DEBT MANAGEMENT POLICY

CITY OF WINTER PARK, FLORIDA

1. **Administration of debt policy:** The Finance Director of the City of Winter Park, Florida (the "City") is charged with overseeing and implementing the provisions of this policy. It shall be his/her specific responsibility to recommend to the City Manager/Assistant City Manager and subsequently to the City Commission the selection of any external agents (bond counsel, financial advisors, underwriters, arbitrage rebate consultants, paying agents, trustees, printers, etc.), to review the proposed annual capital expenditures and financing plan, to recommend specific projects for debt financing, to participate as members of the financing team in the issuance of any debt obligations of the City, and to ensure all continuing disclosure requirements are met following the sale of bonds.

   The City Manager and Finance Director are responsible for administration of the City's financial policies. The City Commission is responsible for the approval of any form of the City's borrowing and the details associated therewith. Unless otherwise designated, the Finance Director coordinates the administration and issuance of debt.

2. **Purpose and Objective:** The adoption of a written debt policy by the City Commission and its active use help ensure a consistent approach to debt issuance which will benefit existing and future holders of City debt. Access to capital markets at reasonable interest rates and credit terms is a fundamental goal that is facilitated through the adoption of appropriate debt policies taking into consideration the amount and types of fixed and variable rate debt given the City's risk tolerance to market fluctuations, capital market outlook, future capital needs, credit, rating agency considerations, tax implications and industry competition.

3. **Scope:** This policy shall apply to all debt obligations of the City, whether for the purpose of acquisition or construction of City assets, the refunding of existing debt and for all interest rate hedging products and derivatives.

4. **Exceptions:** Exceptions to this policy will be approved by the City Commission.

5. **Reporting Practices:**

   The Finance Department or designees will promptly notify the rating agencies of any debt restructuring, derivative products entered into or any other transaction, which does not involve issuance of debt but has an impact on the overall rate of interest on its debt or its debt structure. The Department or designees shall also respond to all inquiries from creditors, investors, and rating agencies in a complete and prompt fashion.

6. **General Debt Issue Policies:**

a. **Structure:** The City's capital structure may consist of fixed rate and variable rate debt in both traditional and synthetic form along with hedging instruments such as interest rate swaps, caps, collars and other non-speculative derivative products. The percentage of total debt that may be variable rate-based may from time-to-time change, as debt management strategies change given interest rate environments and appropriate approvals. The risks associated with any given structure and the financial instruments used shall be fully explained to those who must decide and approve any final financing structure.

b. **Borrowing**: The City Commission shall have the authority to borrow money, contract loans and issue bonds in accordance with the provisions of the Constitution of the State of Florida and the general laws of the state. However, approval by voter referendum shall be required prior to the issuance of any of the following categories of bonds per the City Charter:

1. General obligation bonds which pledge the full faith and credit of the taxing power of the City,

2. Revenue bonds intended to finance enterprises or projects which involve the purchase, lease and/or acquisition of real property by the City or agencies thereof, with the exception of revenue bonds issued to finance the purchase, lease and/or acquisition of park real property and/or park projects by the City or agencies thereof, or

3. Revenue bonds which pledge specific non ad valorem taxes as the primary source(s) of revenue to pay principal and interest and which have a principal value in excess of one (1) million dollars. This dollar limitation shall be adjusted annually as of the end of each fiscal year in accordance with changes in the cost-of-living index as published by the federal government. Revenue bonds issued to finance the purchase, lease and/or acquisition of park real property and/or park projects by the City or agencies thereof would not be limited by this requirement.

c. **Pay-As-You-Go:** The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements and capital assets.

d. **General Obligation Debt Levels:** As a goal, the City will maintain its net general obligation bonded debt at a level not to exceed two (2) percent of the assessed valuation of taxable property within the City unless otherwise directed by the City Commission.

e. **Reserves:** The City will maintain revenue bond reserves to comply with the covenants of the bond issues and ensure adherence to federal arbitrage regulations.

f. **Purpose and Projects:** Long-term borrowing will not be used to finance current operating expenditures. However, this does not preclude the City from using debt to meet short-term operating needs in the event of an emergency such as a natural or man-made disaster.

g. **Term:** The following guidelines should govern the issuance of new money financing.

- The maturities of debt will be equal to or less than the useful economic life of the item financed.

- Where practicable the debt service structure on new money financing should be level debt service if economically feasible.

