CITY OF XENIA, OHIO
RESOLUTION 2023 – 031

ADOPTING AND APPROVING A DEBT ADMINISTRATION POLICY AS REQUIRED BY XENIA CITY CODE SECTION 250.03(b), TO ESTABLISH PARAMETERS AND PROVIDE GUIDANCE GOVERNING THE ISSUANCE, MANAGEMENT, EVALUATION, AND REPORTING ON ALL DEBT OBLIGATIONS OF THE CITY OF XENIA

WHEREAS, Xenia City Code Section 250.03(b) requires this Council to adopt and approve, by resolution, a Debt Administration Policy establishing parameters and providing guidance in relation to the issuance of debt;

WHEREAS, the Finance Director has reviewed the City's current Debt Administration Policy and recommended revisions to promote more effective and efficient management of debt obligations; and

WHEREAS, the proposed revisions to the Debt Administration Policy were reviewed with Council's Finance & Budget Committee, who recommends to this Council the adoption of the revised Policy.

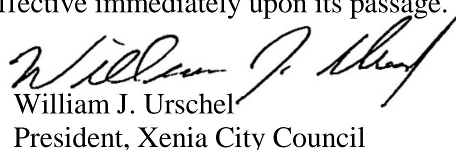
NOW, THEREFORE, THE CITY OF XENIA HEREBY RESOLVES, a majority of the members of Council present concurring, that:

Section 1. The City of Xenia Debt Administration Policy, attached hereto as Exhibit A, is hereby approved and adopted, in accordance with Section 250.03(b) of the Xenia City Code.

Section 2. It is found that all formal actions of this Council concerning and relating to the adoption of this Resolution were adopted in an open meeting of this Council, and that all deliberations of this Council that resulted in this formal action were in meetings open to the public in compliance with all legal requirements, including ORC 121.22.

Section 3. This Resolution shall become effective immediately upon its passage.

Passed: May 11, 2023



William J. Urschel
President, Xenia City Council

Attest:

Michelle D. Johnson
City Clerk

EXHIBIT A

CITY OF XENIA DEBT ADMINISTRATION POLICY

Article I. Purpose.

This Debt Administration Policy ("Policy") is authorized by Xenia City Code Section 250.03(b), to establish parameters and provide guidance governing the issuance, management, evaluation, and reporting on all debt obligations of the City of Xenia. This Policy also establishes criteria for the selection of bond counsel, underwriters, and financial advisers, identifies the various debt instruments permitted for use and the process for soliciting proposals for debt financing, as well as identifying metrics for evaluating debt coverage ratios, establishing maximum maturities, and addressing financial disclosures. Implementation of this policy will enhance the quality of decisions, provide a framework for the decision-making process, and demonstrates the commitment to long-term financial planning. Adherence to a debt policy helps to ensure that a government maintains a sound debt position and that its credit quality is protected.

Article II. Selecting Bond Counsel, Financial Advisors, and Underwriters.

(A) Bond Counsel. Bond counsel renders an opinion on the validity of the bond offering, the security of the offering, and to what extent the interest on the bonds is exempt from income and other taxation. Bond counsel may also be engaged to develop the Official Statement for the Bond Offering ("Official Statement").

In accordance with City Charter Section 6.04 B.(6), the Law Director may engage bond counsel upon the recommendation of the Finance Director, who shall make a specific recommendation to the Law Director as to the law firm to be engaged as bond counsel. The Finance Director may issue a request for proposals or evaluate firms through a more informal process. The Finance Director should select bond counsel based on the following factors:

(1) The experience of the firm with financings of the City or comparable issuers, and financings of similar size, types, and structures, including financings in the same state;
(2) The experience of the firm with federal, state, local, and other laws including tax matters;
(3) The experience of the firm with and its approach to applicable securities laws and regulations;
(4) The knowledge and experience of the attorneys that would be assigned to the transaction and/or the City's account;
(5) The ability of the firm and assigned personnel to evaluate legal issues, prepare documents, and complete other tasks of a bond transaction in a timely manner; and
(6) Relationships or activities that might present a conflict of interest for the City, including financial relationships with other firms providing services the City will procure for a bond issue.

