Administrative Regulation No. 66

City of Cincinnati

Office of the City Manager

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Approved: Hg Black

Subject: City of Cincinnati Debt Policy

Purpose

The purpose of this Debt Policy (the "Policy") is to establish guidelines on Debt Management and Issuance related to the capital improvement and economic development programs of the City of Cincinnati (the "City"). The guiding Debt Management Principles of this Policy include:

- Maintaining cost-effective access to the capital markets;
- Achieving the highest practical credit ratings;
- Implementing and adhering to prudent Debt Management and Issuance policies and best practices that are consistent with highly rated "AA to AAA" municipal credits;
- Maintaining manageable debt levels and debt service payments through effective planning and coordination with City departments; and

Meeting significant capital demands through debt financing and alternative financing mechanisms (including equity funding), when appropriate, such as public/private partnerships.

This Policy intends to:

- Outline the legal, credit and policy framework under which the City issues its debt obligations;
- Define Debt Management Objectives and Debt Management and Affordability Metrics that govern debt management with the goals of: (1) providing funding for the City's capital improvement and economic development needs in a timely manner; (2) minimizing cost of funding; and (3) maximizing the City's credit rating.
- Facilitate the CIP planning process by providing guidance related to debt affordability in advance to the Debt Management Team (defined below), City Administrative Staff, the Mayor and City Council.
- Provide Debt Issuance Policies and Procedures that document pre and post issuance objectives related to: (1) the issuance of debt; (2) continuing disclosure; and (3) other reporting duties.

The City's Debt Management Team (DMT) will consist of the City Manager and representatives from the Director of Finance office, the City Treasury Division, Accounts and Audits, and any other persons needed as determined by the City Manager, to assist with the issuance of the bond sale. The Debt Management Team shall be chaired by the Finance Director.

This policy incorporates several major components and is provided in this document.

I. Legal Authority

The following list, which is not meant to be all-inclusive, provides commonly referenced components of local and state law utilized by the City to generate funds for capital projects. All financing arrangements executed by the City are authorized by City Council with each ordinance referencing the applicable component of state or local law enabling debt financing for a given project type.

1. City of Cincinnati Charter
   a) Article 8, Section 4 of the Charter – Taxation and Finance - authorizes the Mayor and City Council to annually levy amounts necessary to pay charges on City obligations, essentially providing for the levy of ad valorem taxes on all property in the City subject to ad valorem taxes for satisfying principal and interest requirements unless paid from other sources.
2. Cincinnati Municipal Code
   a) Chapter 303 – Municipal Bonds
3. Various Ordinances – that authorize the issuance of obligations on a case-by-case basis.
4. Ohio Constitution
   a) Article 8 – Public Debt and Public Works
      i. Section 13 - Economic development – declaring it a State public purpose to issue debt for economic development.
      ii. Section 16 – Housing – declaring it a public purpose to issue debt for housing.
   b) Article 18 - Municipal Corporations
      i. Section 3 – Power of local self-government.
      ii. Section 12 – Authority to issue mortgage revenue bonds for public utilities.
5. Ohio Revised Code
   a) Sections 9.95 through 9.983 of Chapter 9 of the Ohio Revised Code authorizing securities offerings by political subdivisions in Ohio generally, including revenue bonds, various forms of short-term and variable rate financings, refunding bonds, and the exemption from state income tax.
   b) Chapter 133 – Uniform Public Securities Law
      i. Section 133.04 & 133.05 – Calculation of municipal net indebtedness; limits i.e. the arithmetical calculation of 10½ and 5½ debt limit for the City.
      ii. Section 133. 14 – Provides for issuing securities to pay for judgments.
      iii. Section 133.15 – Provides for issuing bonds or notes to pay for permanent improvements.
      iv. Section 133.20 – Maximum maturities of bonds based on the purpose of the capital project.
      v. Section 133.21 – Limits the total of principal and interest in any year to no more than three times the principal due in any year (excluding refunding bonds).
      vi. Section 133.22 – Authorizes the issuance of bond anticipation notes.
      vii. Section 133.34 – Set parameters for refunding municipal obligations, a key factor is that the last maturity of the refunding bonds cannot exceed the last maturity of the refunded bonds.
   c) Chapter 165 – Provides for the issuance of Economic Development Revenue bonds, which may be secured by revenue of the City not raised by taxation.
   d) Chapter 725 and 5709 - Each provide for leveraging tax increment financing techniques to secure self-supporting securities.
   e) Chapter 715 – Provides for securing property by lease or lease-purchase.
   f) Chapter 717 – Specific Powers of Municipal Corporations
      i. Section 717.06 – Authorizes the issuance of securities for off-street parking facilities.
      ii. Section 717.07 – Authorizes the issuance of securities to finance police and fire pension obligations.
   g) Chapter 727 and 1710 – Special Assessments and Special Improvement Districts.
   h) Chapter 761 – Industrial and Economic Development.

