Anne Arundel County Debt Management Policy

I. Overview

A. Purpose: The County recognizes the foundation of any well-managed debt program is a comprehensive debt policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The debt policy should recognize a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that credit quality is protected. From time to time, certain circumstances arise which could cause the Office of Finance to deviate from the policies herein. Advantages of a debt policy are as follows:

- enhances the quality of decisions by imposing order and discipline and by promoting consistency and continuity in decision making,
- rationalizes the decision-making process,
- identifies objectives for staff to implement,
- demonstrates a commitment to long-term financial planning objectives, and
- is regarded positively by the rating agencies in reviewing credit quality.

B. Responsibility: The Office of Finance is responsible for drafting this policy and incorporating comments from the County's Financial Advisor and Bond Counsel.

C. Policy Updates: The policy will be reviewed and updated (as needed) at least annually.

D. Definitions: See Appendix A.

II. Spending Affordability Advisory Committee

A. Purpose: The Spending Affordability Advisory Committee was established by Charter Amendment approved by the voters of Anne Arundel County at the general Election in November, 1990. The Committee is charged with making advisory recommendations to the Office of the Budget, the County Executive, and the County Council relating to spending affordability including County spending levels to reflect the ability of the taxpayer to finance County services and long-term debt. Consistent with this mission, the Committee has historically provided the Office of the Budget, the County Executive, and the County Council with a recommended General Fund Current Expense Budget appropriation limit and a recommended General Fund debt limit. In addition to these recommended spending affordability limits, the Committee has also provided comments on a wide-range of issues related to the County budget, County operations, and the County's capital infrastructure.

B. Members: The Committee is composed of County citizens and confirmed by resolution of the County Council.

C. Debt Affordability Measures: The Committee examines four statistical measures to determine debt capacity and compares these ratios to those of other counties, rating agency standards and the County's historical ratios to determine debt affordability.

1. **Tax supported debt measured as a percent of Full Value. 2**% and below is considered an appropriate level.

2. **Tax supported debt measured against the population on a per-capita basis.** The County aims to maintain a level below $3,000.

3. **Tax supported debt measured as a percent of the jurisdiction's personal income.** The Committee uses this measure in conjunction with measure number one, as this measure factors in the wealth not just the number of residents. The County aims to maintain a level below 4%.

4. **Debt service for tax supported debt as a percent of current revenues. 11.5**% or below is considered an appropriate level.

III. Comprehensive Capital Planning

A. Planning

1. **General Plan:** The Department of Planning and Zoning is responsible for the comprehensive planning of growth, development and conservation in the County. The department coordinates the preparation and revision of a general plan that includes policies for land use and land conservation and multi-year development plans for transportation, public facilities, water, sewerage, parkland, housing, human services and environmental protection.

2. **Master Plans:** Supporting the general plan are 10-year capital improvement master plans for transportation (roads, bridges and

public transportation), water and sewer, solid waste, and schools which are updated annually. In addition to the requirements of the County Code, master plans are prepared by the Anne Arundel County Library and the Department of Recreation and Parks.

3. **Adequate Public Facilities:** The general plan guides where growth occurs, while the adequate public facilities process and standards manage growth so that facilities can be constructed in a timely manner. Adequate public facilities legislation requires the testing of proposed developments for adequacy of schools, roads, and other infrastructure facilities as a condition of subdivision or site development plan approval. Milestones established in that legislation require properties to move in an orderly and predictable manner through the development process.

4. **Capital Improvement Plan:** Section 705 of the County's Charter requires that the County prepare a multi-year capital program for consideration and adoption by the County Council as part of the County's budget process. The concurrency management plan contained in the General Development Plan shall guide the allocation of funds to the County capital improvement program. Annually, the capital budget identifies revenue sources and expenditures for the coming current year and the next succeeding five fiscal years, as required by the Charter. The plan is updated annually.

5. **Effect on Future Operating Budgets:** Each capital project includes projections of the effect it will have on future operating budgets.