The Finance Director's recommendation of bond counsel should not be based solely on the proposed fee. Experience of the firm and attorneys assigned to the transaction should be given strong consideration in making the final selection. City Council approval of the engagement of bond counsel may be needed if the cost exceeds the threshold set by Council in Xenia City Code Section 214.01. Once bond counsel has been selected, if funds have been appropriated for the services, the Law Director shall execute an engagement letter or similar type agreement with bond counsel. This engagement letter can include services for preparation of the Official Statement but shall specify that underwriter disclaimer language should not be included in any Official Statement. A thorough review of the Official Statement by the Finance Director should take place to ensure that no disclaimer language has been included.

(B) Financial Advisors. Financial advisors assist the City on debt issuance and any financial matters related to the issuance of debt. The assistance includes an evaluation and recommendations on the type of financing, the method of bond sale (competitive or negotiated), the structure of the issue, and the selection of the underwriter and bond counsel. A financial advisor should be utilized when the Finance Director believes the quantitative and qualitative benefits exceed the costs. The Finance Director may issue a request for proposals or evaluate advisors through a more informal process. The Finance Director should select the financial advisor based on qualifications and experience including:

(1) Relevant experience of the firm and the individuals assigned to the City, identification of the individual in charge of day-to-day management and the percentage of time committed for each individual on the account;
(2) The financial advisor's ideas on approach to the financing, structure of the offering, credit rating strategy, and investor-marketing strategy;
(3) The analytic capability of the firm and the assigned individuals;
(4) The availability of sources of information to assist in bond pricing;
(5) Any finder's fees, fee splitting, or other contractual arrangements of the firm that could present a real or perceived conflict of interest, as well as any pending investigation of the firm or enforcement or disciplinary actions taken within the past three years by any regulatory body; and
(6) The amount of the fee based upon an hourly rate or retainer basis reflecting the nature of the services to the City.

(C) Underwriters. An Underwriter administers the public issuance and distribution of securities from the City. An underwriter works closely with the Finance Director and purchases the securities from the City and sells them to investors. This is done through either a competitive or negotiated bond sale process. In a negotiated bond sale, a request for proposals should be developed that clearly describes the scope of services desired, the fee structure, the length of engagement, evaluation criteria, and the selection process. The request for proposals should include the areas listed below to establish the underwriter's qualifications and experience including:

(1) Relevant experience of the firm and the individuals assigned to the City, identification of the individual in charge of day-to-day management, and the percentage of time committed for each individual on the account;
(2) The underwriter's ideas on approach to the financing, structure of the offering, credit rating strategy, and investor-marketing strategy;
(3) The analytic capability of the firm and the assigned individual;
(4) The availability of sources of information to assist in bond pricing;
(5) Any finder's fees, fee splitting, or other contractual arrangements of the firm that could present a real or perceived conflict of interest, as well as any pending investigation of the firm or enforcement or disciplinary actions taken within the past three years by any regulatory body;
(6) The amount of total compensation with individual amounts listed for takedown, management fee, underwriting risk, and itemized expenses;
(7) A listing of legitimate expenses and a listing of unreasonable expenses may be included in the request for proposals;
(8) The amount of uncommitted capital available and the ability and willingness of the firm to purchase the entire offering of the City, if necessary; and
(9) The level and types of insurance carried, including the deductible amount, to cover errors and omissions, improper judgments, or negligence.

In a competitive bond sale, the Finance Director and financial advisor work together to determine the structure of the bond issue to bring to market for sale to an underwriter. The Finance Director

works with a financial advisor to develop a Notice of Sale ("NOS") to advertise the sale of the bonds. The underwriter is then selected based upon the best proposal determined by all-in true interest cost.

The City has a legitimate role in the engagement of the underwriter's legal counsel but recognizes that the underwriter needs to rely on the competence and ability to give confidential advice of its counsel. The potential exists for a conflict of interest if the City designates a firm to serve as underwriter counsel; thus, the City may draw up a list of acceptable law firms and leave the selection to the underwriter or review the qualifications of the firm proposed by the underwriter and provide feedback. Firms should be evaluated based on general knowledge and experience with disclosure requirements, understanding of the City and the securities being offered, their ability to complete a transaction in an orderly manner, and the absence of conflicts of interest that might jeopardize the ability of the firm to carry out its responsibilities.

Article III. Method of Bond Sale.

