiree health care (OPEB) annual contributions as a percentage of General Fund expenditures ("Pension/OPEB Ratio") shall also be taken into consideration for

sound financial planning. Taken together, the UG will strive to maintain the combined Debt Ratio and Pension/OPEB Ratio below 25% of total General Fund expenditures.

Capacity analysis as determined by these measures will be undertaken when new General Fund- supported debt is issued or new Pension/OPEB benefits are examined. Further, the availability of sufficient suitable UG properties to serve as lease properties if required for a lease revenue bond measure will also be evaluated (see Section 3.2 for annual fair rental value requirement). Whenever authorization is sought for a lease revenue bond, the UG Commission will be provided with an estimate of the amount of unpledged and suitable UG properties that are expected to be available to support additional lease revenue borrowings.

4.3 Overlapping Debt

In addition to the UG's direct debt (General Obligation bonds and other General Fund Supported debt), debt levels of underlying and overlapping entities such as school districts and special districts add to a communities' overall debt burden. The UG's proportional share of the debt of other local governmental units which either overlap it or underlie it is called overlapping debt. Overlapping debt is generally apportioned based upon relative assessed value. While the UG does not control debt issuance by other entities, it recognizes that its taxpayers share the overall debt burden. The UG will continue to work with other jurisdictions in coordinating capital projects to lessen the overall debt burden. The UG shall include a statement of overlapping debt in its initial and continuing disclosure and/or annual financial statements.

4.4 Coverage Ratios for Revenue Bonds and Economic Development Financings

Long-term obligations payable solely from specific pledged sources are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues, charges for services or user fees (enterprise funds) and revenues generated from a project. Also see Section 3.3, Revenue Bonds, and Section 3.9, Special District Financings.

The coverage ratio, which is the ratio of available annual revenues to annual debt service, is one of the primary indicators of the ability of an enterprise to meet its annual operating expenses and debt service payments. Generally, legal covenants requiring a minimum coverage ratio are set forth in the revenue bond documents and are based on the level of security provided to the bondholders (of the senior or subordinate debt obligations). General obligation bonds issued by the UG on behalf of its wastewater and stormwater utilities also are required to meet establish minimum debt coverage ratios. Rate covenants for the bonds and loans will require a rate increase if coverage ratios are expected to fall below the legal coverage levels.

State and Federal loans may also have certain coverage ratio requirements for enterprise funds which are pledged as revenue sources for repayment of the loan. These coverage ratio requirements are set forth in the financing agreements which are executed between the UG and state or federal agency for each project.

The UG will also evaluate appropriate affordable target coverage levels (i.e., financial coverage ratios), for the outstanding bonds and new debt issue planning when conducting cost of service studies, which are undertaken periodically for the enterprises.

Section 5 – Structure and Term of UG Indebtedness

5.1 Term of Debt

Debt will be structured for the shortest period possible, consistent with a fair allocation of costs to current and future beneficiaries or users. Borrowings by the UG should be of a duration that does not exceed the useful life of the improvement that it finances and where feasible, should be shorter than the projected economic life. The standard term of long-term borrowing is typically 15-30 years.

5.2 Rapidity of Debt Repayment

In structuring a bond issuance, the Finance Department will manage the amortization of debt, and to the extent possible, match its cash flow to the anticipated debt service payments.

The UG will seek to structure debt with aggregate level principal and interest payments over the life of the borrowing. “Backloading” of debt service will be considered only when one or more of the following occur:

- Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive;
- The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present;
- Such structuring is beneficial to the UG’s aggregate overall debt payment schedule
- Such structuring will allow debt service to more closely match project revenues during the early years of the project’s operation, especially for economic development financed project and enterprise revenue bonds.

5.3 Serial Bonds, Term Bonds, and Capital Appreciation Bonds

Serial bonds are bonds maturing annually (or serially) in specified amounts comprising all or a portion of a bond issue.