B. **Funding of the Capital Improvement Program:** Capital projects generally have a long useful life and will serve future taxpayers as well as current taxpayers. It is an inequitable and unreasonable fiscal burden to make current taxpayers pay fully for those projects out of the current tax revenues. This concept of taxpayer equity (those benefiting from a project should share in funding the cost of the project) is a consideration in how capital projects are funded. The County first attempts to fund capital projects with grants or developer contributions, then turns to several dedicated revenues that fund the capital program either as pay-as-you-go or to fund debt service. Dedicated revenues include but are not limited to impact fees, water/sewer ad valorem fees and water/sewer front foot fees. If these are not available, the County will use excess surplus, general revenues, and bond financing. Water and sewer projects are funded solely by water and sewer charges and fees of the Enterprise Fund.

C. **Maintenance, Replacement and Renewal:** The County intends to set aside sufficient current revenues to finance ongoing maintenance needs and to provide periodic replacement and renewal. It is the County's philosophy to maintain safe and cost-effective buildings, maintain a sound working environment, preserve longevity of buildings and equipment, and protect public property and investment.

D. Debt Authorization: The Bond Ordinance approved by County Council authorizes the County debt to be issued to fund capital projects appropriated in the capital budget. No County debt issued for the purpose of funding capital projects may be authorized by the County Council unless an appropriation has been included in the capital budget.

IV. Planning and Structure of County Indebtedness:

A. Overview: The County plans long and short term debt issuances to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Controller oversees and coordinates the time, issuance process and marketing of the County's borrowing and capital funding activities required in support of the capital improvement plan.

The County finances its capital needs on a regular basis dictated by its capital spending pattern. The County monitors market conditions and takes advantage of refinancing opportunities to reduce its interest cost as far as practicable.

B. Financing Team: The County employs outside financial consultants to assist in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key players in the County's financing transactions include its Financial Advisor and Bond Counsel, the Underwriter (on a Negotiated Sale) and County representatives (the Controller and the Budget Officer, among others). Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, auditing, or printing services, are retained as required.

The financing team meets annually to review the overall financing strategy of the County for the upcoming year.

C. Overlapping Debt: The City of Annapolis is the only incorporated municipality in the County that issues debt. As of June 30, 2015, the City of Annapolis had $126,990,000 in long-term, general obligation debt. The County is not obligated to pay such debt or the interest thereon and neither the full faith and credit nor the taxing power of the County is pledged to the payment of the principal of or interest on such indebtedness.

D. Term of Debt Repayment: The County follows guidelines set by Section 720 of the Anne Arundel County Charter. Borrowings by the County mature over a term that does not exceed the average economic life of the improvements that they finance. The County consolidates its long-lived municipal improvements into Consolidated General Improvement Bonds (with a maximum term of 30 years) and its long-lived sewer and water system improvements into Consolidated Water and Sewer Bonds (with a maximum term of 30 years).

Capital Projects that have a useful life of five years or more are considered eligible for bond funding. Individual Capital Projects are matched to the bond maturity schedule to ensure that each project is financed over a period of time no longer than its useful life. All County debt shall be payable under an annual installment plan that commences payments not more than two years from the date of issue.

E. Legal Borrowing Limitations:

1. **General Obligation Bonds**. In accordance with Section 10-203 of the Local Government Article of the Annotated Code of Maryland and in accordance with Section 4-10-101(a) of Article 4, Finance Taxation, and Budget of the Anne Arundel County Code the aggregate amount of General County indebtedness outstanding at one time (excluding I-III in the paragraph below) shall not exceed:

   a. 5.2% of the assessable basis of real property;
   b. 13% of the County's assessable basis of personal property; and
   c. 13% of the operating real property described in Section 8-109(c) of the Tax-Property Article of the Annotated Code of Maryland (2012 Replacement Volume and 2013 Supplement).

In determining outstanding indebtedness, the following shall be excluded.