(A) The Finance Director will select the most appropriate method of bond sale (negotiated or competitive) in light of financial, market, and transaction-specific and City-related conditions. In most cases the City will utilize the negotiated sales method with a competitive underwriter selection process. The Finance Director may choose to work with a financial advisor to do a competitive bond sale if the following conditions exist:
(1) The market is familiar with the City and the City is a stable and regular borrower in the market;
(2) There is an active secondary market with a broad investor base for the City's bonds;
(3) The City has a credit rating of A1 or above or can receive a credit enhancement to A1 or above before the competitive sale;
(4) The debt structure is backed by the City's full faith and credit or a historically strong performing revenue stream;
(5) The City issue is neither too large to be easily absorbed by the market (unlikely for the City) nor too small to attract investors without a concerted sales effort;
(6) The City issue is not viewed by the market as carrying complex or innovative features or requiring explanation as to the bonds' soundness; and
(7) Interest rates are stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable prices.

(B) Public policy issues, such as a desire for a disadvantaged business enterprise ("DBE") or a local firm participation, may be dealt with in the notice of sale.

(C) If the Finance Director decides to utilize the negotiated bond sale process, in addition to the requirement to competitively bid the underwriter services, the Finance Director should:
(1) Remain actively involved in each step of the negotiation and sale process to uphold the public trust;
(2) Ensure that either the Finance Director or the City's financial advisor (other than the underwriter), who is familiar with and abreast of the condition of the municipal market, is available to assist in structuring the issue, pricing, and monitoring of sales activities;
(3) Avoid using a firm to serve as both the underwriter and financial advisor on an issue to avoid potential conflicts of interest;
(4) Require that financial professionals disclose the name(s) of any person or firm compensated to promote the selection of the underwriter; any existing or planned arrangements between outside professionals to share tasks, responsibilities, and fees; the name(s) of any person or

firm with whom the sharing is proposed; and/or the methods used to calculate the fees to be earned for the proposed issue; and

(5) Review the "Agreement Among Underwriters" and ensure that it governs all transactions during the underwriting period.

(D) In a negotiated bond sale, the City negotiates both the yield on the bonds and the underwriter compensation. The Finance Director will strive for the best balance between yield for each maturity and takedown (sales commission) to achieve the lowest overall cost of financing. The following steps should be taken by the Finance Director to achieve the lowest overall cost of financing:

(1) Communicate with the underwriter the specific goals to be achieved in the pricing of the bonds and expectations regarding the roles of each member of the financing team.

(2) Take steps during the underwriter selection process and prior to final pricing to manage the compensation to underwriters (also called underwriter discount or gross spread) by:

a. In the request for proposals, require respondents to indicate a range of costs for each component of compensation and specify a maximum for each;

b. Setting a cap on fees and expenses; and

c. Obtaining and reviewing information on each component of underwriters' compensation for similar sales.

(3) Develop an understanding of market conditions, evaluate key economic and financial indicators, and assess the indicators' effect on timing and outcome of the pricing.

(4) Obtain a pricing book from the underwriter and/or the financial advisor which should include the following:

a. The supply and expected demand for municipal bonds;

b. The release of key economic indicators, actual or anticipated actions by regulatory or political bodies, and other factors that might affect capital markets;

c. The interest rates, and current market yields of recently priced and outstanding bonds with similar characteristics;

d. The interest rates and interest rate indices for bonds with similar characteristics provided by independent services that track pricing performance; and

e. The historic benchmark index data for the bond issue being sold and for other bond issues being sold.

(5) Work with underwriter to develop an appropriate premarketing effort to gauge and build investor interest.

(6) Request that the underwriter(s) propose a consensus pricing scale on the day prior to the pricing that represents the individual views of members of the underwriting syndicate and obtain a number of interest rate scales from other syndicate members (if applicable).

(7) Evaluate carefully whether structural features, such as call features, and original issue discount, which impact the true interest cost (TIC) of a bond offering but limit future flexibility in managing the debt portfolio, will result in greater overall borrowing costs.

(8) Since the City has a role in determining how bonds will be allocated among underwriting syndicate members and ultimate investors, consider order priority and designation policies in reviewing the preliminary pricing wire and the Agreement Among Underwriters prior to sale. To a large extent, the designation policy controls the distribution of underwriter compensation among the syndicate members.

(9) During the marketing of the bonds, have sufficient current market information and be in close contact with the lead underwriter. Consider pricing at lower interest rates at the end of the order period, giving consideration to order flow and order volumes.

