

CITY OF ALBUQUERQUE, NEW MEXICO



DEBT MANAGEMENT POLICY & GUIDELINES

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Prepared by:

**Department of Finance & Administrative Services
Treasury Division**

Debt Management Policy & Guidelines

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I. CITY'S DEBT POLICY

A. Purpose

The City recognizes the foundation of any well-managed debt program is a comprehensive debt management policy. A debt management policy and guidelines set forth the parameters for issuing debt and managing the outstanding debt portfolio and provides guidance to decision makers regarding the purposes for which debt may be issued, types and amounts of permissible debt, timing and method of sale that may be used, and structural features that may be incorporated. Adherence to a debt management policy helps to ensure that government maintains a sound debt position and that credit quality is protected.

It is the intent of the City to establish a debt management policy to:

- ✓ Ensure high quality debt management decisions;
- ✓ Impose order and discipline in the debt issuance process;
- ✓ Promote consistency and continuity in the decision making process;
- ✓ Demonstrates a commitment to long-term financial planning objectives, and
- ✓ Ensure that the debt management decisions are viewed positively by rating agencies, investment community and taxpayers.

B. Implementation

The City's debt policy shall be implemented by the City's Debt Committee (as per City Ordinance - O-00-73, Enactment – O-2001-020) when developing comprehensive debt management guidelines that provides for the following:

- ✓ Full and timely payment of principal and interest on all outstanding debt;
- ✓ Debt shall be incurred only for those purposes as provided by State Statute or under its home rule powers;
- ✓ Capital improvements should be developed, approved and financed in accordance with City Ordinances and the capital improvement budgeting process;
- ✓ The payment of debt shall be secured by the full faith, credit and taxing power of the City, in the case of General Obligation Bonds, and by the pledge of specified, limited revenues in the case of revenue bonds. The City shall not pledge any City revenues to its conduit bond financings or guarantee indebtedness of others. Furthermore, the City has no moral obligation to repay bondholders of conduit financings issued under its authority;

- ✓ Principal and interest retirement schedules shall be structured to: (1) meet available cash flow to service debt, (2) achieve a low borrowing cost for the City, (3) accommodate the debt service payments of existing debt and (4) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
- ✓ Debt incurred shall generally be limited to obligations with serial and term maturities but may be sold in the form of capital appreciation bonds or other structures if circumstances warrant;
- ✓ The average life of the debt incurred should be no greater than the projected average life of the assets being financed;
- ✓ The City shall select a method of sale that achieves the financial goals of the City. Such sales can be competitive, negotiated or private placement, depending upon the project and market conditions. The recommendation by the City's finance team will be considered in the decision as to the most appropriate sale method. The recommended method of sale for each financing as approved by the Debt Committee shall be subject to Council approval;
- ✓ Finance team members and underwriters should be selected in accordance with the City Purchasing Ord.26-2011, Section 5-5-30 and the Debt Management Policy and Guidelines ("Policy") developed under the direction of the Debt Committee. The selection should maximize the quality of services received while minimizing the cost to the City. Any additions to the finance team shall be subject to Council approval. Selected underwriters and independent financial advisors shall adhere to the Municipal Securities Rule-making Board ("MSRB") and the Securities and Exchange Commission ("SEC") rules and regulations;
- ✓ The City shall maintain good communications with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the City; and
- ✓ Every financial report, preliminary or final official statement and Annual Information Statement ("AIS") shall follow a policy of full, complete and accurate disclosure of financial conditions and operating results. All reports shall conform to guidelines issued by the Government Finance Officers Association ("GFOA"), Securities and Exchange Commission ("SEC") and the Internal Revenue Service (IRS) to meet the disclosure needs of rating agencies, underwriters, investors and taxpayers; and
- ✓ It is the intent of this Policy that it applies to all debt including bonds, loans, notes, commercial paper, commodity or interest rate swaps and hedges no matter how denominated or labeled.