II. Purposes and Types of Debt

Purpose of Debt

The City issues general obligation and special revenue obligations to finance capital and economic improvement projects and refinance existing debt. Any debt will be used to finance eligible purposes only if it is the most cost-effective means available to the City and/or meets certain unique operational/strategic objectives of the City.

Types of Debt

A. General Obligation Bonds and Notes (tax-exempt and taxable), in general, are backed by the City's full faith and credit, more specifically by a pledge of the levy of ad valorem taxes in an unlimited amount as necessary to pay debt service. In some cases General Obligation Bonds and Notes of the City are also backed by an additional pledge of specific revenues. Types of General Obligations indebtedness issued by the City include, but are not limited to:

1. Property Tax Supported – the repayment source for this debt is the levy of an ad-valorem tax on real and personal property within the City. Property Tax Supported debt may be issued for improvements in the following categories/purposes and for the payment of legal, advertising, printing and all bond issuance expenses incidental to said improvements:
    a) Street - is issued for the purpose of providing funds to pay the cost of widening, opening, extending, realigning, grading, paving, repaving, resurfacing, constructing sewers and drains or otherwise rehabilitating and improving streets, roads, thoroughfares, avenues, expressways, sidewalks, plazas and other public ways; purchasing and/or installing street lights and appurtenances, traffic lights, and traffic control equipment and boulevard lights.
    b) Urban Redevelopment - is issued for the purpose of providing funds to pay the cost and expense of acquiring and improving real estate and interest in real estate, including the clearance and preparation thereof for redevelopment and the construction, purchase and installation of structures, equipment and related improvements.
    c) Parks - is issued for the purpose of providing funds to pay the cost and expense of acquiring real estate, or easements, or interest in same, for park facilities, parkways, and playgrounds; including but not limited to structures, lighting and parking.
    d) Recreation - is issued for the purpose of providing funds to pay the cost and expense of acquiring real estate, or easements, or interests in same, for recreation facilities and other areas, improving, equipping and rehabilitating existing recreation facilities and other areas including but not limited to swimming pools, tennis courts and playfields.
    e) Public Buildings - is issued for the purpose of providing funds to pay the cost and expense of acquiring real estate, or easements, or interest in same, for constructing, rehabilitating and equipping public buildings and other structures.
    f) Equipment - is issued for the purpose of purchasing motor vehicles, acquiring and improving City-wide communication system components and related improvements in connection therewith, computer related system upgrades and components and other necessary equipment.
    g) Police & Fire Pension – is issued for the purpose of providing funds to prepay, at a discount, the City's accrued liability to the State Police and Fireman's Disability and Pension Fund.

2. Self-Supported – the security and repayment source for this debt is an ad-valorem tax on real and personal property within the City, but may also be supported by specific revenues from the operation of a City business-type enterprise or other sources of revenue as available. The secondary source of repayment is listed in parenthesis. Self-Supported debt may be issued for improvements in the following categories/ purposes and for the payment of legal, advertising, printing and all bond issuance expenses incidental to said improvements:

a) Water Works (water works revenues) – for the purpose of paying a portion of the cost of acquisition, construction, renovation and installation of the Greater Cincinnati Water Works Capital Improvement Program.
b) Off-Street Parking (parking system revenues) – for the purpose of providing funds to pay a portion of the cost and expense of construction, installation, and equipping of parking improvements.
c) Recreational Facilities (Recreation Commission golf revenues and Zoological Society revenues) – for the purpose of providing funds to pay acquisition, construction and rehabilitation of certain capital improvements at the Cincinnati Zoo and Botanical Garden, including the acquisition of certain properties adjacent to the Cincinnati Zoo and Botanical Garden; and for the purpose of providing funds to pay acquisition, construction and rehabilitation of certain capital improvements at City of Cincinnati recreational golf courses.
d) Stormwater Management (stormwater management utility fees) – for constructing and acquiring improvements to the stormwater system within the City.