(10) Review the proposed allotments of the bonds to ensure achievement of the City's objectives.

(11) Evaluate the bond sale after it is completed to assess the up-front costs of issuance, including whether the underwriter's compensation was fair given the level of effort and market

conditions; and the pricing of the bonds, both in terms of the overall TIC and on a maturity-by-maturity basis.

(12) Develop a City database with information on each issue sold with regard to pricing performance, including the types of bonds sold (general obligation or revenue bonds), credit rating, maturities, yield and takedown by maturity, and the TIC.

Some of the steps above may not be applicable or practical given the size and/or complexity of the issue. The necessary information above will be determined by the Finance Director on a case-by-case basis. For example, the City may participate in the Ohio Capital Asset Financing Program, and some of the steps described above may be handled through said Program rather than by the Finance Director. (The Ohio Capital Asset Financing Program is a financing cooperative offered by the Center for Local Government to Ohio communities as an alternative to cash purposes or other forms of costly financing.)

Article IV. Competitive Bidding for Capital Leases and Financing Products.

The Finance Director will require three (3) written quotes for capital lease/purchase agreements and other financial institution financing products. The scope of services will include a description of the item or project being financed, the amount to be financed, the term for the capital lease/purchase or other financial product, and any other costs or items applicable to the particular financial product. The Finance Director will maintain an eligibility list of financial institutions for bid requests. City Council must approve bond ordinance legislation or a resolution for borrowing when using capital lease/ purchase agreements or other financial institution financing products.

Article V. Debt Issuance.

(A) Generally. The City will not issue debt obligations or use debt proceeds to finance current operations. The City will use debt obligations only for engineering, acquisition, construction or renovation of capital improvement projects, or for refinancing/refunding of debt service obligations that cannot be funded from current revenue sources, or in such cases wherein it is more financially advantageous to the City to finance the project over its useful life. The City may also issue debt obligations on behalf of external agencies or authorities for the purpose of constructing facilities or assets that further the goals and objectives of the City, as provided in Xenia City Code Section 206.02. In such case, the Finance Director should take reasonable steps to confirm the financial feasibility of the project and the financial solvency of the borrower and take all reasonable precautions to ensure the public purpose and financial viability of such transactions. The Finance Director will calculate the cost of borrowing using the all-in true interest cost ("TIC").

The City shall seek to maintain and, if possible, to improve its current A1 bond rating so borrowing costs are minimized and access to credit is preserved. The Finance Director will look at credit enhancement vehicles, like insurance, if they are cost effective. It is imperative that the City demonstrate to rating agencies, investment bankers, creditors, and taxpayers that City officials are following a prescribed financial plan. The City will follow a policy of full disclosure by communicating with bond rating agencies to inform them of the City's financial condition.

The City recognizes that it is of the utmost importance that elected and appointed City officials, and all others associated with the issuance of City debt, not only avoid the reality of a conflict of interest but the appearance of it as well.

(B) Short-term Financings.

(1) *Short-Term Borrowing*: The City will not use short-term borrowing to finance operating needs except in the case of financial emergency, which is beyond the control or reasonable

ability to forecast. Recognizing that bond issuance costs add to the total costs of financing, bond financing should not be used if the aggregate cost of projects to be financed by the bond issue is less than $1,000,000, unless bond issuance costs can be minimized to the extent that issuing the bonds becomes financially advantageous. (The Ohio Capital Asset Financing Program could provide a vehicle for issuing bonds under $1,000,000 that is financially advantageous).

(2) *Bond Anticipation Notes ("BANS")*: These are interim, short-term tax-exempt obligations used to provide funds for construction, property acquisition, or development projects. The proceeds of a future bond issue are pledged to pay the note at maturity. BANS may be issued to avoid poor market conditions or other reasons for which the City might desire to delay a bond issue. BANS may be issued if such notes will provide a financial benefit to the City in financing a project in the interim period prior to bond financing. Analysis should be completed on the current interest rate environment to determine the feasibility of a short-term note financing. BANS should not be issued for longer than one (1) year but may be renewed.

(C) <u>Long-term Financings</u>. The following are types of long-term financings the City may utilize (not meant to be an all-inclusive list) to fund and refund capital improvement projects.