   I. Tax anticipation notes and other indebtedness with a maturity of one year or less;

   II. Bonds or other indebtedness of the County payable from taxes levied from special taxing areas; and

   III. Self-supporting bonds or other debt.

2. **Water and Wastewater Bonds.** In accordance with Section 4-10-103(d) of Article 4, Finance Taxation, and Budget of the Anne

Arundel County Code the aggregate amount of Water & Wastewater County indebtedness outstanding at one time shall not exceed:

- **a.** 5.6% of the assessable basis of real property;
- **b.** 14% of the County's assessable basis of personal property; and
- **c.** 14% of the operating real property described in Section 8-109(c) of the Tax-Property Article of the Annotated Code of Maryland (2012 Replacement Volume and 2013 Supplement).

F. Watershed Protection and Restoration Fund Bonds: Before bonds are issued as part of a separate series to finance watershed protection and restoration projects ("WPRF Bonds"), a determination shall be made that the estimated fund balance and/or net revenues to the Watershed Protection and Restoration Revenue Fund established under Section 4-11-119 of Article 4, Finance, Taxation and Budget of the Anne Arundel County Code will be sufficient to pay the debt service payable on such WPRF Bonds. Any such determination is made solely for the purpose of ongoing management of debt affordability by the County and shall not impact in any way the validity of, or the rights of bondholders under, WPRF Bonds.

G. Bond Features:

1. **Security for General Obligation Bonds.** The Consolidated General Improvement Bonds are general obligations of the County for the payment of which the County's full faith and credit and taxing power are pledged, subject to the limitation on the taxing power set forth in Section 710(d) of the County Charter. The Consolidated Water and Sewer Bonds are general obligations of the County to which its full faith and credit and taxing power are pledged, subject to the limitation on the taxing power set forth in Section 710(d) of the Charter, payable primarily from net revenues of water and wastewater projects.

2. **Debt Service Structure for General Obligation Bonds.**

   - **a. Consolidated General Improvement Bonds.** The County finances its long-lived municipal improvements over a maximum of 30-year term, and generally structures the principal repayments on these bonds such that they are approximately equal for each year such bonds are outstanding.

b. **Consolidated Water and Sewer Bonds.** The County finances its long-lived water and sewer improvements over a maximum 30-year term and generally structures the principal repayments on these bonds such that they are approximately equal for each year such bonds are outstanding. .

3. **Tax Increment Financing Bonds.** All Tax Increment Financing Bonds ("TIF Bonds") will be approved in accordance with Title 12, Subtitle 2 of the Economic Development Article of the Annotated Code of Maryland (the Tax Increment Financing Act). Applications for TIF Bonds will be reviewed by the Tax Increment Financing Committee, as defined in the Tax Increment Financing Guidelines, and a recommendation will be made to the County Executive. All applications will include a financial analysis that indicates that the total incremental tax revenues generated by the development exceed the annual debt service on the bonds. The applicant will be responsible for costs of a consultant's review of the financial analysis, Bond Counsel and any other legal counsel. An annual report on revenues collected to service debt requirements is required.

   In most cases a companion Special Taxing District established by the County pursuant to Title 21, Subtitle 5 of the Local Government Article of the Annotated Code of Maryland (the Special Taxing District Act) will be established to authorize the collection of Special Taxes to supplement the Tax Increment District tax increment as needed to meet debt service obligations.

4. **Special Taxing District Bonds.** All Special Taxing District Bonds ("Special Taxing District Bonds") will be approved in accordance with the Special Taxing District Act. Applications for Special Taxing District Bonds will be reviewed by the Special Taxing District Financing Committee, as defined in the Special Taxing District Guidelines, and a recommendation will be made to the County Executive. All applications will include a financial analysis that indicates that the total special tax revenues generated by the development exceed the annual debt service on the bonds. The applicant will be responsible for costs of a consultant's review of the financial analysis, Bond Counsel and any other legal counsel. An annual report on revenues collected to service debt requirements is required.

5. **Original issue discount or Premium.** The County's bonds may be sold at a discount or Premium in order to market its bonds more effectively, achieve interest cost savings or meet other financing objectives. The maximum permitted discount is stated in the Notice

of Sale accompanying the County's preliminary Official Statement.