3. Other – includes debt paid and secured by an ad valorem tax on real and personal property within the City, but may also be supported by specific revenues from the operation of the entity or other sources of revenue as available or in specific and limited cases, a portion of the City's municipal income tax (0.15% of the 2.1% for permanent improvements). The City also uses the Southern Railway rental payments for repayment of short-term notes for capital projects (see Cincinnati Southern Railway). The secondary source of repayment is listed in parenthesis. Other debt may be issued for improvements in the following categories/purposes and for the payment of legal, advertising, printing and all bond issuance expenses incidental to said improvements:
    a) Urban Redevelopment (tax increment financing payments and/or third party payments) – to acquire and improve real estate and interests in real estate, including the remediation of the site and the clearance and preparation thereof for redevelopment and the construction, purchase and installation of public or in certain cases, private structures, equipment and related improvements.
    b) Urban Renewal/Economic Development (tax increment financing payments and/or third party payments) – for property acquisition, demolition, and site preparation in the urban renewal area.
    c) Economic Development – Taxable (municipal income tax and/or third party payments) – to acquire property and demolition, site preparation and construction facilities in an urban renewal area.

B. Revenue Obligation Bonds and Notes – the repayment source for this debt is supported by tax increment financing (TIF) and/or third party payments (which may be backed by the City's Non-Tax Revenue Pledge), Water Works or other enterprise fund revenues, and project specific revenues. Examples of revenue obligations issued by the City:
    1. Urban Renewal – for property acquisition, demolition, and site preparation in the urban renewal area; and paying legal, printing, advertising and all expenses incidental to these improvements.
    2. Economic Development – Taxable or Tax-exempt obligations to acquire property and demolition, site preparation and construction facilities in an urban renewal area.
    3. Enterprise Fund – for the purpose of paying a portion of the cost of acquisition, construction, renovation and installation of enterprise fund property pursuant to the City's Capital Improvement Program.

C. Pension Obligation Bonds (POBs) – current state law does not allow for the issuance of POBs to fund local liabilities of public employee pension systems including the Cincinnati Retirement System. However, current law allows municipalities to issue taxable POBs to fund local Police and Fire Pension Fund liabilities.

D. Lease Obligations – funded from governmental fund or enterprise fund resources, subject to the resources being appropriated by City Council, the proceeds of these obligations fund capital equipment and facilities owned by a third-party.

E. Guaranty Obligations – third-party obligations including either a subject to appropriation agreement of the City to fund certain debt service shortfalls or a guaranty secured by a pledge of the revenues of the City not raised by taxation pursuant to current legal provisions related to parity obligations of the City.

F. Judgment Bonds – bonds issued pursuant to court ruling (including final settlements).

III. Credit Ratings

The City currently maintains ratings from the nationally recognized Credit Rating Agencies of Standard and Poor's (S&P) and Moody's Investors Service (Moody's) for General Obligation, Non-Tax Revenue and Waterworks Revenue Bond debt issued through the public markets. The Debt Management Team will assess whether a credit rating(s) should be obtained for a specific issuance from one or more nationally recognized Credit Rating Agencies and take the necessary steps in structuring the issuance to ensure the best possible rating. The City will communicate with any nationally recognized Credit Rating Agency that rates its outstanding debt at least annually to update the agency on material credit-impacting developments in the City even in the case when no issuance of debt is considered.