- The use of credit enhancement should be evaluated on a maturity-by-maturity basis and only used where the economic benefits exceed the costs of issuing rated or unrated debt obligations.

- Call features are preferred and should be utilized when financially prudent in order to provide future flexibility.

- The use of a fully funded debt service reserve should always be evaluated against the use of a surety or other debt service reserve product.

h. **Bond Insurance:** Bond insurance is an insurance policy purchased by an issuer or an underwriter for either an entire issue or specific maturities, which guarantees the payment of principal and interest. This insurance provides a higher credit rating and must result in a lower borrowing cost for an issuer after consideration of the premium rate and underlying ratings.

Bond insurance can be purchased directly by the City prior to the bond sale (direct purchase) or at the underwriter's option and expense (bidder's option).

When insurance is purchased directly by the City, the present value of the estimated debt service savings from insurance should be at least equal to or greater than the insurance premium. The bond insurance company will usually be chosen based on an estimate of the greatest net present value insurance benefit (present value of debt service savings less insurance premium).

Credit enhancement may take other forms such as Letters of Credit (LOC) or other securitization products and may be used if economically beneficial to the City.

i. **Credit Ratings:** Credit ratings have wide investor acceptance as tools for differentiating credit quality of investments. The City shall attempt to continually improve its credit ratings. Comprehensive annual credit rating reviews should be provided to the rating agencies as well as periodic updates and ongoing communication of events affecting the City's overall credit, including asset and liability management issues.

j. **Non-Rated:** Non-rated securities may be issued if the credit rating on the issue does not perform any economic benefit or add any value to capital market participants.

k. **Tax Status:** The City has traditionally issued tax-exempt debt which results in significant interest cost savings compared with the interest cost on taxable debt. Accordingly, all of the City's debt should be issued to take advantage of the exemption from federal income taxes unless prohibited by federal law or applicable federal regulations.

l. **Subordinated Debt:** The lien status and credit rating on this type of debt is inferior and protection to the bondholder is lower, therefore, this type of debt should be minimized to reduce the City's overall borrowing costs, unless it is the only method available to finance a project. There may be occasions when this type of debt is issued for potential restructuring reasons, when current senior-lien debt covenants are undesirable and this debt is soon to be retired or refunded.

m. **Capital Leasing:** Over the lifetime of a lease, the total cost to the City will generally be higher than purchasing the asset outright. As a result, the use of lease/purchase agreements and certificates of participation in the acquisition of vehicles, equipment and other capital assets shall generally be avoided, particularly if smaller quantities of the capital asset(s) can be purchased on a "pay-as-you-go" basis.

n. **Callable Bonds:** Call provisions on bonds provide future flexibility to refinance or restructure debt and eliminate onerous covenants. Consequently, the City shall attempt to always have call provisions on its debt. Call provisions on each transaction should be analyzed upon marketing the bond issue and determined at the time, upon recommendation of the Financial Advisor.

o. **Refunding Criteria:** Generally, the City issues refunding bonds to achieve debt service savings on its outstanding bonds by redeeming high interest rate debt with lower interest rate debt. Refunding bonds may also be issued to restructure debt or modify covenants contained in the bond documents. Current tax law limits to one time the issuance of tax-exempt advance refunding bonds to refinance bonds issued after 1986. There is no similar limitation for tax-exempt current refunding bonds. The following guidelines should apply to the issuance of refunding bonds, unless circumstances warrant a deviation therefrom:

- refunding bonds should generally be structured to achieve level annual debt service savings;

- the life of the refunding bonds should not exceed the remaining life of the bonds being refunded or the assets financed, whichever is longer;

- advance refunding bonds issued to achieve debt service savings should have a minimum target savings level measured on a present value basis equal to 5% of the par amount of the bonds being refunded;

- current refunding bonds issued to achieve debt service savings should have a minimum target savings level measured on a present value basis equal to 3% of the par amount of the bonds being refunded;

- refunding bonds which do not achieve debt service savings may be issued to restructure debt or provisions of bond documents only if such refunding serves a compelling City interest or under extraordinary conditions.

The minimum target savings level for refundings should be used as a general guide to guard against prematurely using the one advance refunding opportunity for post-1986 bond issues. However, because of the numerous considerations involved in the sale of refunding bonds, the target should not prohibit refundings when the circumstances justify a deviation from the guideline.

p. **Debt Service Coverages:** Debt service coverages shall conform to bond resolutions and remain at those levels to ensure that the City's credit rating is not diminished.