II. DEBT COMMITTEE

A. Purpose

It is the role of the Debt Committee to develop and maintain a debt management

policy that shall be subject to the approval of the Chief Administrative Officer (“CAO”); and to review and recommend to the Mayor both the finance team members and structuring plans for all capital financings prior to the introduction of such legislation to the City Council.

B. Responsibilities

The responsibilities of the Debt Committee shall be to:

Develop and maintain comprehensive debt management guidelines in accordance with the City’s Debt Policy;

Review and evaluate results of debt financing operations including, but not limited to:

Issuance of long-term and short-term debt obligations;

Selection of bond type, structure, methods of sale and marketing of bonds, and Investor and rating agency communications;

Review expenditures of bond proceeds and the status of various projects being financed, including the Capital Improvement Program (CIP) for timeliness of spent bond proceeds;

Review and evaluate services provided by bond counsel, disclosure counsel, tax counsel, financial advisor , commodity or interest rate swap advisor (derivative advisors), underwriters and other service providers in bond transaction for effectiveness and quality of service;

Develop and maintain the selection criteria for financial advisor, derivative advisor, bond counsel, tax counsel, disclosure counsel and other finance team members, act as the Ad-Hoc Committee on all RFP’s and recommend to the Mayor the consultant based finance team for all City credits, pursuant to the City’s Purchasing Ordinance, Ord. 26-2011,Section 5-5-30;

Develop and maintain the selection criteria for underwriters (see Section V), act as the Ad-Hoc Committee on all underwriting and private placement RFP’s and recommend to the Mayor the underwriting team for all City credits, pursuant to the City’s Purchasing Ord. 26-2011, Section 5-5-30;

Review and revise annually, with revisions approved by the CAO, the Debt Management Policy and Guidelines based upon the Debt Committee’s review of operations.

Prepare an annual report to Council on the following:

- ✓ Results of previous year’s financings;
- ✓ Rating agency reports and rating status;
- ✓ Bond capacity and relevant comparable financial ratios;

- ✓ Results of Interest Rate or Commodity Swap hedging transactions;
- ✓ All bond financings in progress or anticipated for the subsequent fiscal year, and
- ✓ Any changes to the Debt Management Policy and Guidelines.

C. Debt Committee Membership

A permanent committee composed of the Director of Finance and Administrative Services; the Directors of the Aviation and Department of Municipal Development, the CIP Official, the City Treasurer, the Chief Administrative Officer or appointee, and the Director of Council Services or appointee. The City Attorney and the City Economist shall serve on the committee in an ex-officio status. Other ex-officio participation, as deemed appropriate by the committee is encouraged. The committee shall be chaired by the Director of Finance and Administrative Services.

III. FINANCING ALTERNATIVES

The City of Albuquerque shall assess all financial alternatives for funding capital improvements prior to issuing debt. Pay-as-you-go financing should be considered before issuing any debt. Pay-as-you go financing may include: intergovernmental grants from federal, state and other sources, current revenues and fund balances, private sector contributions, public/private partnerships or leasing.

Once the City has determined that “pay-as-you-go” and intergovernmental or private sector grants are not a feasible financing option, the City may use Short-term or Long-term debt to finance capital projects.

A. Short Term Debt and Interim Financing - Maturity of one (1) year or less.

Short term obligations may be issued to finance projects or portions of projects for which the City ultimately intends to issue long term debt (or where cash is available in a debt service fund and can be “sponged” to retire bonds immediately thereafter); i.e., it shall be used to provide interim financing which shall eventually be refunded with the proceeds of long term obligations.

Short-term obligations may be backed with a tax or revenue pledge, or a pledge of other available resources.

1. Lines or Letters of Credit

Where their use is judged by the Department of Finance and Administrative Services (DFAS) to be prudent and advantageous to the City, the City has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the City with access to capital or credit under terms and conditions as

specified in such agreements. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by the City Council. Lines and letters of credit entered into by the City shall be in support of projects contained in the approved Capital Improvement Program (CIP) and Component Capital Improvement Plan (CCIP) or similar plans implemented by the City.