IV. Debt Affordability and Debt Management Policies

Background

The City is unique in the State of Ohio because it has the right to levy property taxes without limitation and without a vote of the electorate to support its lawfully issued General Obligation Bonds and Notes. In September 1977, the Supreme Court of Ohio dismissed an appeal from the decision of the Court of Appeals, First Appellate District, Hamilton County, Ohio, involving the City's debt limitations. In summary, the City instituted a test case against the Director of Finance for the purpose of obtaining a definitive construction of certain sections of the City Charter bearing on the right of the City to levy taxes in excess of the ten-mill limitation of Section 5705.02 of the Ohio Revised Code. The case was decided in the City's favor. Thus, the City's ability to incur debt is limited only by the arithmetical (percentage) limitations set forth under Section 133.05 of the ORC.

Statutory General Obligation Debt Limitations

Section 133.05 of the Ohio Revised Code provides that the principal amount of both voted and un-voted General Obligation Debt of the City may not exceed 10-1/2% of the City's assessed valuation and the principal amount of the City's un-voted General Obligation Debt may not exceed 5-1/2% of the City's assessed valuation. There are exemptions of certain debt from the 5-1/2% and 10-1/2% limitations listed in Ohio Revised Code Section 133.05.

The kinds of debt that are exempt include debt issued for water works, voted urban redevelopment bonds not exceeding two percent of total assessed property valuation, debt covenanted by appropriations annually from lawfully available municipal income taxes, recreational facilities, off-street parking and urban redevelopment, as well as debt (not heretofore incurred by the City) for certain other purposes. See Section II. Purposes and Types of Debt.

Affordability

The decision on whether or not to assume new debt shall be based on the City's ability to afford new debt and service it, as determined by an objective analytical approach considering, among other conditions, analysis of:

- Existing debt obligations;
- The entirety of the City's annual finances related to ongoing operational needs;
- The City's Capital Improvement Plan in the most recent biennial budget and five year planning horizon;
- The metrics generated by the Debt Management Policies hereinunder this section;
- Comparative debt ratios and "Best Practices" of similar highly rated "AA to AAA" local government credits and/or other highly rated Ohio local government credits, as appropriate;
- Rating agency criteria as published by Standard & Poor's, Moody's and/or Fitch as applicable; and
- Analysis of current and future local economic conditions

A Debt Affordability Study incorporating the above items undertaken regularly will allow the City to evaluate its fiscal health and Debt Management Policies with the goal of amending such policies given current "Best Practices" of highly rated local governments as well as maintaining and potentially enhancing its bond ratings. A Debt Affordability

Study shall be undertaken at a minimum every three years or at the discretion of the Director of Finance should current events dictate.

Debt Management Policies

As a part of the City's budget process, updated on an as-needed basis but not less than annually, the City shall consider trends in revenues and expenditures in its governmental funds and trends in assessed valuation as it considers the proportion of its Capital Improvement Plan that can be funded with debt. In addition, the City shall review compliance with the metrics generated by the following Debt Management Policies on an existing and pro-forma basis. For General Obligation Debt of the City, the par amount of outstanding and planned debt shall not exceed statutory debt limitations as set forth by state law at the time of the issuance, including a deduction for emergency needs and judgments.

Policy No. 1: **Total Long-term Tax Supported Governmental Debt Service Shall Not Exceed 12.5% of Governmental Revenues**

This policy shall factor in all Long-term Tax Supported Governmental Debt that is supported by Governmental Revenues. Debt of the City that is fully supported by non-Governmental revenues is to be excluded (i.e. Water Works and Non-Tax Revenue Pledge or other obligations that are self-supported and not paid from general Governmental Revenues). Note: Governmental Revenues include recurring revenues in the following fund categories: General, Capital Projects, Debt Service and Other Governmental. Governmental Revenues shall exclude one-time revenues and entirely self-supporting enterprise systems such as the Cincinnati Water Works.

The City's projected ratio for FY 2016 under this policy is approximately 11.7%.

Policy No. 2: **The ratio of total Long-term Tax Supported Governmental Debt to the Full Valuation of Taxable Property shall not exceed 4.50%**

The policy shall incorporate all Long-Term Tax Supported Debt and within this Policy constraint, Property Tax Debt shall be managed so as to not exceed the Statutory 5.5% limit based on 35% of Full Valuation. Debt of the City that is fully supported by non-Governmental revenues is to be excluded (i.e. Water Works and Non-Tax Revenue Pledge or other obligations that are self-supported and not paid from general Governmental Revenues).