Term bonds are those where all bonds, or a portion of the issue equal to that which would mature over a period of two or more years in a bond issuance, mature at a single time. Term bonds can be structured so that a portion of term maturity is mandated to be called or retired each year (called “sinking funds”) to mirror a serial bond structure. The funds paid into the sinking fund each year may be used at that time to retire a portion of the term bonds ahead of their scheduled redemption. Sinking funds are preferred by investors since these funds provide the security of knowing that the issuer appropriately budgets and accounts for its expected future payments. The sinking fund also ensures that the payment of funds at maturity does not overtax the issuer’s resources at that time. The decision to use term or serial bonds is typically driven by market conditions when bonds are issued.

Capital Appreciation Bonds (CABs), also known as Zero Coupon Bonds or Turbo Bonds, do not pay periodic interest payments but are issued as deep discounted bonds that pay investors the principal amount invested plus the interest, compounded semi-annually at the

original interest rate, of the bond at maturity. CABs can be utilized in certain cases to better match a project's cash flow to the bond's debt service but typically carry significantly higher interest rates than bonds that pay semi-annual or periodic interest payments.

For each issuance, the UG Finance Department will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, CABs may be used.

5.4 Interest Rates

The UG currently issues securities on a fixed interest rate basis only, although it is not precluded to enter into a variable rate structure if the Chief Financial Officer under the advice of the municipal Advisor deems the structure would have an economic advantage to the UG. Fixed rate securities ensure budget certainty through the life of the securities and can be advantageous in a low interest rate environment. Variable interest rate structures may be undertaken if such a structure for a given revenue-generating project or capital asset or facility is recommended by the Chief Financial Officer.

5.5 Debt Instrument Rating

The Chief Financial Officer, with a Municipal Advisor if appropriate, will assess whether a credit rating should be obtained for an issuance and make a recommendation to the County Administrator. If it is determined that a credit rating is desirable, the probable rating of the proposed debt issuance is assessed before its issuance, and necessary steps are taken in structuring the debt issuance to ensure that the best possible rating is achieved.

5.6 Credit Enhancements

Credit enhancement may be used to improve or establish a credit rating on a UG debt obligation. Types of credit enhancement include Letters of Credit, bond insurance or surety policies. The Chief Financial Officer will recommend the use of credit enhancement if it reduces the overall cost of the proposed financing or if, in the opinion of the Chief Financial Officer, the use of such credit enhancement furthers the UG's overall financial objectives.

A Letter of Credit is an arrangement with a bank that provides supplemental security, or in some cases, direct security that money will be available to pay debt service on an issue in the event insufficient funds are available to meet a debt service obligation. Bond Insurance is an unconditional pledge by an insurance company to make principal and interest payments on the UG's debt in the event insufficient funds are available to meet a debt service obligation. Bond insurance may be obtained from an insurance company and is a potential means of enhancing the debt's rating.

5.7 Debt Service Reserve / Surety Policy

Debt service reserve funds, if established for a bond series, are held by and are available to the bond Trustees to make principal and interest payments to bondholders in the event that pledged revenues are insufficient to do so.

The Chief Financial Officer will make a determination whether one will be included and, if so, the size of the debt service reserve fund on a case-by-case basis at the time of a new bond issuance. Factors that are taken into consideration are cost of setting a debt service reserve fund over the life of the bond issue compared to interest earnings, bond pricing or

credit rating impacts, conditions in the bond documents, if applicable, and other market conditions.

The maximum size of the reserve fund is governed by tax law, which permits the lesser of: 1) 10% of par; 2) 125% of average annual debt service; and 3) 100% of maximum annual debt service. The UG may issue bonds with a debt service reserve fund that is sized at a lower level or without a reserve fund.

The reserve fund requirement may also be satisfied by a surety policy, a form of insurance provided by a bond insurer to satisfy a reserve fund requirement for a bond issuance. Under this arrangement, instead of depositing cash in a reserve fund, the issuer buys a surety policy by paying a one-time premium equal to a percentage of the face amount of the policy. The UG may use a surety policy instead of a debt service reserve fund when economically feasible.

The UG will not rely on any uncollateralized credit instruments for any reserve requirement unless justified by significant financial advantage. If a surety policy is used in lieu of a debt service reserve fund, a provider distinct from the bond insurer shall be used.