(1) *Long-Term Borrowing*: The City may utilize long-term borrowing to fund and refund capital improvement projects that cannot be financed through current revenues. Capital projects financed through long-term borrowing shall be financed for a period not-to-exceed the useful life of the project and in compliance with State law. A net present value analysis should be completed by the Finance Director to determine the financial cost/benefit of the long-term financing. Even if the net present value analysis is negative, the long-term financing may take place due to the need for the project and budget constraints on a major cash outlay. Analysis needs to be done on the availability of funding for the debt service. Long-term borrowing will be self-supporting whenever possible and financially beneficial. Additionally, the long-term financing needs to be factored in to the calculation for compliance with the various debt ratios called for by this debt policy.

(2) *General Obligation Bonds*: These bonds are backed by the full faith and credit of the City. Property tax or income tax collections are pledged for payment of the bonds. A levy may be approved by the voters for additional property taxes to be utilized to pay the debt service for a specific project. General Obligation bond issues are subject to vote and non-vote debt limits.

Securitization of tax-exempt bonds occurs in order to create a secondary market product that satisfies investor demand for these types of products. In a securitized bond transaction, a financial institution places a government security (or pool of securities) with a custodian where the underlying stream of payments may then be restructured or credit enhanced for the secondary market. Potential problems in calculating the arbitrage yield for a bond offering may result for the City if a connection is established between the primary offering and the instruments being created for the secondary market, particularly if the bonds are securitized without the City's knowledge. Accordingly, the Finance Director must be made aware of and consent to the possibility of secondary market transactions. In order to prevent secondary market transactions from adversely affecting the tax-exempt status of the City's bonds, the Finance Director must ensure that bond counsel has information regarding the facts and expectations needed to calculate the arbitrage yield and to verify compliance with other tax rules, such as the two percent (2%) limitation on costs of issuance for private activity bonds. The Finance Director should require that underwriters make certifications in the bond

purchase agreement or bid form, as well as in the issue price certificate delivered at closing, that:

a. Each of the bonds of the issue is being directly offered to the public or, alternatively, that the underwriter expects to offer some or all of the bonds to the public through a securitization format, either directly or through a party related to the underwriter or acting in cooperation with the underwriter;
b. Any bonds of an issue sold through a securitization format will be identified by maturity and by the percentage of each maturity to be securitized; and
c. the date by which the securitization is expected to occur will be identified.

(3) *Revenue Bonds*: These bonds are backed by the income generated from an enterprise fund (i.e., water and/or sewer user charges are utilized for payment of the bonds).

(4) *Variable Rate Bonds*: These bonds generally have a demand feature allowing the bondholder to demand that the City or another party repurchase the bond upon a specified number of days' notice or at certain times that reflect the intervals at which the rate varies. Because interest charged on money borrowed for a short term is normally less than the interest on money borrowed for a long term, variable rates are normally lower than long-term fixed rates. Although these bonds may provide a lower overall cost than fixed rate bonds, the Finance Director should carefully evaluate the risk associated with these bonds including liquidity risk should the bonds need to be remarketed. In addition, when considering variable rate debt, the Finance Director should:

a. Review any statutes or ordinances governing the issuance of debt to make sure that the issuance of variable rate debt (including particular instruments) is permitted and to understand any conditions, such as amounts, interest rate ceilings, or requirements governing debt-related funds;
b. Outline the steps taken to minimize risk;
c. Consider the ability of staff to manage variable rate debt including monitoring market conditions; record interest rate changes; make adjustment to budgets and financial plans; manage relationships with investors, liquidity providers, and remarketing agents;
d. Evaluate the impact on debt service requirements assuming different interest rate scenarios and develop contingency plans for a rising interest rate environment including setting aside reserves consistent with applicable arbitrage regulations or purchasing hedging instruments;
e. Evaluate the total cost of issuing variable rate debt, including fees to tender agents, remarketing agents, and liquidity providers under expected and adverse scenarios (e.g., if tendered bonds cannot be immediately remarketed). If the City is considering an interest rate cap, the cost of purchasing the instrument should be assessed in relation to the interest rate exposure;
f. Evaluate the need for an externally provided liquidity facility. If needed, the Finance Director should undertake an evaluation of possible providers, including their credit rating, the impact of a possible change in this rating, and renewal provisions;
g. Develop a full understanding of the unique risks that arise when variable rate payments are realized through an interest rate swap, including counterparty risk, basis risk, rollover risk, and termination risk; and
h. If the Finance Director decides to issue derivative products, he should take steps to ensure that there is full and complete disclosure in the official statement. In particular, investors need to be informed about the City's legal authority to issue the securities and their potential to exposure to interest rate volatility and unusually large changes in market value.