The City's projected ratio for FY 2016 under this policy is approximately 3.8%.

Policy No. 3: **The 10-Year Payout Ratio (i.e. amount of debt retired in 10 years for Long-term Tax Supported Debt shall not be less than 60% in the aggregate**

Debt of the City that is fully supported by non-Governmental revenues is to be excluded (i.e. Water Works and Non-Tax Revenue Pledge or other obligations that are self-supported and not paid from Governmental Revenues).

The City's projected ratio for FY 2016 under this policy is approximately 69.5%.

Policy No.4: **The ratio of the portion of the City's Tax Supported Debt Service that has a pledge of Income Taxes shall be no more than 75% of projected revenues from the 0.15% Income Tax.**

The City's projected ratio for FY 2016 under this policy is approximately 47%.

Policy No.5: **Equity or Cash Funding of the City's Capital Improvement Plan should be no less than 20% over a rolling 5-year CIP Period.**

The City's projected FY 2016 ratio of equity funding for its CIP is approximately 49%.

Bond Retirement Fund

By annual resolution, City Council authorizes the property tax rate required to be levied to service the expenses related to administration of the Bond Retirement Fund, including the payment of principal and interest on certain City bonded indebtedness.

Historically, revenues of the Bond Retirement Fund have been sufficient to service all of the City's general obligation property-tax supported indebtedness. Besides property taxes, these revenues have included: proportionately shared state taxes, property tax rollback reimbursement, income earned from temporary investment of fund balances, and rental income from Cincinnati Southern Railway property.

The Bond Retirement Fund shall target a minimum balance of one year's debt service at all times. Bond Counsel shall review annually the Bond Retirement fund balance.

The Bond Retirement Fund will prepare an annual report of the fund.

Cincinnati Southern Railway

The City is the owner of a line of railroad known as the Cincinnati Southern Railway, which is under the control and jurisdiction of the Trustees of the Cincinnati Southern Railway and which is currently leased by Norfolk Southern through 2026. The rental income received from Cincinnati Southern Railway property is deposited into the Bond Retirement Fund to be applied to the bonded debt of the City as provided by legislation enacted by the Ohio General Assembly on July 1, 1949. The lease agreement with the Norfolk Southern Corporation was modified in 1987 to provide for an annual rent payment of at least $17 million plus an annual escalator based on the Implicit Price Deflator of the Gross National Product index of the U.S. Department of Commerce. Annual adjustments are not to exceed four percent. The rental revenues are used for debt service on general obligation notes issued periodically for various purposes and other bonded debt. In the 1980's the Smale Commission recommended the funds from the lease be dedicated to City infrastructure projects. The City passed an ordinance directing lease proceeds fund City infrastructure. In order to fund the infrastructure projects the City issues BANs which are then fully redeemed upon receipt of lease payments typically within a short number of months.

V. Structure and Term of Debt

Current Debt Structuring Practices

Debt structuring practices shall take into account the following factors:

1. Size – based on capital project needs.
2. Term – The City maintains a preference for the shortest possible average maturity considering the project type and availability of annual payment resources.
3. Amortization of Bonds – The City generally prefers level principal for general obligation bonds unless a specific revenue has been identified for GO or other bonds. However, the City may consider other amortization structures as appropriate and legally permitted under Ohio law.
4. Interest Rate – To enhance the effectiveness of annual capital budgeting, fixed interest rate structures are the City's preference for long useful life, infrastructure and buildings.
5. Call Provisions – The Financing Team will recommend to the Director of Finance the use of a call option on a case-by-case basis. The City's preference is for optional call provisions when appropriate.