7. **Method of Sale**

The City's policy is to sell public debt using the method of sale expected to achieve the best result, taking into consideration short-term and long-term implications. The following section of this policy is intended to ensure that the most appropriate method of sale is selected in light of financial, market, transaction-specific and issuer conditions.

a. Competitive vs. Negotiated Preference: Competitive method sale should be preferred and considered when the following conditions are present:

- The City has been a stable and regular borrower in the public market.
- There is an active secondary market for the City's debt.
- The City has an underlying credit rating of A or above.
- The issue is neither too large to be absorbed by the market or too small to attract investors.
- The issue is not composed of complex or innovative features.
- Interest rates are stable, market demand is strong and the market is able to absorb reasonable levels of buying and selling with reasonable price reliability.

If conditions for a competitive bond sale are not available then the following practice will apply to negotiated bond sales:

- A competitive underwriter-selection process that ensures that multiple proposals are considered will be used.

- The City's staff and the Financial Advisor will remain actively involved in each step of the negotiation and sale processes to uphold the public trust.

- The City's staff and Financial Advisor, who are familiar with and abreast of the condition of the municipal market shall assist in structuring the issue, pricing, and monitoring sales activities. The Financial Advisor will submit recommendations regarding the method of sale, structure and timeline of events for the issue to the City in written form.

- The City will 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 the method used to calculate the fees to be earned.

b. **Financial Advisor Serving as Underwriter:** The financial advisor to the City may not act as underwriter on any loan, bond or other undertaking of the City of Winter Park. Additionally, no affiliate of the financial advisor shall act as an underwriter on any financial undertaking, issue or bond of the City of Winter Park unless the loan, bond or other undertaking is competitively bid through a process that does not give an affiliate of the financial advisor an advantage. For purposes of this policy, an affiliate of the financial advisor would include a subsidiary, division, holding company, sister corporation, or partner of the financial advisor. Additionally, a firm that has acted as a financial advisor to the City of Winter Park or any affiliate thereof may be an underwriter if the firm is not under contract or retained to be the financial advisor to the City at the time of the issue or bond.

c. **Private Placements:** The City may determine to seek funding by way of a private placement or bank loan where the size and structure of the borrowing does not warrant the issuance of publically offered debt. The City's Financial Advisor will compare the overall costs of a private placement with those of a public offering and recommend the most cost effective approach.

d. In the event the City chooses to use a negotiated or private placement sale, staff shall document the reasons this method was chosen.

8. Capital Improvement Plan

The Finance Department will prepare, as part of the annual budget process, a Capital Improvement Plan that will be submitted to the City Commission for approval. Such Capital Improvement Plan will address at a minimum the amount of debt projected to be issued during the next five fiscal years.

Factors to be considered in the final projections are:

- The forecast of spending levels for capital projects.
- The availability of internal funds to pay for capital projects.
- Desired debt service coverage levels consistent with a highly-rated municipality.

- The additional bonds test calculation outlined in the applicable bond ordinances or related documents.

9. Fixed Rate Debt

a. Overview

Fixed rate debt is authorized to finance capital projects and for any other allowable purpose as stipulated in the governing bond ordinances and tax regulations.

b. Type

The City may issue any type of fixed rate debt as authorized by the City's various bond ordinances and recommended by the City's Financial Advisor.

c. Maturity, Structure, and Call Provisions

Prudent debt management requires that there be a proper matching of the lives of the assets and the length of the debt, whether taxable or tax-exempt, used to finance such asset. In addition, the City will, at all times, structure the amortization and maturity of any fixed rate debt to comply with the appropriate tax regulations.

To provide the maximum amount of flexibility, the City will utilize call provisions whenever possible. City staff, along with the financial advisor and underwriter, will assess the market at the time of pricing to determine its ability to issue bonds with such features while minimizing interest costs.

d. Providers

The City is allowed to sell debt by either negotiated sale or competitive bid. The determination of the method is to be made prior to each financing.

If the City selects the "competitive sale" method, determination of the winning bid will be based on the underwriting firm with the lowest True Interest Cost (TIC) proposal.