Bond Premiums generated from issuance of County bonds shall be used for the funding of capital improvements financed by the bonds.

6. **Call provisions.** The County seeks to balance the protection from Optional Redemption given to bondholders, with its desire to obtain the lowest possible interest rates on its bonds. The County's bonds are generally subject to Optional Redemption. The County seeks early calls at low or no Premiums because such features have allowed it in the past to refinance debt more easily for debt service savings when interest rates dropped. The County and its Financial Advisor evaluate Optional Redemption provisions for each issue to assure that the County does not pay unacceptably higher interest rates to obtain such advantageous calls.

7. **Interest rates.** The County uses variable or fixed-rate debt to finance its capital needs. The County's policy is to limit the amount of long-term variable rate debt to 20% of the County's total outstanding consolidated general improvement or consolidated water and sewer obligation debt (whichever is applicable).

8. **Capitalized interest.** Capitalized Interest increases the amount of debt to be issued and therefore will be avoided unless beneficial from a credit standpoint, as in the case of lease-purchase obligations. Interest on General Obligation Bonds will not be capitalized. Interest may be capitalized on TIF Bonds**.**

H. Installment Purchase Agreements. The County has an agricultural land preservation program that enables it to purchase development rights on farmland in the County. The County may enter into installment purchase agreements pursuant to Section 17-10-206(b)(2) of the Anne Arundel County Code to acquire easements provided that the face value of the installment purchase agreement is less than the appraised value of the easement by an amount that provides a significant economic benefit to the County. The financing for this program complies with all County statutory requirements pertinent to bonds and Article 17, Title 10, Subtitle 2 of the County Code relating to Agricultural Land Preservation. An individual easement can be purchased from a landowner using an installment purchase agreement that pays interest semi-annually and the principal at the end of 30 years. The final principal payment is paid from the proceeds of stripped U.S. Treasury bonds, known as "zeros", maturing on the appropriate date. The program is fully funded by an allocation from the transfer tax revenues. A spending affordability analysis, which is updated annually, is used to determine how many preservation easements can be purchased**.**

I. **Lease Debt.** The County will use lease financing when it is economic and efficient.

J. **Other Long-Term Obligations**

1. **Vested vacation benefits.** Vacation benefits are earned by County employees based on time in service, and the rights to such benefits are vested. The County records vested vacation benefits as earned in accordance with generally accepted accounting principles. In the Governmental Activities, the amount owed to current and former employees at year end is accrued as an expense and recorded as a liability. The total liability related to the proprietary-type funds is accrued as an expense and liability in that fund. The amount of vested vacation benefits is not included in measures used to evaluate the County's debt affordability.

2. **Landfill closure and post closure care cost.** State and federal laws and regulations require the County to cover its landfill cells when filled and to monitor and maintain such cells for 30 years after closure. The County recognizes a portion of these costs in each operating period based on estimated landfill capacity used as of each balance sheet date. The amount of accrued landfill closure costs is not included in measures used to evaluate the County's debt affordability.

V. Bond Anticipation Notes (As Authorized By Section 19-212 of the Local Government of Article of the Annotated Code of Maryland)

A. **Construction Financing.** The County may issue fixed- or variable-rate bond anticipation notes (BANs) when their use is judged to be prudent and advantageous. The County may elect to use BANs to provide interim construction financing for its capital improvement program as a method of managing its available cash. BANs may be sold in either a competitive or Negotiated Sale, subject to prior authorization by the County Council. The maximum BAN amount of construction financing is limited to the estimated construction cost of capital projects during a two year period.