2. Commercial Paper

The City may choose to issue Commercial Paper as a source of interim financing for projects contained in the City's approved CIP or CCIP or similar plans implemented by the City only after the Treasurer's office, in consultation with the Department of Finance and Administrative Services (DFAS), determines that such a financing represents the least cost interim financing option for the City. Furthermore, Commercial Paper shall not be issued for City capital programs unless it is of sufficient economic size as determined by the Treasurer's office and approved by the City Council.

B. Long Term Debt (Bonds) – Maturity over one (1) year.

Long-term general obligation or revenue bonds shall be issued to finance significant capital improvements for purposes set forth by voters in bond elections and the Capital Improvement Program (CIP) and Component Capital Improvement Plan (CCIP) or similar plans implemented by the City. Additionally, revenue bonds may be issued in response to public need without voter authorization. Long-term debt may be incurred for only those purposes as provided by State Law.

IV. ISSUANCE OF DEBT OBLIGATIONS

A. All City debt shall be issued in accordance with the following policies, which have been recommended by the Debt Committee and approved by the Chief Administrative Officer:

1. Conditions of Sale

Unless otherwise justified, the issuance and sale of all City bonds, notes, loans and other evidences of indebtedness shall be subject to the following conditions;

- Principal and interest on all outstanding debt shall be paid in a full and timely manner;
- Debt shall be incurred only for those purposes as provided by State

Statute or home rule powers;

- Capital improvements should be developed, approved and financed in accordance with City Ordinances and the capital improvement budgeting process;
- The payment of debt shall be secured by the full faith, credit and taxing power of the City, in the case of General Obligation Bonds, and by the pledge of specified, limited revenues in the case of revenue bonds. The City shall not pledge any City revenues to its conduit bond financings or guarantee indebtedness of others. Furthermore, the City has no moral obligation to repay bondholders of conduit financings issued under its authority;
- Principal and interest retirement schedules shall be structured to: (1) meet available cash flow to service debt, (2) achieve a low borrowing cost for the City, (3) accommodate the debt service payments of existing debt structure and (4) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
- Debt incurred shall generally be limited to obligations with serial and term maturities but may be sold in the form of capital appreciation bonds or other structures if circumstances warrant;
- The average life of the debt incurred should be no greater than the projected average life of the assets being financed;

2. Methods of Sale

Debt obligations in the form of bonds or loans of the City may be sold by competitive, negotiated sale or private placement methods unless otherwise limited by state law. The selected method of sale shall be the option which is expected to result in the lowest cost and most favorable terms given the financial structure used, market conditions, and prior experience.

a) Competitive Sale

City debt, except for the purposes and credit types enumerated immediately below not secured by gross receipt taxes, shall be sold through a competitive bid process or as otherwise permitted under state law as recommended by the Debt Committee and approved by City Council.

- Refundings;

- Taxable debt;
- Airport enterprise debt;
- Real Estate based debt including special assessment district, public improvement district and tax increment development district debt;
- Refuse Disposal enterprise debt;
- Golf Course enterprise debt; and
- Transit Facility enterprise debt.

(1) Bid Verification

Interest cost evaluations among proposers shall be computed based on True Interest Cost (TIC). TIC is defined as the rate at which, as of the date of the bonds, discounts semi-annually all future payments on account of principal and interest on the bonds to the price bid, not including interest accrued to the date of delivery of the bonds.

(2) Award of Competitive Bids

City debt priced by competitive bid shall be sold to the bidder proposing the lowest true interest cost - TIC - to the City, provided the bid conforms to the official notice of sale.

(3) Method of Accepting Bids

- The City shall accept bids in person or by electronic means with a preference for electronic bids;
- The City shall not accept bids by telephone; and
- The City reserves the right to reject bids that are late or include calculation errors.

(4) Good Faith deposits

All competitive bids shall provide for a good faith deposit of not less than two percent of the principal amount of the bonds in the form of a wire transfer in cash, financial surety bond,

cashier's check, treasurer's check or certified check drawn on, a solvent commercial bank or trust company in the United States. Such good faith deposit must be received by the City prior to Council action to approve the sale to the best bidder in accordance with state law.