The City will employ staff or an outside professional financial advisor, other than the underwriter, who is familiar with and abreast of the conditions of the municipal market, and is available to assist in structuring the issue, pricing, and monitoring of sales activities. The City shall not use a firm to serve as both the financial advisor and underwriter. Selection of underwriters, financial advisors, bond counsel, and other necessary consultants involved in the debt transactions will be selected as outlined in the City Purchasing Policy.

e. Debt Service Reserve Fund

Unless otherwise recommended by the City's financial adviser and approved by the City Commission, a debt service reserve fund will be funded, maintained, and held for the benefit of bondholders as specified in the ordinance authorizing the sale of the bonds to pay principal and/or interest on the bonds should revenues from operations not be sufficient for such purpose in accordance with the appropriate bond ordinance.

- The debt service reserve fund may be in the form of cash and/or investments funded from the proceeds of bonds and/or revenues from operations or other pledged sources.

- If allowed by the ordinance, a surety issued by a financial institution nationally recognized in the industry to issue such policies may be used in place of a cash-funded debt service reserve.

- If allowed under the respective bond ordinance, any other form of financial instruments may be used in place of cash-funded or surety-funded debt service reserve, provided such financial instruments are issued by firms of nationally recognized standing.

- The City will weigh the benefits of each method of funding the debt service reserve fund prior to each issue and will choose the method most beneficial to the City based upon the facts and circumstances of each issue.

f. Approvals

The structure, maturity, and call provisions for each fixed rate financing must be approved by the Finance Director or designee on or prior to the date of pricing. Negotiation with the underwriter on negotiated bond transactions will be conducted by the Financial Advisor. Final transaction approval must be obtained from the City Commission.

g. Compliance/Reporting Requirements

All outstanding debt will be reported annually in the CAFR as required by generally accepted accounting principles.

The City will monitor and report any arbitrage rebate liability due to the U.S. Treasury on bond proceeds from fixed rate transactions.

10. Variable Rate Debt Instruments

a. Overview

Variable rate debt is authorized to finance capital projects and for any other allowable purpose as stipulated in the governing bond ordinances and tax regulations.

The City must adhere to the variable rate debt limits outlined in this Policy.

b. Type

The City may issue any type of variable rate debt as authorized by the various bond ordinances and recommended by the City's Financial Advisor. Some of the various types of debt authorized include, but are not limited to, Commercial Paper, Variable Rate Demand Obligations, and Medium Term Notes.

c. Management

On a periodic basis, the Director of Finance or designee will make decisions regarding any changes to the interest mode for variable rate obligations based on current and projected market conditions.

d. Maturity and Call Provisions

The City will structure the maturity dates of the variable rate debt to match the lives of the assets being financed. The City will, at all times, structure the amortization and maturity of any variable rate debt to comply with the appropriate tax regulations

e. Providers

Underwriters, remarketing agents or dealers of the City's variable rate debt program will be selected pursuant to the City's Purchasing Code.

Banks providing Liquidity Facilities for variable rate debt shall be reviewed regularly with the Financial Advisor and minimum short and long term ratings should be maintained in order to ensure good trading performance.

f. Variable Rate Debt Amount

The City's total variable rate debt outstanding as a percentage of its total debt will not exceed rating agency guidelines for highly rated municipalities. Variable rate debt synthetically fixed through a swap agreement will not be considered variable rate debt for this criterion.

g. Approvals

The structure and maturity for each variable rate financing must be approved by the Finance Director or designee prior to the transaction. Final transaction approval must be obtained from the City Commission.

h. Compliance/Reporting Requirements

All outstanding debt will be reported annually in the CAFR as required by generally accepted accounting principles.

The City will monitor and rebate any arbitrage liability due to the U.S. Treasury on bond proceeds from variable rate transactions.

11. Interest Rate Swaps, Caps, Options, and Collars

a. Overview

The prudent use of hedging instruments, including interest rate swaps, caps, options, and collars, can be an effective tool in meeting funding needs and structuring a balance sheet while managing risk associated with the movement of interest rates. Utilizing hedging products can provide the City with cost effective alternatives to traditional debt financing choices.

Utilizing interest rate swaps to achieve substantially lower interest cost is a main component in building the desired capital structure to allow the City to finance efficiently. There are three types of interest rate swaps the City is authorized to enter into:

- Floating to fixed rate swaps,
  - Hedge interest rate risk on variable rate debt,
  - Lock in fixed rates on refunding bonds that will be issued in the future or
  - Take advantage of opportunities to obtain fixed swap rates that are lower than comparable fixed rate bonds.

- Fixed rate to floating rate swaps
  - Increase the amount of variable rate exposure without incurring the remarketing and liquidity costs.
  - Eliminate the put risk associated with variable rate debt.