5.8 Capitalized Interest

Generally, interest shall be capitalized for the construction period of a revenue producing project so that debt service expense does not begin until the project is expected to be operational and producing revenues. In addition, for lease back arrangements, such as those used for lease revenue bond transactions, interest may be capitalized for the construction period until the asset is operational. When warranted, interest may be capitalized for a period longer than the construction period.

5.9 Call Options/Redemption Provisions

The Chief Financial Officer, upon the advice of the Municipal Advisor, will recommend the use of a call option, if any, and call protection period for each issuance. A call option, or optional redemption provision, gives the UG the right to prepay or retire debt prior to its stated maturity. This option may permit the UG to achieve interest savings in the future through refunding of the bonds with lower interest rates. Often the UG must pay a higher interest rate as compensation to the buyer for the risk of having the bond called in the future. In addition, if a bond is called, the holder may be entitled to a premium payment ("call premium"). Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issuance:

- Interest rate premium for adding call provision
- The call premium paid to the bond holder
- Level of rates relative to historical standards
- The time until the bonds may be called at a premium or at par
- Interest rate volatility

Generally, 20-year or 30-year tax-exempt municipal borrowings are structured with a 10-year call at no premium. From time to time, market conditions may facilitate shorter call options (6-9 years) with no premium.

Section 6 – Method of Issuance and Sale

Under the direction of the Chief Financial Officer, Debt Management will coordinate the issuance of all debt, including issuance size, debt structure, cash flow analysis, and method of sale. The selection of the financing team and the role of the various consultants are discussed in Section 7.

6.1 Method of Sale

Debt issuances are sold by a single underwriter or to an underwriting/bank syndicate through either a public offering or a private offering. The selected method of sale will be that which is the most advantageous to the UG in the judgment of the Chief Financial Officer, in terms of lowest net interest rate, most favorable terms in the financial structure used, and market conditions.

Public Offerings – Public offerings can be executed through either a competitive sale or a negotiated sale. Method of sale for each bond offering is based on the recommendation of the Chief Financial Officer with advice from the Municipal Advisor.

Competitive Sale – In a competitive sale multiple underwriters or banks bid on the issue, with the purchaser selected offering the most favorable interest rate at the time of sale. In a competitive sale, bids will be awarded on a true interest cost basis (TIC), providing other bidding requirements are satisfied. In such instances where the UG deems the bids received unsatisfactory, it may, at the discretion of the Chief Financial Officer, enter into negotiation for sale of the securities or reject all bids. In general, the Competitive Sale method is recommended for “plain vanilla” financings with a strong underlying credit rating, such as general obligation bond issuances, if the bond is not expected to be treated as a “story bond” by the investors and generally stable and strong market conditions exist. In a Competitive Sale, the bidder’s role is limited to its review of the offering circular released by the UG, making a credit assessment based on the facts presented in the offering circular, and offering its bid per the bidding parameters established by the UG.

Negotiated Sale – In a Negotiated Sale, the underwriter or the underwriting syndicate for the bonds is identified upfront through a competitive selection process along with other professionals for the transaction. The negotiated sale process provides the UG control over the financing structure and the issuance timing and provides flexibility of distribution. Negotiated sales may be executed when competitive sales are not suitable or not a viable option. Examples of such circumstances include unusual financing terms, market volatility, and weaker credit quality. Special District bonds, which are often non-rated, are typically issued through a negotiated sale process. Due to their financial complexity, revenue bonds for enterprise utilities are also typically issued through a negotiated sale process. The underwriter will actively assist the UG, in consultation with the Municipal Advisor, in structuring the financing and marketing the bonds including providing assistance in preparing the bond offering circular.

Private Offerings – When determined appropriate by the Chief Financial Officer, the UG will negotiate financing terms with banks and financial institutions for specific borrowings on a private offering basis. These issuances are also referred to a “private placements”. Typically, private offerings are carried out by the UG when extraneous circumstances preclude public

offerings, as an interim financing, or to avoid the costs of a public offering for smaller issuances.