(5) Permissible Discounts

The City may permit discount bids not to exceed 2% of any given maturity when it retains sufficient flexibility to compensate for the discount by increasing the par amount of the bond issue, except that there shall be no discounts permitted with regard to the sale of GO Bonds.

(6) Term Bonds

The official Notice of Sale shall be designed to maximize the flexibility of the prospective purchasers and may include term bonds with mandatory sinking fund installments, and other features that may enhance the attractiveness of the offering consistent with the receipt of the lowest true interest cost possible.

(7) Bidders

Financial advisors shall not be permitted to bid as a syndicate manager on competitive sales for bonds for which they serve as financial advisors.

b) Negotiated Sale

(1) Conditions of Sale

When certain conditions favorable for a competitive sale do not exist and when a negotiated sale or private placement will provide significant benefits to the City that would not be achieved through a competitive sale, the City may elect to sell its debt obligations, in addition to those types of obligations set forth in Section IV-A-2-a, through a negotiated sale or private placement basis, upon approval by the City Council. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of specific financing program. The City Council may provide for the sale of City debt by negotiation or private placement, the terms and

conditions of the sale, including prices, interest rates, credit facilities, underwriting or remarketing fees, and commissions. Examples of such sales include, but are not limited to the following:

- Variable rate demand obligations;
- A debt issue so small or large that the number of potential bidders would be too limited to provide the City with truly competitive bids;
- A debt issue requiring the ability to react quickly to sudden changes in interest rates (e.g., refunding bonds in volatile or favorable market conditions);
- A debt issue requiring intensive marketing efforts to establish investor acceptance (e.g., story bonds or the use of proprietary or innovative financial products); and,
- An issue of debt with specialized distribution requirements (e.g., bonds sold only to New Mexico residents or private placements).

(2) Negotiation of Terms and Conditions

The negotiation of terms and conditions shall include, but not be limited to discounts or takedowns and interest rates by maturity, management, structuring, remarketing, liquidity and bond insurance fees. Guidelines shall be based on prevailing terms and conditions in the marketplace for comparable issuers on the date of issuance, including yields from secondary market trading of comparable issuers and previously issued City's debt.

(3) Selling Groups Permitted

The book-running senior manager shall discuss with the City the advantages and /or disadvantages of using a selling group. If utilization of a selling group is appropriate to assure the local retail distribution of a negotiated sale of the City's debt, the selling group shall include and be limited to only those firms operating retail brokerage operations within the State of New Mexico.

c) Allocation and Designation of Bonds

The book-running senior manager shall be responsible for ensuring that the overall allocation of bonds meets the City's goals of: (a) obtaining the best price for the issue and (b) providing firms with allocations that are commensurate with work performed. The City reserves the right to monitor the order-taking process and to review bond allocations prior to their release.

(1) Following the execution of a bond purchase contract, the book-running senior manager shall:

(a) Provide for fair allocation of City debt to underwriters and selling group members, consistent with City's goals;

(b) Comply with all Municipal Securities Rulemaking Board on regulations governing orders, priorities and allocations; and

(c) Submit to the City, for approval, a complete and timely account of all orders, allocations, and underwriting activities related to the sale of City debt under its management.

(2) Priority for assigning orders and allocation of bonds

(a) Member Orders

When practical, retail orders, especially those from the State of New Mexico, are to be assigned the highest priority by the book-running senior manager. Net designated institutional orders shall be given second priority. Allocations shall be assigned only to those firms that place orders, which place their firm's capital at risk. Group net and stock orders shall receive the lowest priority. Member orders received after over subscription shall not be filled unless earlier orders are canceled or bonds otherwise remain unsold.

(b) Designated Orders

(i) Whenever practical the City shall permit the use of designation methods in its negotiated bond sales which provide institutional investors some ability to

direct the credit for their orders; and

(ii) For syndicates with at least three firms in the management group, designations shall be distributed between a minimum of three firms with no manager receiving more than 50% of the credit.