B. **Credit or Liquidity Enhancement.** The County may seek to use credit or liquidity enhancement when such enhancement proves to be cost-effective or to improve or establish a credit rating on BANs. Selection of an enhancement provider is subject to an evaluation process developed by the Underwriter and Financial Advisor and approved by the Controller. Criteria to be used in selecting an enhancement provider include:

1. the short-and long term credit ratings of the institution**;**

2. the relative trading level of debt supported by the enhancement provider**;**

3. the institution's experience with providing credit or liquidity facilities to municipal bond issuers**;**

4. competitiveness of fees, interest charged on liquidity draws and maximum legal and administrative fees**;**

5. ability to agree to state and county legal requirements including providing an annual financial report and prompt notification of any credit rating downgrades; and

6. the amount and number of liquidity facilities currently outstanding in the market**.**

VI. Method of Sale

The County will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and other conditions. The County will comply with requirements of Section 721 of the Anne Arundel County Charter, which requires long-term general obligation bonds for non-refunding purposes to be sold competitively**.**

A. Competitive Sales: Long-term bonds are generally issued through a Competitive Sale. The County and its Financial Advisor will set the terms of the sale to encourage as many bidders as possible. By maximizing bidding, the County seeks to obtain the lowest possible interest costs on its bonds. Some of the conditions that generally favor a Competitive Sale include**:**

1. the market is familiar with the County**;**

2. the County is a stable and regular borrower in the public market**;**

3. there is an active secondary market with a broad investor base for the County's bonds**;**

4. County bonds have a non-enhanced credit rating of A or above or can obtain a credit enhancement prior to the Competitive Sale**;**

5. the debt structure is backed by the County's full faith and credit or a strong, known or historically performing revenue stream**;**

6. the issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sale effort**;**

7. the issue does not include complex or innovative features or require explanation as to the bonds' security**;**

8. the issue can be sold and closed on a schedule that does not need to be accelerated or shortened for market or policy reasons; and

9. interest rates are stable and market demand is strong.

B. Negotiated Sales: In situations where Competitive Sales are not required by law, Negotiated Sales may be considered. In these situations, when certain conditions favorable for a Competitive Sale do not exist and when a Negotiated Sale will provide significant benefits to the County that would not be achieved through a Competitive Sale, the County may elect to sell its debt obligations through a private or Negotiated Sale, as authorized by ordinance enacted by the County Council. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. The underwriting team is selected through a competitive process. The following practices are observed in the event of a Negotiated Sale**:**

1. ensure fairness by using a competitive Underwriter selection process through a request for proposals where multiple proposals are considered**;**

2. remain actively involved in each step of the negotiation and sale processes to uphold the public trust**;**

3. ensure that either an employee of the County or the Financial Advisor, who is familiar with and abreast of the condition of the municipal market, is available to assist in structuring the issue, pricing, and monitoring sales activities**;**

4. require that the Financial Advisor not act as Underwriter**;**

5. require that financial professionals disclose the name or names of any person or firm, including attorneys, lobbyists and public relations professionals, compensated in connection with a Negotiated Sale**; and**

6. request all financial professionals submitting joint proposals or intending to enter into joint accounts or any fee-splitting arrangements in connection with a Negotiated Sale to fully disclose to the County any plan or arrangements to share tasks, responsibilities and fees earned and to disclose the financial professionals with whom the sharing is proposed, the method used to calculate the fees to be earned, and any changes thereto**.**

VII. Refinancing of Outstanding Debt

The Internal Revenue Code states that government bonds issued after 1985 may only be advance refunded once. Section 19-207 of the Local Government Article of the Annotated Code of Maryland authorizes refinancing of any County Bonds. The County may refinance outstanding long-term debt when such refinancing allows the County to realize significant debt service savings without lengthening the term of refinanced debt and without increasing debt service in any subsequent fiscal year. A review of potential savings is performed annually.

The County may refinance outstanding debt, either by Advance Refunding to the first call or by Defeasance to maturity, when the public policy benefits of replacing such debt outweigh the costs associated with new issuance as well as any increase in annual debt service.

VIII. Conduit Financings

Conduit financing are securities issued by a government agency to finance a project of a third party, such as a non-profit 501(c)(3) organization or other private entity. The County may sponsor conduit financings for those activities (e.g., economic development, housing, volunteer fire departments) that have a general public purpose and are consistent with the County's overall service and policy objectives.

The County will require such third parties to provide such information to the County as the County deems appropriate or necessary, including the provision of annual financial statements. Existing conduit financings do not in any way pledge the County's full faith and credit of the County.