(5) *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. Typically, the project financed is owned and operated by the borrower, but projects may also be financed for lease to the private user or for sale pursuant to an installment contract. Statutes authorizing conduit financings generally specify the nature of the projects that may be financed and limit such projects to those with a specified public purpose.

(6) *Taxable Bonds*: Taxable bonds are commonly issued by governments around the world to finance capital projects. State and local governments in the U.S. have traditionally relied on tax-exempt debt. The globalization of capital markets has increased the viability of looking to expand the market for debt issuance. Some of the reasons the City may find it advantageous to issue taxable debt are volume cap restraints that have restricted the City's ability to undertake housing, environmental, and other critical projects; private activity bond rules that have limited the ability of the City to enter in to public-private partnerships; broader market access to pension funds and other investors, including those outside the U.S. domestic market, that prefer taxable interest rates; a desire to avoid burdensome arbitrage regulations; and programs that may emerge from time to time that make it advantageous to issue taxable debt (e.g., Build America Bonds [BABS]).

In evaluating whether the City should consider issuing taxable debt, the Finance Director should:

a. Ensure the City is legally authorized to issue taxable debt;
b. Develop an understanding of the taxable debt market including types of investors, structural features, and size requirements. (Taxable debt may be subject to different federal, state, and local laws);
c. Ensure that the taxable debt will be valid under state constitutional and statutory provisions. The various state laws requirements relating to public purpose and lending of credit apply to taxable as well as tax-exempt debt, and taxable offerings often must meet the same requirements as tax-exempt debt. The Finance Director should not assume that the absence of federal code restrictions on "private activity bonds" will permit the issuance without restriction of taxable bonds that benefit private entities;
d. Evaluate the total cost of issuing taxable debt including legal, marketing, and other upfront costs and the interest cost over the life of the bonds, in relation to the financing objectives to be achieved. The cost of taxable debt will generally be higher because investors are not able to deduct interest earnings from taxable income. Consideration should also be given as to how proceeds will be invested to minimize possible negative arbitrage;
e. Allow sufficient time to educate potential investors, who may be less familiar with local credit, about the offering and the City. The debt issue should be properly labeled to distinguish it from tax-exempt debt;
f. Consider structural features that can provide long-term benefits, such as amortizing debt as quickly as possible or embedding early call provisions in order to have the ability to call the debt if the financed project generates excess cash flows. The Finance Director should recognize that some features that enhance flexibility, such as an early call provision, may be more costly for taxable debt than tax-exempt debt;
g. Evaluate the market for local government bonds prior to the pricing process, including comparable issues and interest rates, including the use of variable rate debt. (Less frequent use of taxable bonds by local governments increases the risk that a government may pay an interest rate penalty when its bonds are priced); and

h. Evaluate whether there are advantages to selling bonds outside the U.S. and the costs to this approach, such as registering with a foreign exchange. Bond counsel should review specific regulatory and disclosure requirements that may differ from U.S. markets. Sufficient staff time and expertise with an international marketplace issue should be available in order to move forward with an international debt issue.

(7) *Tax Increment Financing ("TIF")*: A TIF is an economic development mechanism available to the City to finance public infrastructure improvements and, in certain circumstances, residential rehabilitation. Residential projects are generally not eligible for a TIF unless they are located in a blighted area. A TIF works by locking in the taxable worth of real property at the value it holds at the time the authorizing legislation is approved. Payments derived from the increased value of any improvement to real property beyond that amount are directed towards a separate fund to finance the construction of public infrastructure defined within the TIF legislation. The City may fund a public infrastructure improvement, as defined in ORC 5705.40, with TIF funding. The taxpayer continues to make payments, considered payments in-lieu of taxes ("PILOTS") to the County Treasurer in the same manner as real property taxes. The City Council may authorize a TIF in accordance with the provisions of ORC 5705.40 - .431, ORC 5705.82 - .83, and other relevant provisions of the ORC.

(8) *Special Assessment Bonds*: These bonds are used to fund development projects and are financed by special assessments to the properties benefiting from the particular bond-funded project. These bonds are generally not backed by the full faith and credit of the government issuing the bonds but are more like revenue bonds with the assessed taxes pledged to pay the bonds.