Other Financing Structures
Short-term interim financing may be used to finance projects or portions of projects for which the City plans to issue long-term debt. The Debt Management Team may elect to apply short-term financing as a form of interim financing. Short term financing may include the issuance of short maturity bank loans, securities, or floating rate bond varieties featuring short-term interest rates. Examples of short-term financing structures which the City may utilize include, but may not be limited to the following:

1. Bond Anticipation Notes – generally with a final maturity of two-years or less as may be secured by the City's unlimited tax general obligation pledge as set forth in Ohio law; or specified revenues and refinancing proceeds of the bond anticipation notes.
2. Interim Notes Purchased by the City – issued and purchased by the City for the purpose of providing interim financing for capital projects of the City. Interim Notes will have a final maturity of not greater than five years and are expected to be refinanced with publicly issued securities or retired with cash resources.
3. Other Short-term Obligations – includes demand obligations, index notes, and commercial paper. These types of securities often will contain "put" features, meaning that investors may have a right to require an issuer to repurchase the security from the holder; often causing the issuer to maintain either a commercial bank facility available cash resources to satisfy credit requirements of holders concerned about the ability of an issuer to adequately remarket the security. Maturity of the various forms of security can range from very short in the case of commercial paper (less than 270 days) to thirty-years in the case of demand obligations. Demand obligations and index notes are sometimes structured as long-term obligations with interest rate reset features ranging from one day to multiple years.
4. Commercial Bank Line of Credit – often established without a termination date for the facility itself, allows a borrower to draw from a bank facility and restore the draw within a given period of time plus interest. In the alternate, draws may be able to be structured to be repaid over a period of years at a given interest rate. These facilities generally require on-going fees paid to the provider.

If the City maintains available cash and cash equivalent resources to offset the par amount of proposed short-term financing arrangements and the Director of Finance puts forth a plan for amortizing the principal amount of the short-term financing arrangement in a manner reasonably similar to the City's typical treatment of fixed rate bonds (i.e. principal of the bonds is amortized in each year beyond completion of the applicable project) then this Debt Policy allows for the application of short-term financing that is not for interim financing.

The City does not typically utilize derivative or hedging products such as interest rate swaps as part of its debt issuance program. However, in the event a compelling reason(s) is provided, the DMT may consider using a derivative or hedging product and will only do so with the written concurrence of the City's Financial Advisor. Currently, the City has no interest rate swaps and does not plan on entering into an interest rate swap at this time.

VI. Method of Sale

Debt of the City is issued for the purpose of funding capital improvement and economic development projects. All projects are approved by the Mayor and City Council.

1. The Finance Department shall be the lead City representative for all City related financing transactions.
2. All obligations issued by the City need the Mayor and City Council approval, which is in the form of an ordinance. That ordinance shall state the purpose, security sources and repayment provisions.
3. The Finance Department identifies the financial need to issue debt for an associated capital improvement project.
4. The Finance Department identifies whether the obligation should be a note (short-term financing) or a bond (long-term financing).

5. The Finance Department shall determine the structure of the obligations, including the type, size, timing, the participants (i.e. Underwriters) and schedule of issuance. Bond counsel shall be selected by the City Solicitor in concurrence with the City Manager.
6. The Finance Department shall determine the method of sale - Competitive or Negotiated.
7. The Finance Department shall work with the Law Department, Bond Counsel, the Financial Advisor and Underwriter as appropriate, to produce the necessary transaction documents.
8. The Finance Department shall coordinate the deposit of proceeds with the Accounts and Audits Division and the Treasury Division. Investment of proceeds is outlined in the transaction legal documents and/or the City's Investment Policy.

The City has used both competitive and negotiated methods of sale for all debt issuances. In determining whether to use a competitive or negotiated method of sale, the City shall utilize a sale method expecting to achieve the lowest overall cost of capital depending on the size and characteristics of the proposed issue and the applicable market conditions at the time of sale. The conditions, which indicate the appropriate method for selling a particular bond issue, are generally described below.

Competitive Sale Criteria:

- Bond prices are stable and/or demand is strong;
- Debt issuance markets are stable;
- The credit rating is well established and stable;
- There are no complex explanations required during marketing regarding: a specific project, media coverage, political structure, political support, tax status, funding, or credit quality;
- The bond type and structural features are conventional; and
- The transaction size is manageable.

Negotiated Sale Criteria:

- Bond prices are volatile and/or demand is weak and/or the supply of competing bonds is high;
- Debt issuance markets are less stable and market timing is important for circumstances such as refinancing transactions that are interest rate sensitive;
- Coordination of multiple components of the financing is required;
- The credit rating is not well established and stable;
- Sale and marketing of the bonds will require complex explanations about the City's projects, media coverage, political structure, political support, tax status, funding, or credit quality;
- The bond type and/or structural features are non-standard;
- Early structuring and market participation by underwriters is desired;
- Large transaction size; and
- Strong retail participation is desired and expected to enhance pricing efforts.