6.2 Bidding Parameters

In a Competitive Sale, the Notice Inviting Bids will be carefully constructed so as to ensure the best possible bid for the UG, in light of existing market conditions and other prevailing factors. Parameters to be examined include:

- Limits between lowest and highest coupons
- Discount or premium coupons
- Use of bond insurance
- Call provisions

The Chief Financial Officer will publish the Notice Inviting Bids among prospective bidders for the proposed bond issuance.

6.3 Initial Disclosure Requirements

Debt Management, together with the Chief Legal Counsel, Municipal Advisor, Bond Counsel and Disclosure Counsel, coordinates all the necessary documents for disclosure, with input from various other UG departments (as applicable for a particular bond issuance) and outside consultants. Each publicly offered debt issuance will meet the disclosure requirements of the Securities and Exchange Commission (SEC) and other government agencies before and after the bond sale takes place. The disclosure documents, particularly the Official Statement, will provide the potential investor with full and accurate information necessary to make prudent investment decisions.

All primary disclosure documents, which are a part of the bond offering documents (e.g., Official Statement), will be approved by the State of Kansas before being taken to the Commission for approval (see Section 6.4). The UG will also provide ongoing disclosure, in accordance with the Continuing Disclosure Agreements executed when the financing is authorized, as required by SEC Rule 15c2-12. Ongoing disclosure will also be approved by the Chief Financial Officer before it is disseminated to the markets.

6.4 Approval Process

In coordinating the bond issuance process, Chief Financial Officer will work with the Chief Legal Counsel, Bond Counsel, other responsible UG departments, and outside consultants to compile all bond related documents (see Section 7 for the role of various outside consultants). The Chief Legal Counsel, working with Bond Counsel, will assess any legal issues that may arise with respect to the issuance of the bonds. In circumstances where there may be legal uncertainty about some aspect of a proposed bond transaction, the UG may pursue an active validation action to obtain judicial approval before the bonds are issued. If a bond transaction is controversial and gives rise to a reverse validation action, the UG may find itself a party to that litigation. All proposed debt financings shall be authorized by the UG Commission.

Section 7 – Financing Team Roles and Selection Process

The Chief Financial Officer, working with the Chief Legal Counsel and the UG's Purchasing Department, shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement a debt issuance.

Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, and securing services at competitive prices.

Section 7.1 Selection and Compensation

The identification of municipal advisors, trustees, and paying agents is accomplished through a selection process conducted by Debt Management and may also be based upon recommendations from advisors that are specifically skilled in the type of bond issuance being proposed.

Selection of consultants will be made from either an as-needed pool, which is assembled via a Request for Qualifications (RFQ) process, or a separate RFP issued for a specific bond issuance. Once the selection of a Municipal Advisor has occurred, the Municipal Advisor will assist the UG in the selection of other service providers, including broker-dealers/underwriters, trustees, escrow agents, credit enhancers, verification agents, title and insurance companies, and printers.

Compensation for Bond Counsel, Disclosure Counsel, Municipal Advisors, and other consultants will be as low as possible, given desired qualification levels, and consistent with industry standards.

The UG may encumber and advance the fees associated with municipal advisory services, which are later reimbursed from the bond proceeds, or may enter into contracts on a contingent basis.

Compensation for the other service providers listed above is typically included in the cost of issuance and paid from the bond proceeds. The ongoing trustee fee, semiannually or annually, for a bond issuance is budgeted under administration costs and appropriated in respective bond payment accounts.

The Chief Legal Counsel will take the lead in selecting the Bond Counsel and the Disclosure Counsel. Generally, Bond and Disclosure Counsel compensation is contingent on the issuance of bonds and is either paid or reimbursed from bond proceeds. This practice is generally consistent with industry standards.

Eligible UG staff costs related to issuance of long-term bonds may also be reimbursed from bond proceeds. As the UG often dedicates substantial time for special revenue bonds for economic development, the UG will seek either up-front payments from developers to cover such internal and external costs for events wherein the transaction does not proceed to conclusions; and/or recover from bond proceeds the internal and external costs incurred for the issuance. In the event of an up-front developer payment for a project that does proceed to financing, the developer will be reimbursed from bond proceeds.