(9) *Capital Lease Obligations*: The long-term lease/purchase of a capital asset. To the City, the capital lease is the same as owning the asset. Generally, the lease term will be five to ten (5 – 10) years and will not exceed $5,000,000 where bond financing may be more financially advantageous. The securitization of leases as certificates of participation ("COPS") after they were originally structured as whole private placements can create severe problems for the City if the sale takes place without the City's approval and/or involvement. The following steps should be taken by the Finance Director to control the marketing of securities associated with the City and to ensure appropriate disclosure has been made:

a. The Finance Department should centralize all information on leases to ensure it has full knowledge of any lease agreements;
b. The original lease documents should explicitly state what is and is not permissible regarding secondary-lease securitization. They should also require that any secondary-lease documents clearly indicate the role and responsibility, if any, of the City as part of the lease offering (including any relationship between the City and the new investors), that the offering is a secondary offering, and whether all requirements relating to tax exemption of the securities have been met; and
c. As secondary-lease securitization may raise legal and tax questions, the Finance Director should require that all necessary legal opinions are obtained by the lessor prior to a public offering of the secondary-lease transaction.

(10) *Loan/Note Obligations*: The City may finance capital improvement projects through loan programs offered through financial institutions or other governmental agencies. These programs need to be thoroughly reviewed by the Finance Director to assess their cost/benefit compared to other methods of financing. For instance, loan programs may prevent refinancing or carry a prepayment penalty for paying off the loan.

(11) *Refunding Bonds*: These bonds are issued to refinance an existing bond issue. As a general rule, refunding should only take place if there is a net present value savings to the City of at least three percent (3%).

(12) *Current Refunding Bonds*: These bonds have a financing structure under which old bonds are called or mature within ninety (90) days of the issuance of the new refunding bonds.

(13) *Advance Refunding Bonds*: These bonds have a financing structure under which new bonds are issued to repay an outstanding bond issue prior to its first call date. Generally, the proceeds of the new issue are invested in government securities, which are placed in escrow. The interest and principal repayments on these securities are then used to repay the old issue, usually on the first call date. The Finance Director should anticipate the possibility of a future advance refunding when issuing bonds. Structural features of the bond issue should be reviewed including, but not limited to:

a. Optional redemption provisions;
b. Bond coupon characteristics;
c. Giving up call rights for certain maturities in exchange for a low interest rate on the bonds;
d. Call provisions that permit the issuer to call bonds in any order of maturity or on any date;
e. Options that permit the City to call bonds at par at the earliest date possible without incurring an interest-rate penalty; and
f. Coupons on callable bonds priced as close to par as possible at the time of original issue.

(14) *Escrow Accounts*: Escrow accounts should be efficient and provide the greatest savings. An escrow will be deemed to be efficient if escrow securities mature or pay interest when debt service payments of the refunded issue are due. The City may purchase escrow securities in the open market or may purchase State and Local Government Securities ("SLGS") a special series of U.S. Treasury securities. Among the issues that should be considered by the Finance Director with regard to each type of instrument are:

a. SLGS can be structured to comply with the federal tax law limits on investment return on escrow securities and eliminate any inefficiency in the escrow.
b. Open market securities may have a higher return but may not mature or pay interest on the date when debt payments are due. The City may be required to increase the issue size or blend higher and lower yielding securities to comply with yield restriction requirements and generate sufficient revenues. Such inefficiency may be eliminated by future escrow substitutions. Additionally, forward supply agreements, guaranteed investment contracts, or float contracts also may be considered to minimize escrow inefficiencies. The Finance Director needs to be concerned with counterparty risk associated with these investments.

Article VI. Rules Regarding Bonds.

(A) Investment of Bond Proceeds. When the City issues bonds, the Finance Director deposits proceeds or other monies in various accounts, which may include a construction fund, debt service fund, debt service reserve, and an escrow fund in a refunding. Monies allocated to these funds are invested until needed. The investment strategy for each fund will depend, in part, on federal or state statutes and regulations governing the types of instruments permitted to be used, the yield permitted for the fund, and the anticipated drawdown of bond proceeds. Additionally, each of these funds will have different objectives, so there are many factors to be considered by the Finance Director when selecting an investment instrument. The Finance Director should ensure that legal and regulatory requirements are met and that the investment of bond proceeds conforms

to the City Deposit and Investment Policy. In a negotiated transaction, underwriters may offer to reduce their management fee in exchange for the right to provide escrow securities. To ensure the City is receiving a fair market price for investments, the Finance Director should not agree to a reduced management fee in exchange for allowing the underwriter to invest bond proceeds.