Direct Bank Loans or Limited Public Offering

When appropriate the Director of Finance may elect to sell its debt obligations through a direct bank loan or limited public offering.

Credit Enhancement

The City may use credit enhancement to improve marketability of City obligations. Types of credit enhancement include letters of credit, bond insurance, cash or bond funded reserves, or other public or private credit enhancements. The Director of Finance will document rationale for the acceptance of credit enhancement.

Offering Documentation
Offering documentation will be used for all types of debt issued of the City and purchased by public or private third-parties. For purposes of clarity, this includes documentation, as described further herein, even in the cases where rules of the Securities and Exchange Commission do not require offering documentation. In the case of either a direct bank loan or security purchased directly by a commercial bank, offering documentation is to include, but may not be limited to, documentation that summarizes of all relevant terms together with the purchase agreement for the bond and/or the loan agreement. In the case of privately placed securities, a limited offering memorandum, in addition to other financing documents, is to be prepared. In all cases related to securities issued by the City as described in Section V "Structure and Term of Debt", except for interim notes purchased by the City, offering documentation is to be posted to the Electronic Municipal Market Access (EMMA) system of the Municipal Securities Rulemaking Board.

VII. Refunding

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

Refunding Consideration
Refunding of outstanding indebtedness may be undertaken to:

- Take advantage of lower interest rates and achieve debt service cost savings,
- Eliminate restrictive or burdensome bond covenants,
- Restructure debt for the financial benefit of the City as determined by the Director of Finance.

The Director of Finance will consider a refunding only when one or more of the above three threshold considerations are met. As a rule of thumb, aggregate net present value savings, expressed as a percentage of the par amount of the refunded bonds, should achieve a level of 3% and above for a current refunding and 3% and above for an advance refunding. This savings requirement for a refunding may be waived by the Director of Finance upon a finding that such a restructuring is in the City's overall best financial interest. Exceptions shall be made only upon the approval of the Director of Finance. Specific threshold refunding saving levels, expressed on an aggregate present value basis, will be set forth in legislation authorizing the refunding bonds.

Refunding Escrows
Subject to federal tax law and advice from bond counsel, the City will seek to purchase State and Local Government Securities (SLGS) to fund its refunding escrows. However, at the discretion of the Director of Finance, the City 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 if SLGS are not available due to debt limitations of the United States government.

VIII. Composition of Financing Team

Members of the Financing Team may be selected by the City at the direction of the DMT, and subject to approval by the City Manager, through: (1) a Request for Qualifications (RFQ); or (2) Request for Proposals (RFP); or (3) other process as determined by the City Manager.

The City Solicitor will meet and confer with the City Manager on the selection of Bond Counsel and Disclosure Counsel per issuance. The City Solicitor, in consultation with the DMT, may engage separate firms in the capacity of bond and disclosure counsel or one single firm to perform the bond and disclosure counsel functions.

The Financial Advisor may be requested to assist the City in the selection of other service providers, such as underwriter, trustee, escrow agents, verification agents, and printers. Selection of consultants will reflect economic inclusion and diversity goals established by the City.

Bond Counsel
The City Solicitor will obtain external bond counsel for all debt issuances. The bond counsel will prepare the necessary ordinances, agreements and other legal documents necessary to execute the financing. All debt issued by the City will include an approving legal opinion of bond counsel.

Disclosure Counsel
The City will retain disclosure counsel for all public issuances. Disclosure counsel shall be required to deliver a customary 10(b)-5 opinion on City offering documents. The disclosure counsel will work with City staff to draft all disclosure documents for a bond financing.

Financial Advisor
The City shall use the services of an Independent Registered Municipal Advisor (IRMA) as its Financial Advisor. The Financial Advisor shall advise and assist on transaction structuring, in addition to other general financial planning as requested by the City. If there are any potential conflicts of interest, they should be waived by the Director of Finance prior to appointment or restrictions on conflicting relationships must be disclosed by the City prior to appointment.