(c) Selling Group Orders

(i) Selling group members may place orders for bonds and receive credit on the basis of the priorities established above; and

(ii) Selling group members are ineligible to receive management and structuring fees and shall be compensated only on the basis of the takedown paid on their contingent sales.

(d) Stock Orders.

Orders placed during the pricing period for which there is no identifiable retail or institutional customer shall only be filled from under-subscribed maturities.

(e) Group Net Orders

The sale of an entire issue on a group net basis is to be avoided in order to encourage competitive pricing dynamics during the order period.

d) Private Placement

The City may choose to privately place debt with a sophisticated investor or with a state or federal agency, New Mexico Finance Authority or New Mexico State Treasurer, if the cost to the City is less than selling bonds in the open market.

e) Pricing Procedures

At least one business day prior to the day of pricing, the book-running senior manager shall initiate a pre-pricing conference call with the City Treasury and the underwriting team to discuss the proposed pricing terms, order period, underwriting spreads components, market conditions, priority of orders and allocations and other necessary pricing information.

f) Post-Sale Evaluation

The book-running senior manager shall provide the City with a final pricing book. The final pricing book shall include, but not necessarily be limited to, the following information; plan of finance, financing schedule; the distribution list; a discussion of market conditions leading up to and during the pricing; the final pricing; comparable issues in the market; any media coverage; rating agency reports; a full set of final computer debt service runs; a list of selling group members; a table or chart identifying orders and allocations; a table or chart identifying management fee and liability; a table or chart identifying takedown and designation by dollars; and a table or chart identifying designations on net designated orders. The final pricing book shall be provided to the City by the day of closing.

V. APPOINTMENT OF BOND UNDERWITERS.

A. Intent

To provide systematic technical advice and support to issuing departments and for the efficient negotiated sale of City debt the City, the City Council shall approve the selection of a qualified underwriters, underwriter or underwriting teams.

The City will form a team of underwriters for each bond program of the city including tax supported, airport, solid waste, land based and real estate credits.

Such selection of qualified underwriters shall be based on an evaluation of competitive proposals for underwriting services, as recommended to the City Council by the Mayor.

In no case may the financial advisor on any City credit serve as an underwriter in compliance with all applicable MSRB rules and regulations.

B. Term of Appointments

Appointments shall be effective for a term of four (4) years from the date of ratification of the Mayor's recommendation of award by the City Council, unless otherwise amended by the City Council at the recommendation of or with the concurrence of the Mayor.

C. Selection Process

1. The Debt Committee shall periodically publish a Request for Proposal (RFP) that invites concurrent proposals from individual offerors to provide services in support of each of the City's bond programs.

2. Technical advisory subcommittees are authorized. Ancillary subcommittees may be established to provide the Debt Committee with technical support for its assessment of the proposals it receives. Overlapping subcommittee memberships are permitted only if a sufficient number of suitable candidates for such subcommittee assignments cannot be timely recruited.
 - a) Each subcommittee shall be composed of no fewer than three, preferably five members. One of whom should not be employed by the City and who should be reasonably expected to have a working knowledge of underwriting practices. One member of each committee shall be assigned by the department for whom services will be rendered by the selected underwriters. The Mayor shall approve all advisory committee appointments;
 - b) All actual or potential conflicts of interest of each proposed subcommittee member must be disclosed by such member for the record, prior to submittal of said member's nomination to the Debt Committee so it may judge each individual's suitability to participate;
 - c) Advisory committees shall be staffed by the Treasury and Purchasing Divisions whose personnel shall not express preferences for outcomes to committee members. The City Attorney or designee, as issuer's counsel shall serve each advisory committee in an ex officio status;
 - d) The results of each subcommittee's review, if such is empanelled, shall be reported to the Debt Committee which shall, after considering the subcommittee's input, forward to the Mayor its recommendation for the designated senior book running manager for each available assignment together with a rank ordered listing of the next three finalists. As provided by the purchasing ordinance, the Mayor may replace the firm ranked first with either the second or third ranked firm on the Debt Committee's list when formulating his recommendation to the City Council;
 - e) The remaining two finalists for underwriter shall then be designated as co-managers for negotiated sales of the respective credit during the term of the assignment. Each co-manager shall receive an allocation of between 15 and 25 percent of underwriting risk and related fees as determined by the City. Discounts and fees shall be based upon the rates proposed by the senior book running manager which shall receive an underwriting allocation of 45 to 60 percent of the underwriting risk and related fees.