(B) Maximum Maturity of Bonds. The City will comply with the maximum maturities' limits for bonds issued for permanent improvements set forth in ORC 133.20. The City will issue debt based on the estimated useful life of the capital improvement within the maximum maturity.

Article VII. Debt Ratios.

The City shall strive to maintain the highest possible debt service coverage ratios consistent with long-term financial objectives. Coverage ratios should be consistent with maintenance of the highest possible credit rating while preserving user charge equity and affordability. The City shall monitor the absolute amounts and year-to-year trends of key financial ratios. There are several key debt ratios that investors, financial analysts, and credit rating agencies use when reviewing a City's credit worthiness. The following debt ratios will be used in the City's debt management program.

(A) Net Debt as a Percentage of Taxable Assessed Value – 3% Maximum Threshold.
Net Debt will be defined as Short-term debt + Long-term debt – Cash and Equivalents.

A small ratio is an indication of the ability to withstand possible future economic downturns and continue to meet debt obligations. This ratio is a separate calculation from state limits on net debt as a percentage of taxable assessed value.

(B) Debt Service as a Percentage of General Government Expenditures – 10% Maximum Threshold.
Debt service as a percentage of general government expenditures is a measure of the ability to repay debt without hampering other services. A small ratio indicates a lesser burden on the operating budget.

(C) Net Debt per Capita - $750 Maximum Threshold.
Debt per capita is a general indicator of debt burden. The smaller the ratio, the better.

(D) Net Debt per Capita as a Percentage of Per Capita Income – 3% Maximum Threshold.
Net debt per capita as a percent of per capita income is a measure of the capacity of citizens to finance tax-supported debt. A low ratio means that taxes required to pay debt represent a smaller portion of the average citizen's income.

(E) Net Debt Percentage to be retired after Ten (10) Years – 65% Minimum Threshold.
A high ratio indicates a conservative structure on the debt portfolio allowing (among other things) more flexibility on future debt issuance and shorter repayment schedule.

(F) Net Income to Debt Service for Revenue Supported Debt – 1.0 Minimum Coverage.
Net Income should be calculated by adding operating and non-operating revenues and subtracting operating expense. This ratio indicates the ability to service debt on revenue supported bonds. The higher the ratio, the better the coverage.

(G) Variable Rate Debt as a Percentage of Overall Debt – 10% Maximum of Overall Debt.
Although variable rate debt may lower the cost of borrowing, careful consideration of all the risk factors needs to take place.

Article VIII. Financial Disclosures.

The Finance Department will follow all disclosure and reporting requirements determined by the Municipal Securities Rulemaking Board ("MSRB"). Electronic Municipal Market Access ("EMMA") is the comprehensive source for official statements, continuing disclosure requirements, advance refunding documents and real-time trade price information on municipal securities provided through MSRB. The Finance Department will post all required disclosure information through this site.

Article IX. Definitions.

For the purposes of this Policy, the following definitions shall apply:

(A) "Finance Director" shall mean the person appointed as the Xenia Finance Director, in accordance with Section 6.03 A. of the City Charter, or person serving as Acting or Interim Finance Director, in accordance with Section 6.03 C. of the City Charter, or the Assistant Finance Director, when so designated by the Finance Director.

Article X. Miscellaneous.

(A) Severability. In the event any provision of this Policy is held by a Court of competent jurisdiction to be in conflict with applicable law, such conflict shall not affect the other provisions of this Policy that can be given effect without the conflicting provision. To this end, the provisions of this Policy are declared severable.

(B) Limitation. No legislative act or administrative action of the City Council shall be challenged by an assertion that the act or action was taken in violation of any provision of this Policy.

(C) Review. This Policy shall be reviewed by the Finance Director at least every year, and the Finance Director shall recommend any amendments or updates as he deems necessary or appropriate to the City Council.

(D) Amendments. This Policy may be amended, or a new Policy adopted, by Resolution approved by the City Council.

Legislative History:
Adopted by Council by Resolution 2023-031 passed on May 11, 2023.