- Basis swaps manage the risk associated with
  - The mismatch between two benchmarks.
  - Methodologies used to set interest rates.

b. Risks

Interest rate swaps and related hedging instruments may introduce additional risks to the City's credit profile. These risks include, but are not necessarily limited to, termination risk, counterparty risk, re-execution risk, amortization risk, Basis Risk, market risk, and tax event risk. Prior to entering into each interest rate swap transaction, these risks are evaluated to ensure adequate provisions are in place to minimize the downside and provide the maximum benefit the transaction originally intended.

c. Interest Rate Swap Management

The Finance Director or designee shall have the overall responsibility, from an overview standpoint, for the execution and management of interest rate swaps.

The Finance Director or designee shall determine the size of the total interest rate swap program and the maturity date for the swaps within the parameters of the Policy which has been approved by the City Commission.

Interest rate caps, collars and other related hedging instruments may be utilized to help manage interest rate risk in the Debt Management Program.

Forecasts of interest rate volatility and expected performance of the swaps, caps, collars, and related hedging instruments under various interest rate scenarios shall be updated on a periodic basis. Short and long term interest rates will be monitored over varying time periods and adjustments to the interest rate swap program will be modified.

d. Compliance/Reporting Requirements

Collateral reports will be updated on a monthly basis providing information relating to specific swap transactions that may require collateral posted based on mark to market valuations.

All outstanding debt will be reported annually in the CAFR as required by generally accepted accounting principles.

e. Optional Termination

The City shall consider including a provision that permits the City optionally to terminate the agreement at the market value of the agreement at any time. In general, the counterparty shall not have the right to optionally terminate an agreement. As practical as possible, the City shall have the right to assign its obligation to other counterparties.

f. Aspects of Risk Exposure Associated with Such Contracts

Before entering into an interest rate swap, The City shall evaluate all the risks inherent in the transaction. These risks to be evaluated should include the counterparty risk, market risk, termination risk, rollover risk, basis risk, tax event risk and amortization risk.

The City shall endeavor to diversify its exposure to counterparties. To that end, before entering into a transaction, it should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure.

g. Approvals

The structure of each interest rate swap must be approved by the Finance Director or designee prior to the transaction. Final transaction approval must be obtained from the City Commission.

h. Providers

Financial Institutions and Dealers executing interest rate swaps, caps, options, and other hedging instruments for the City shall be selected pursuant to the City Purchasing Policy. The City shall require that all institutions and dealers entering into interest rate swap, cap, option, and other hedging instrument agreements execute a Master Swap Agreement (the ISDA Master Agreement must be used as a part of the Master Swap Agreement) that is signed by both parties. All transactions entered into shall adhere to the requirements of the Master Swap Agreement.

The Master Swap Agreement will contain, among other things, language regarding credit rating maintenance standards. All providers will either, (1) be rated AA-/Aa3 or better by at least 2 of the rating agencies (Fitch, Moody's, or Standard & Poor's) at the time of execution and enter into a collateral agreement to provide collateral as determined by the Credit Support Annex in the event that the credit rating falls below the AA-/Aa3 level or (2) be rated A/A2 or better by at least 2 of the rating agencies at the time the Agreement is entered into, and enter into a collateral agreement. The Finance Department will obtain an update of each provider's credit ratings on a quarterly basis.

i. Swap Advisor and Counterparty Procurement

Interest rate swaps can be procured on a competitive or negotiated basis. The appropriate procurement method depends on the structure of the interest rate exchange agreement as well as the market conditions. For all interest rate swaps, the City will engage a Swap Advisor to assist with the pricing and structuring of the agreement as well as to recommend the appropriate procurement method.

12. Investment of Bond Proceeds

The proceeds of the bond sales will be invested until expended for the intended project in order to maximize the utilization of the public funds. The investments will comply with the City's investment policy unless superseded by a bond covenant or related agreement. All bond proceeds shall be invested in manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issue. Bond proceeds to be used for the construction or acquisition of the capital assets shall be conservatively invested according to draw schedules which will be amended as needed.

13. Continuing Disclosure Requirements

The Finance Director with the assistance of the Financial Advisor and Bond/Disclosure Counsel will produce all the necessary documents for disclosure. All debt issues will meet the disclosure requirements of the Securities and Exchange Commission and other government agencies before and after the bond sales take place. The City's CAFR will be the primary vehicle for compliance with the continuing disclosure requirements. The CAFR may be supplemented with additional documentation if necessary. The City will follow a policy of "full disclosure" in its CAFR and bond official statements. The Finance Director will be responsible for filing the CAFR and providing disclosure on the status of all material events to the Municipal Securities Rulemaking Board, (MSRB) via the Electronic Municipal Market Access (EMMA) system.