7.2 Financing Team: Outside Consultants

Contracts with Municipal Advisors, Bond Counsel, and Disclosure Counsel will be processed in accordance with UG administrative procedures.

A. Municipal Advisors

As needed, the Chief Financial Officer will identify an independent Municipal Advisor. The primary responsibilities of the Municipal Advisor are to advise and assist on bond document negotiations, transaction structuring including advising on pricing and call provision options and timing of issuance, running debt service cash flow numbers, obtaining ratings on the proposed issuance, and generally acting as an independent financial consultant and economic and bond market expert.

The Municipal Advisor will also serve the UG as a Municipal Advisor, as defined by and in accordance with the Dodd-Frank Wall Street Reform and Consumer Protection Act. The Municipal Advisor has a fiduciary duty to the UG. Fiduciary duty is generally understood to encompass a duty of loyalty and a duty of care to the public agency.

B. Bond Counsel

The UG will retain external Bond Counsel for all debt issuances. As part of its responsibility in the debt issuance process, the UG's Chief Legal Counsel will coordinate the selection of Bond Counsel. Bond Counsel will prepare the necessary authorizing resolutions, ordinances, agreements, and other legal documents necessary to execute the financing. All debt issued by the UG will include a customary approving legal opinion of Bond Counsel.

C. Disclosure Counsel

The UG may retain Disclosure Counsel for public issuances that entail UG disclosure, in which such services may be provided by the Municipal Advisory firm, underwriter's counsel and Bond Counsel. Disclosure Counsel shall be required to deliver a customary 10(b)-5 opinion on UG offering documents. The UG's Chief Legal Counsel and the Chief Financial Officer shall oversee the selection of Disclosure Counsel. The Disclosure Counsel will work with UG staff to draft all disclosure documents for a bond financing.

The UG's Chief Legal Counsel may engage separate firms in the capacity of Bond and Disclosure Counsel or one single firm to perform bond and disclosure counsel functions.

The UG also retains services contracts with bond counsel and the municipal advisory firm to review the UG materials that are to reach investors or the securities markets.

D. Broker-Dealer/ Underwriters

For a competitive sale, the criteria used to select a broker-dealer/underwriter shall be the bid providing the lowest true interest cost to the UG.

For a negotiated sale debt issuance, the Chief Financial Officer, working with the Municipal Advisor, will identify broker-dealers/underwriters. The Chief Financial Officer will recommend to the County Administrator the selected broker-dealer/underwriter or a syndicate of underwriters. Broker-dealers/Underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed, among other criteria determined for each issuance. The Chief Financial Officer will consider the following criteria in selecting a broker- dealer/underwriter and/or a syndicate:

- Experience with the particular type of financing, and size of the financing
- Overall experience
- Familiarity with UG issues

- Marketing expertise
- Distribution capability
- Previous experience as managing or co-managing broker-dealer/underwriter
- Financial strength, as evidenced by the firm's current financial statements
- Experience of the public finance team assigned to the financing
- Resources to complete the financing
- Compensation
- Community Reinvestment

E. Trustee / Paying or Fiscal Agent

A Trustee or Paying/Fiscal Agent is the institution – usually a commercial bank or trust company – appointed in the indenture or bond resolution to act as the agent of the issuer to pay principal and interest from monies provided by or on behalf of the issuer.

Paying or Fiscal Agent duties are typically limited to receiving money from the issuer and paying principal and interest to bondholders on behalf of the issuer. A Trustee, in addition to performing the duties of a Paying Agent, is responsible for establishing and holding the funds and accounts relating to the bond issuance, including accounts for bond proceeds and revenues, determining that the conditions for disbursement of proceeds and revenues have been met, and, in some cases, collecting revenues, and executing investments.

The Trustee/ Paying Agent solicitation and selection is typically coordinated by the Municipal Advisor in consultation with the Chief Financial Officer for a new bond issuance. The Debt Management Division will monitor the ongoing performance of a Trustee/Paying Agent. The Chief Financial Officer may periodically solicit for trustees or paying agent services from qualified commercial and trustee banks.