IX. Derivatives

No Derivative products will be used unless authorized by the County Council. No Derivative products shall be utilized without an analysis by an independent Financial Advisor and the implementation of an independent monitoring program. Prior to entering into any swap or Derivative transaction, the County will develop a swap policy that addresses risk management aspects of Derivative transactions. No Derivative products shall be used for the purpose of interest rate speculation.

A. Interest Rate Swaps:

1. All Interest Rate Swap agreements entered into by the County must comply with Section 19-236 of the Local Government Article of the Annotated Code of Maryland.

2. The counterparty to a swap agreement must have received a minimum credit rating of Aa3 or AA- or equivalent from two nationally recognized rating agencies.

X. Credit Ratings

A. Rating Agency Relationships: The Controller is responsible for maintaining relationships with the rating agencies that assign ratings to the County's various debt obligations. This effort includes providing periodic updates on the County's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

B. Quality of Ratings: The County shall request ratings prior to the sale of securities from at least two of the three major rating agencies for municipal bond issues: Moody's Investors Service, Standard & Poor's Rating Services and Fitch Ratings. The County may provide a written and/or oral presentation to the rating agencies to help each credit analyst make an informed evaluation. The County will make every reasonable effort to maintain its high quality credit ratings to aid in minimizing borrowing costs and preserving access to credit.

XI. Management Practices

The County has instituted sound management practices and will continue to follow practices that will reflect positively on it in the rating process. Among these are the County development of and adherence to long-term financial and capital improvement plans, management of expense growth in line with revenues and maintenance of an adequate level of operating reserves.

A. Revenue Reserve Fund, known as the Rainy Day Fund: Section 4-11-106 of the Anne Arundel County Code establishes a Rainy Day Fund for the purpose of retaining revenues for future use to maintain a consistent level of service without requiring a substantial tax increase if estimated revenues decline substantially during the course of the budget year. The budget as proposed by the County Executive and approved by the County Council may contain an appropriation to fund the Revenue Reserve Fund except that the amount of the annual appropriation to the Revenue Reserve Fund may not cause the sum of the balance of the Revenue Reserve Fund plus the appropriation to exceed an amount equal to 5% of the estimated General Fund Revenues for the upcoming fiscal year for which the appropriation is made.

B. Rebate Reporting and Covenant Compliance: The Controller is responsible for maintaining a system of record keeping and reporting to meet the Arbitrage rebate and other requirements of the federal tax code.

This effort includes tracking investment earnings on bond and BANs proceeds, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the County's outstanding debt issues. Additionally, other requirements embodied in bond covenants, such as restrictions on private use of bond-financed projects, are monitored to ensure compliance with all covenants.

C. Reporting Practices: The County will comply with the standards of the Government Finance Officers Association for financial reporting and budget presentation and the disclosure requirements of the Securities and Exchange Commission. All financial reports will meet GAAP (Generally Accepted Accounting Principles) and GASB (Governmental Accounting Standards Board) standards. The County will also provide an audited comprehensive annual report on the financial condition of the County as required by Title 16 Subtitle 3 of the Local Government Article of the Annotated Code of Maryland and Sections 311 and 513 of the County Charter**.**

Signed this _________day of ___________, 2015.

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Julie Mussog, Controller

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Mark D. Hartzell, Chief Administrative Officer

As adopted by Council Resolution ________ on ____________, 2015.