3. Blackout Periods Imposed

- a) Communication about an RFP or the selection process with members

of a underwriting proposal review committee, City employees, or elected officials of the City, except for designated Purchasing Division staff, by any employee or representative of an underwriting team under consideration for selection is explicitly prohibited from the date of publication of such RFP until recommendation of award by the Mayor; and

b) Failure to comply with this requirement shall result in the applicant's disqualification.

D. Selection Criteria

In order of priority, criteria to be used in the appointment of qualified underwriters shall include, but are not limited to:

1. Demonstrated ability of the firm to structure an issue of debt utilizing the contemplated credit structure(s) efficiently and effectively;
2. Experience of assigned personnel;
3. Approach to proposed scope of work, including quality and applicability of proposed financing ideas;
4. Demonstrated capability to sell bonds to institutional and retail investors, especially to investors located in New Mexico;
5. Demonstrated commitment and capacity of the underwriting firm or firms to put its firm's capital at risk, especially as evidenced by having successfully bid on prior competitive sales of City debt or by having underwritten the City's debt in adverse markets;
6. Demonstrated secondary market support for debt which the underwriting firm or firms are retained, especially for the specific credit which is to be pledged;
7. Fees and expenses;
8. Weights for the above criteria may vary and shall reflect the unique requirements of the proposed engagement;
9. Preference for local and state businesses shall be granted as may be provided under Section 5-5-1-1 et seq NMSA 1978 and Ord. 26-2011, Section 5-5-30 ;
10. Other factors. Other Factors are defined as those factors that have not been included as technical selection criteria, but are factors that in some instances must be considered in making the final selection. Their nature will not permit a meaningful numerical predetermination of relative significance of impact on the selection decision, and therefore, they are not numerically scored.

Failure to provide complete disclosure for each of the offeror firms to the

following questions or misrepresentation shall result in disqualification. The provider must certify that, to the best of its knowledge, the information submitted in response to this section is accurate, complete and not misleading. Other factors include:

a) Conflicts of Interest

(1) Each offeror shall list all potential conflicts of interest of which the firms have knowledge of which may arise with respect to the representation of the City on this proposal, including, without limitation, any circumstances which would create the appearance of a conflict of interest.

(2) Each offeror shall disclose any political contribution, gift or fund-raising, either direct or indirect, valued in excess of \$250.00 (singularly or in the aggregate) made by the firms or individuals at the firms to any elected official or person seeking office in the state of New Mexico in the last five (5) years; any current, proposed or past financial or business relationship or arrangement between a firm or any individual at the firm and any City Council member, officer or employee of the City; and any other actual or potential conflict which may give rise to a claim of conflict of interest.

(3) Each offeror shall provide acknowledgement that it has complied with all Municipal Securities Rulemaking Board ("MSRB") rules applicable to underwriters including but not limited to rule G-17 and G-37. With respect to G-37 filings, each offeror shall document specific breaches of the Rule for which any sanctions were imposed. The offers shall only be required to provide any supplementary information requested by the City.

b) Regulatory Action

(1) Each offeror shall disclose any judicial or administrative proceedings of public record that have been filed against the firm during the five (5) years preceding the date of the proposal that concerned the offeror participation in a securities transaction.

(2) Each offeror shall list and describe the current disposition or status of any litigation or formal or informal action taken by any state or federal securities commission, the MSRB, or any other regulatory body against the firm (or taken against any individuals now at the firm who will work under this contract) within the last five (5) years.