F. Other Service Providers

Other professionals may be selected, at the discretion of the Chief Financial Officer, on an as-needed basis. These include the services of revenue or market feasibility study, credit rating agencies, escrow agents, bond insurance providers, credit and liquidity banks, verification agents, title insurance companies, arbitrage rebate calculation consultant and services related to printing.

Section 8 – Refunding of UG Indebtedness

The UG will consider refunding its existing debt when benefits of the refunding outweigh the costs and risks.

8.1 Types of Refunding

A. Current Refunding

A current refunding is one in which the refunding bonds are issued less than 90 days before the date upon which the refunded bonds will be redeemed.

B. Advance Refunding

The Federal Tax Act of 2017 eliminated an issuer's ability to advance refund a tax-exempt issue with tax-exempt bonds. An entity can issue taxable bonds to advance refund tax-exempt bonds, which would normally lead to interest cost increases. The municipal bond

industry has come up with a short selection of bond products, synthetic refundings, forwards, etc., to advance refund issues. If a condition exists wherein the UG needs to advance refund an issue it will conduct an extensive analysis to the overall costs and benefits of the proposed transaction before proceeding.

8.2 Refunding Considerations

Refundings may be undertaken to:

- Take advantage of lower interest rates and achieve debt service cost savings
- Eliminate restrictive or burdensome bond covenants
- Restructure debt to either shorten/lengthen the duration of debt or free up reserve funds
- Refund outstanding indebtedness when existing financial structures impinge on prudent and sound financial management

Generally, the UG will consider a refunding only when there is a net economic benefit; i.e., when there is an aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds, at 3% and above for a current refunding. In addition, in the case of an advance refunding which is not allowed under current tax law, consideration is to be given to the impact of inefficient investment yields in the refunding escrow account (i.e., yield on the escrow investment is less than the yield on the refunding bonds. This inefficiency is also known as negative arbitrage.) Aggregate net present value savings should be greater than the aggregate amount of negative arbitrage to achieve an economic benefit. These savings requirements for a refunding may be waived by the Chief Financial Officer upon a finding that such a restructuring is in the UG's overall best financial interest.

8.3 Refunding Escrow Investment

The UG will seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. However, at the discretion of the Chief Financial Officer, the UG may choose to fund an escrow through purchase of treasury securities on the open market when market conditions make such an option financially preferred or necessary.

Section 9 – Post Issuance Compliance and Administration

The following discuss administrative functions related to debt not discussed in the Tax-Exempt Financing Compliance Policy and Procedure or the Securities and Continuing Disclosure Matters Compliance Procedure.

9.1 Investment of Bond Proceeds

The proceeds of the bond sales will be invested until used for the intended project in order to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The UG Cash and Investment Policy and the bond indentures govern objectives and criteria for investment of bond proceeds. The Chief Financial Officer, or the bond trustees under the direction of the Chief Financial Officer, will invest the bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.

9.2 Arbitrage Compliance

The Chief Financial Officer shall establish and maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by the federal

tax code. This effort shall include tracking investment earnings on bond proceeds, calculating rebate payments in compliance with tax law, and remitting any rebate earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the UG's outstanding debt issuances.

Additionally, general financial reporting and other tax certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are in compliance. The ongoing compliance verification function will be coordinated by the Debt Management Division.

9.3 Ongoing Disclosure

The UG will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the SEC Rule 15c2-12. The Chief Financial Officer (CFO) shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers. The CFO is responsible for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies, including the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The UG may also employ the services of firms that improve the availability of or supplement the UG's EMMA filings.

The UG will provide full and complete financial disclosure to rating agencies, institutional and individual investors, other levels of government, and the general public to share clear, comprehensible, and accurate financial information using the appropriate channels/policies/procedures.