Appendix A

Definitions

1. Advance Refunding: A bond is treated as issued to advance refund another bond if it is issued more than 90 days before the Redemption of the refunded bond.
2. Arbitrage: In the municipal securities context, the difference between the interest paid on tax-exempt bonds and the interest earned on investments in normally higher-yielding taxable securities.
3. Assessable Base: The total market value of real estate and personal property located within the jurisdiction.
4. Bond Counsel: An attorney or firm retained by the issuer to give a legal opinion that the issuer is authorized to issue the proposed securities and the issuer has met all legal requirements necessary for issuance, and whether interest on the proposed securities will be exempt from federal and/or state income taxation. Bond counsel typically advises the issuer on statutory requirements, prepares authorizing resolutions or ordinances, trust indentures, closing documents and other documents required for the issuance of securities.
5. Callable: Able to be redeemed by the issuer prior to maturity.
6. Capitalized Interest: A portion of the proceeds of a bond issue set aside to pay interest on the securities for a specified period of time.
7. Closing Date: With respect to municipal securities, the date upon which the securities are delivered and payment in consideration thereof is received.
8. Competitive Sale: Bonds are advertised by way of a Notice of Sale indicating the terms of the sale and the bond issue and the designated time and place for opening of bids. The bonds are awarded to the Underwriter offering the lowest True Interest Cost.
9. Continuing Disclosure: An issuer's or obligor's provision to the public of updated financial information and operating data and notices of Material Events regarding such issuer or obligor as required by Rule 15c2-12 and the SEC.
10. Defeasance: For legal purposes, the rendering of outstanding bonds as paid upon the deposit of funds and other actions taken as prescribed in the document authorizing the issuance of the bonds.
11. Derivative: A financial product that derives its value from an underlying security, asset, debt, index or reference rate. In the tax-exempt market, there are primary and secondary derivative products.
12. Financial Advisor: A consultant who advises the issuer on matters pertinent to the issue, such as structure, timing, marketing, fairness of pricing, terms and bond ratings.
13. Full Value: The total market value of real property and personal property located within the jurisdiction.
14. Interest Rate Risk: Potential Price fluctuations in a bond due to changes in the general level of interest rates.
15. Interest Rate Swap: A contractual agreement between two parties to exchange certain cash flows for a defined period of time. The swap is not a debt instrument

between the issuer and the counterparty and does not result in the creation of new principal amounts.

16. Material Events: In the municipal market, with regard to Rule 15c2-12, specified events that must be disclosed to investors if they occur.
17. Maturity Date: The date when the principal amount of a security becomes due and payable, if not subject to a prior call or Redemption.
18. Negotiated Sale: The sale of bonds is by negotiation and agreement with an underwriter or underwriting syndicate selected by the issuer prior to the moment of sale.
19. Notice of Sale: An official document disseminated by an issuer of municipal securities that gives pertinent information regarding an upcoming bond issue and invites bids from prospective Underwriters.
20. Official Statement (OS): The official document for municipal securities that is prepared by or on behalf of the issuer. The OS discloses security features and economic, financial and legal information about the issue. The final OS contains the pricing information on the issue that is not contained in the preliminary official statement.
21. Optional Redemption: A right of the issuer to redeem or call an issue or a portion thereof prior to the stated maturity. May require the payment of a Premium for its exercise, with the amount of the Premium decreasing the nearer the option exercise date is to the final Maturity Date of the issue.
22. Premium: The amount by which the Price of a security exceeds its principal amount.
23. Price: The dollar amount to be paid for a security, stated as a percentage of its face value, or par. Bond prices are best reflected in their Yields, which vary inversely with the dollar price.
24. Redemption: The issuer's retirement of the bonds by payment to the owners thereof as specified in the document authorizing the issuance of the bonds.
25. Refunding: Sale of a new issue, the proceeds of which are to be used, immediately or in the future, to retire an outstanding issue by, essentially, replacing the outstanding issue with the new issue. Refundings are done to save interest cost, extend the maturity of the debt, or to relax existing restrictive covenants.
26. True Interest Cost: The rate that will discount all future cash payments so the sum of the present value of all cash flows will equal the bond proceeds. This calculation takes into account the time value of money.
27. Underwriter: The securities dealer who purchases a bond or note issued from an issuer and resells it to investors. If a syndicate or selling group is formed, the underwriter who coordinates the financing and runs the group is called the senior or lead manager.
28. Yield: The annual percentage rate of return earned on a security. Yield is a function of a security's purchase Price and coupon interest rate.
29. Zero-coupon Bond: A bond for which no periodic interest payments are made. The investor receives one payment at maturity equal to the principal invested plus interest earned compounded semi-annually at the original interest rate to maturity.