(3) Each offeror shall disclose employment practices and describe

the current disposition or status of any litigation or formal or informal action taken by the Equal Employment Opportunity Commission or any other regulatory body against the firm within the last five (5) years with respect to its employment practices.

VI. APPOINTMENT OF BOND COUNSEL, DISCLOSURE COUNSEL FINANCIAL ADVISOR DERIVATIVE ADVISORS.

A. Intent

To provide systematic technical advice and support to issuing departments and for the efficient sale or incurrence of City debt, the City Council shall approve the selection of qualified finance team members to who represent the City in a fiduciary capacity to include Bond Counsel, Disclosure Counsel Financial Advisor and Derivative Advisor. The City may also retain arbitrage rebate specialists and other advisors as necessary to manage components of the debt program; such advisors will be subject to this section.

The City may form a team of finance team members for all bond programs of the city including tax supported, airport, solid waste, land based and real estate credits. The finance team member composition can be the same for each bond program or may be different for each bond program.

Such selection of qualified finance team members shall be based on an evaluation of competitive proposals for finance team members in compliance with Section 5-5-1-1 et seq NMSA 1978 and Section 5-5-30 ROA 1994, and as recommended to the City Council by the Mayor.

In no case may a finance team member serve as a financial counterparty or represent a counterparty on any bond program where they as an advisor or in a fiduciary capacity to the City.

B. Term of Appointments

Appointments shall be effective for a term of four (4) years from the date of ratification of the Mayor's recommendation of award by the City Council, unless otherwise amended by the City Council at the recommendation of or with the concurrence of the Mayor.

C. Selection Process

1. The Debt Committee shall periodically publish a Request for Proposal (RFP) that invites concurrent proposals from individual offerors to provide services in support of each of the City's bond programs.

2. Technical advisory subcommittees are authorized. Ancillary subcommittees may be established to provide the Debt Committee with technical support for its assessment of the proposals it receives. Overlapping subcommittee memberships are permitted only if a sufficient number of suitable candidates for such subcommittee assignments cannot be timely recruited.

a) Each subcommittee shall be composed of no fewer than three, preferably five members. One of whom should not be employed by the City and who should be reasonably expected to have a working knowledge of underwriting practices. One member of each committee shall be assigned by the department for whom services will be rendered by the selected underwriters. The Mayor shall approve all advisory committee appointments;

b) All actual or potential conflicts of interest of each proposed subcommittee member must be disclosed by such member for the record, prior to submittal of said member's nomination to the Debt Committee so it may judge each individual's suitability to participate;

c) Advisory committees shall be staffed by the Treasury and Purchasing Divisions whose personnel shall not express preferences for outcomes to committee members. The City Attorney or designee, as issuer's counsel shall serve each advisory committee in an ex officio status; and

d) The results of each subcommittee's review, if such is empanelled, shall be reported to the Debt Committee which shall, after considering the subcommittee's input, forward to the Mayor its recommendation for the designated assignment together with a rank ordered listing of the next two finalists. As provided by the purchasing ordinance, the Mayor may replace the firm ranked first with either the second or third ranked firm on the Debt Committee's list when formulating his recommendation to the City Council;

3. Blackout Periods Imposed

a) Communication about an RFP or the selection process with members of a underwriting proposal review committee, City employees, or elected officials of the City, except for designated Purchasing Division staff, by any employee or representative of an offeror under consideration for selection is explicitly prohibited from the date of publication of such RFP until recommendation of award by the Mayor;

b) Failure to comply with this requirement shall result in the applicant's disqualification

D. Selection Criteria

In order of priority, criteria to be used in the appointment of qualified finance team member shall include, but are not limited to:

- Demonstrated ability of the firm to provide requested services;
- Experience of assigned personnel;
- Approach to proposed scope of work, including quality and applicability of proposed financing ideas;
- Fees and expenses;
- Weights for the above criteria may vary and shall reflect the unique requirements of the proposed engagement;
- Preference for local and state businesses shall be granted as may be provided under Section 5-5-1-1 et seq NMSA 1978 and Ord. 26, 2011, Section 5-5-30 ;
- Other factors. Defined as those factors that have not been included as technical selection criteria, but are factors that in some instances must be considered in making the final selection. Their nature will not permit a meaningful numerical predetermination of relative significance of impact on the selection decision, and therefore, they are not numerically scored.