9.4 Compliance with Other Bond Covenants

In addition to financial disclosure and arbitrage compliance, once the bonds are issued, the UG is responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual appropriation of revenues to meet debt service payments
- Taxes/fees are levied and collected where applicable
- Timely transfer of debt service/rental payments to the trustee or paying agent
- Compliance with insurance requirements
- Compliance with rate covenants where applicable
- Recordkeeping and continued public use of financed asset
- Compliance with tax covenants including the timely spend-down of project fund proceeds
- Compliance with all other bond covenants

The Debt Management Division will coordinate verification of covenant compliance and will work with the Chief Legal Counsel and all other responsible departments to monitor compliance with the aforementioned compliance requirements.

9.5 Compliance with State and Federal Reporting Requirements

The UG will meet required State and Federal reporting requirements related to bond and loan obligations.

V. **Quality Control and Quality Assurance:**

It is the responsibility of the Chief Financial Officer to ensure the presence of procedures that provide sufficient guidance to affected Unified Government personnel to fulfill the intent of this policy.

These policies will be reviewed bi-annually and updated on an as-needed basis. In the event there are proposed exceptions from the Debt Policy when a certain bond issue is structured, those exceptions will be discussed in the applicable staff reports when the bond issue is docketed for UG Commission consideration. Any exception will also be stated in the financing resolution or ordinance to be approved by Commission for the corresponding bond offering.

VI. **Metrics:**

To be developed and managed accordingly.

VII. **Definitions and Acronyms:**

Arbitrage - With respect to municipal bonds, arbitrage is the profit made from investing the proceeds of tax- exempt bonds in higher-yielding securities.

Backloading - Debt repayment is scheduled towards the back-end.

Broker-Dealer/ Underwriter - An investment banking firm which, singly or as a member of an underwriting group or syndicate, agrees to purchase a new issue of bonds from an issuer for resale and distribution to investors. The broker-dealer/underwriter acquires the bonds either by negotiation with the issuer or by award on the basis of competitive sale.

Community Improvement District (CID) - Under Kansas Statute KSA 12-6a29 cities may create districts that help to fund community improvement. The Unified Government has done so through Community Improvement Districts (CID). A CID is an area within which businesses pay an additional sales tax (typically 1% or less) or a special assessment that fund improvements within that district.

Conduit Financing - A financing in which the proceeds of the issue are loaned to a nongovernmental borrower who then applies the proceeds for a project financing or, if permitted by federal tax law for a qualified 501(c)(3) bond, for working capital purposes.

Continuing Disclosure - The ongoing disclosure provided by an issuer or obligated person pursuant to an undertaking entered into to allow the broker-dealer/underwriter to comply with SEC Rule 15c2-12.

Debt Service - The total interest, principal and mandatory sinking fund payments due at any one time.

Debt Service Reserve Fund - An account from which monies may be drawn to pay debt service on an issue of bonds if pledged revenues and other amounts available to pay debt service are insufficient. The size of the debt service reserve fund and investment of monies in the fund/account are subject to restrictions contained in Federal Tax law for tax-exempt bonds.

Electronic Municipal Market Access (EMMA) System - The EMMA system created by the MSRB is a comprehensive, centralized online source for market transparency data, educational material about the municipal securities market, and free access to municipal disclosures. Effective July 1, 2009, EMMA became the single, official repository for continuing disclosure documents as a result of changes mandated by the SEC in December 2008.

Escrow Agent - With respect to an advance refunding, the commercial bank or trust company retained to hold the investments purchased with the proceeds of the refunding and, customarily, to use the amounts received as payments on such investments to pay debt service on the refunded bonds.

Generally Accepted Accounting Principles (GAAP) - A widely accepted set of rules, conventions, standards and procedures for reporting financial information, as established by the Financial Accounting Standards Board.

Government Accounting Standards Board (GASB) - A standard-setting body, associated with the Financial Accounting Foundation, which prescribes standard accounting practices for governmental units.

Municipal Standards Rulemaking Board (MSRB) - An independent self-regulatory organization established by the Securities Acts Amendments of 1975, which is charged with primary rulemaking authority over dealers, dealer banks, and brokers in municipal securities.

Nationally Recognized Municipal Securities Information Repository (NRMSIR) - NRMSIR is an acronym for Nationally Recognized Municipal Securities Information Repository. NRMSIRs are the repositories for all annual reports and event notices filed under SEC Rule 15c2-12.