14. Effective Date

This Policy will become effective upon adoption by the City Commission. This Policy shall be reviewed on an annual basis and amended as necessary with the approval of the City Commission.

15. Definitions

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.

Amortization Risk – the potential cost to the issuer resulting from a mismatch between the outstanding underlying bond amortization and the outstanding notional amount of the swap.

Basis Risk – movement in the underlying variable rate indices may not be perfectly in tandem, creating a cost differential that could result in a net cash outflow from the issuer. Also, a mismatch can occur in a swap with both sides using floating, but different, rates.

SIFMA Index – The Securities Industry and Financial Markets Association Swaps Index, the principal benchmark for the floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day tax-exempt variable rate bond issues.

Commercial Paper Note - shall mean any Bond which has a maturity date which is not more than 270 days after the date of issuance thereof.

Competitive Bid - a method of submitting proposals for the purchase of new issue of municipal securities by which the securities are awarded to the underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale.

Counterparty risk – the risk that the other party in the derivative transaction fails to meet its obligations under the contract.

Credit Enhancement - shall mean, with respect to the Bonds of a Series, a maturity within a Series or an interest rate within a maturity, the issuance of an insurance Policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes unconditionally obligated to pay when due, to the extent not paid by the City or otherwise, the principal of and interest on such Bonds.

Credit Support Annex - is a standard supporting document that is made part of the ISDA Master Swap Agreement that governs the use of posting collateral when required.

Current Refunding - A bond is treated as issued to current refund another bond if the refunding issue is issued not more than 90 days before the redemption of the refunded bond.

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Interest rate swap – a transaction in which two parties agree to exchange future net cash flows based on predetermined interest rate indices calculated on an agreed notional amount. The swap is not a debt instrument between the issuer and the counterparty, and there is no exchange of principal.

ISDA – International Swap Dealers Association, the global trade association with over 550 members that include dealers in the derivatives industry.

ISDA Master Agreement – the standardized master agreement for all swaps between the Issuer and the dealer that identifies the definitions and terms governing the swap transaction.

Letter of Credit (LOC) – A financial product generally purchased from a bank to provide credit enhancement and liquidity on variable rate bonds.

LIBOR – the principal benchmark for floating rate payments for taxable issuers. The London Inter Bank Offer Rate (LIBOR) is calculated as the average interest rate on Eurodollars traded between banks in London and can vary depending upon the maturity (e.g. one month or six months).

Long-dated swap - a swap with a term of more than ten years. Often used in the municipal market, as issuers often prefer to use a hedge that matches the maturity of the underlying debt or investment.

Mark-to-market – calculation of the value of a financial instrument (like an interest rate swap) based on the current market rates or prices of the underlying instrument (i.e. the variable on which the derivative is based).

Medium Term Note - any bond which has a maturity date which is more than 365 days, but not more than 15 years, after the date of issuance and is designated as a medium term note in the supplemental ordinance authorizing such bond.

Negotiated Sale - the sale of a new issue of municipal securities by an issuer through an exclusive agreement with an underwriter or underwriting syndicate selected by the issuer.

Tax Event Risk - the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets or, in a more extreme situation, remove the tax-exempt status of the issue and, therefore, its contractual obligations priced as tax-exempt facilities.

Termination risk – the risk that a swap will be terminated by the counterparty before maturity that could require the issuer to make a cash termination payment to the counterparty.

True Interest Cost - is the rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment date to the purchase price received for the bonds.

Variable Rate Bond - shall mean any Bond not bearing interest throughout its term at a specified rate or specified rates determined at the time of initial issuance.

Variable Rate Demand Obligations (VRDO) - A long term maturity security which is subject to a frequently available put option or tender option feature under which the holder may put the security back to the issuer or its agent at a predetermined price (generally par) after giving specified notice or as a result of a mandatory tender. Optional tenders are typically available to investors on a daily basis while in the daily or weekly mode and mandatory tenders are required upon a change in the interest rate while in the flexible or term mode. The frequency of a change in the interest rate of a variable rate demand obligation is based upon the particular mode the security is in at the time.