Underwriters
For a competitive sale, the criteria used to select an underwriter shall be the bid providing the lowest true interest cost to the City.

For a negotiated debt issuance, the Director of Finance, as Chair of the DMT, shall choose underwriters. Eligible underwriters will be selected through a Request for Qualifications (RFQ) process. The City will maintain a list of underwriters to use for debt issuance pursuant to the RFQ process. Firms eligible to submit a response to the RFQ must be listed in the most recent edition of the Bond Buyer Red Book or a similar publication if the Bond Buyer Red Book is no longer published. Firms that merge or leave the industry are dropped from the eligible underwriter group and may be replaced with another qualified firm as determined by the Director of Finance. Underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance being proposed. The DMT will also consider the following additional criteria when selecting an underwriter and/or members of an underwriting syndicate:

- Experience with the particular size and type of financing;
- Overall experience;
- Familiarity with City issues;
- Marketing expertise;
- Distribution capability;
- Previous experience as managing or co-managing 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;
- Type of firm (i.e. National, regional, local, MBE, etc.);
- Location of firm and presence in the City and Ohio;
- Demonstrated commitment to the City;
- Compensation; and
- Other items as determined by Debt Management Team.

Underwriters must present all Municipal Advisor Rule written documentation prior to any communication with representatives of the City in relation to a contemplated financing. All transaction fees will be evaluated by the Director of Finance in conjunction with the City's Financial Advisor and approved by the Director of Finance using methodology determined by the Director of Finance prior to the distribution of any offering documentation.

Financial Advisors and Underwriters must meet all standards related to avoidance of conflict of interest as set forth in SEC and MSRB rules and regulations.

Trustee / Paying or Fiscal Agent

A Trustee or Paying/Fiscal Agent is the institution, usually a commercial band 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 Financial Advisor in consultation with the Bond Retirement Fund for a new bond issuance. The Bond Retirement Fund will monitor the ongoing performance of a Trustee/Paying Agent.

Other Service Providers

Other professionals may be selected, at the discretion of the Director of Finance, on an as needed basis. These include, but may not be limited to, the services of escrow agents, bond insurance providers, credit and liquidity banks, verification agents, title insurance companies and services related to printing.

IX. Post Issuance Compliance

Investment of Bond Proceeds

The proceeds of the bond sale will be invested until used for the intended purpose. The investments will be made to ensure the highest level of security. The City of Cincinnati's Investment Policy outlines the objectives and criteria for investment of bond proceeds. The City Treasurer 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.

Arbitrage Compliance

The division of Accounts and Audits and Treasury will maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements as required by the federal tax code. This shall include tracking investment earnings on bond proceeds, calculating rebateable earnings and remitting any rebate payments to the federal government. The DMT, via request for proposal conducted not less frequently than each five years, will appoint a qualified third–party (such third-party may include bond counsel) to assist the City in fulfilling its obligations with regard to arbitrage compliance.

Ongoing Disclosure

The City will meet continuing disclosure requirements in a timely and comprehensive manner, as stipulated by the SEC Rule 15c2-12 and as set forth in the continuing disclosure agreements implemented with each financing. The City Treasury Division (Debt Manager) 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 repository designated by the SEC for ongoing disclosures by municipal issuers.

The City will provide full and complete financial disclosure to rating agencies, EMMA, other levels of government, and the general public to share clear, comprehensible, and accurate financial information using the appropriate channels/policies/procedures. The City will annually conduct an audit of EMMA filings to outstanding continuing disclosure obligations to determine compliance with provisions of existing continuing disclosure agreements. The DMT may appoint a qualified third party to assist the City in the maintenance of its continuing disclosure undertakings; the qualified third party may include either bond counsel or disclosure counsel.

Compliance with other Bond Covenants

The Treasury Division (Debt Manager) is also responsible for verifying compliance with all undertakings, covenants, and agreements of each bond issuance on an ongoing basis. This typically includes ensuring:

- Annual obligations are appropriated to meet debt service payments,
- Taxes/fees are levied and collected in a timely manner and transferred to a trustee or paying agent where applicable,
- Timely transfer of debt service/rental payments to the trustee or paying agent,
- Compliance with rate covenants where applicable,
- Compliance with all other bond covenants.