Public Building Commission (PBC) - The PBC is a municipal corporation duly created in accordance with the Act. The PBC is organized and operated under the Act for the benefit of the Unified Government and its residents, including the planning, development, construction, furnishing and equipping of public buildings for the benefit and use of governmental agencies. The PBC is governed by a five-member board, consisting of the Mayor/CEO of the Unified Government, the Unified Government Commissioner who serves a chairperson of the Economic Development and Finance Standing Committee, the County Administrator, the Chief Financial Officer of the Unified Government and the Chief Counsel of the Unified Government.

Sales Tax and Revenue Bonds (STAR Bonds) - Sales Tax Revenue (STAR) Bonds allow the Unified Government to issue bonds to finance certain authorized expenditures (primarily land acquisition and infrastructure) for the development of major commercial,

entertainment and tourism areas and use the sales and transient guest tax revenues generated by the development towards debt service. The issuance of STAR Bonds requires approval by the Kansas Department of Commerce and represents a partnership with the State, as both local and state revenues may be pledged for the development project.

SEC Rule 15c2-12 - A rule promulgated by the SEC under the Securities Exchange Act of 1934 concerning disclosure and continuing disclosure requirements for municipal securities.

Securities and Exchange Commission (SEC) - A federal agency which oversees and regulates stock, bond, and other financial markets.

Special Tax - A financial charge that is calculated via some type of special tax formula (or Rate and Method of Apportionment) and is levied annually on property for a defined period of years.

State and Local Government Series (SLGS) - SLGS is an acronym (pronounced “slugs”) for a type of U.S. Treasury obligation, the complete name of which is United States Treasury Securities – State and Local Government Series. SLGS are special United States Government securities sold by the Treasury to states, municipalities and other local government bodies through individual subscription agreements. The interest rates and maturities of SLGS are arranged to comply with arbitrage restrictions imposed under Section 103 of the Internal Revenue Code. SLGS are most commonly used for deposit in escrow in connection with the issuance of refunding bonds.

Tax Increment Financing (TIF) - A Tax Increment Financing (TIF) District allows the Unified Government to work with private developers to authorize redevelopment projects in blighted areas in accordance with State statutory requirements as set forth in K.S.A 12-1770a. TIF financing allows for a development project to access the incremental property and/or sales tax revenues generated by the project. TIF Districts may exist for up to twenty (20) years per project. In accordance with Kansas Laws, these funds may only be used for TIF-eligible expenses, which include but are not limited to: Land Acquisition & Relocation (of families), Public Improvements (curb, sidewalks, streets, lighting), Site Preparation (demolition), Utilities, and Sanitary and Storm Sewers.

Transportation Development District (TDD) - A Transportation Development District (TDD) is a special taxing district whereby a petitioner of 100% of the landowners in an area request either the levy of special assessments or the imposition of a sales tax of up to 1% on goods and services sold within a given area. Upon creation of a TDD by a municipality, the revenue generated by TDD special assessments or sales tax under Kansas law may pay the costs of transportation infrastructure improvements in and around the new development.

True Interest Cost (TIC) - A method of calculating bids for new issues of municipal securities that takes into consideration certain costs of issuance and the time value of money.

Underwriter Syndicate - A group of underwriters formed to purchase (underwrite) a new issue of municipal securities from the issuer and offer it for resale to the general public. The syndicate is organized for the purpose of sharing the risks of underwriting the issue, obtaining sufficient capital to purchase an issue and for broader distribution of the issue to

the investing public. One of the underwriting firms will be designated as the syndicate manager or lead manager to administer the operations of the syndicate.

Verification Agent - A certified public accountant who verifies that sufficient funds are deposited into an escrow to implement the objectives of the refunding or financing plan.

VIII. Related Documents and References:

- A. Tax-Exempt Financing Compliance Policy and Procedure
- B. Securities and Continuing Disclosure Matters Compliance Procedure
- C. Capital Asset and Equipment Investment and Management Policy
- D. Local Economic Development Policy
- E. Tax Abatement Policy
- F. Long-Term Financial Planning Policy
- G. County Administrator policies as applicable