Failure to provide complete disclosure for each of the offeror firms to the following questions or misrepresentation shall result in disqualification. The provider must certify that, to the best of its knowledge, the information submitted in response to this section is accurate, complete and not misleading. Other factors include:

a) Conflicts of Interest

(1) Each offeror shall list all potential conflicts of interest of which the firms have knowledge of which may arise with respect to the representation of the City on this proposal, including, without limitation, any circumstances which would create the appearance of a conflict of interest.

(2) Each offeror shall disclose any political contribution, gift or fund-raising, either direct or indirect, valued in excess of \$250.00 (singularly or in the aggregate) made by the firms or individuals at the firms to any elected official or person seeking office in the state of New Mexico in the last five (5) years; any current, proposed or past financial or business relationship or arrangement between a firm or any individual at the firm and any City Council member,

officer or employee of the City; and any other actual or potential conflict which may give rise to a claim of conflict of interest.

b) Regulatory Action

(1) Each offeror shall disclose any judicial or administrative proceedings of public record that have been filed against the firm during the five (5) years preceding the date of the proposal that concerned the offeror participation in a securities transaction.

(2) Each offeror shall list and describe the current disposition or status of any litigation or formal or informal action taken by any state or federal securities commission, or any other regulatory body against the firm (or taken against any individuals now at the firm who will work under this contract) within the last five (5) years.

(3) Each offeror shall disclose employment practices and describe the current disposition or status of any litigation or formal or informal action taken by the Equal Employment Opportunity Commission or any other regulatory body against the firm within the last five (5) years with respect to its employment practices.

VII. SELECTION OF DEBT STRUCTURES

A. Bond Structuring for City Bond Programs

Attached as an appendix are the debt structuring guidelines for each of the City's bond programs/structures.

B. Permissible Bond Structures

1. Variable Rate Bonds The proportional amount of debt attributable a specific pledged revenue that shall be issued in the form of unhedged variable rate securities shall be limited to a maximum of 20% of the total outstanding debt for which that revenue is pledged. In the case of tax supported variable rate debt, the level of variable rate shall not exceed 20% of the then outstanding tax supported debt which includes General Obligation, Municipal & State Shared Gross Receipts Tax debt, and SAD bonds that have been credit enhanced by the pledge of tax income. In considering the amount of unhedged variable rate debt to be issued, consideration shall be given to the amount of cash balances available to be otherwise invested as reserves and available as a natural interest rate hedge.

Periodically, the Treasurer with assistance from the financial advisors shall analyze each outstanding variable rate issue to determine if the issue should be converted to a fixed rate or otherwise hedged.

2. Optional Redemptions

Bonds shall be callable no later than ten years from the date of issuance. The City's Treasurer's office together with the financial advisors shall evaluate optional redemption provisions for each issue to assure that the City does not pay unacceptably higher interest rates to obtain such advantageous calls.

3. Prior Redemptions

The City should consider prepaying or defeasing outstanding debt when resources are identified and available to reduce its outstanding debt.

4. Refunding Bonds

a) Purposes

The City shall consider refunding outstanding debt on order to:

- (1) Generate interest rate savings;
- (2) Restructure principal and/or;
- (3) Eliminate burdensome bond covenants.

A present value analysis shall be prepared that identifies the economic effects of any refunding proposed. Prominent among these are:

- i. Present value savings, negative arbitrage and costs;

- ii. Nominal and present value savings per maturity;
- iii. Negative arbitrage per maturity;
- iv. Shape of debt service savings;
- v. Recommended maturities to refund including time to maturity analysis for maturities with less than 3% PV savings.

b) Current Refundings

(1) Requires that the refunding escrow may not exceed 90 days; and

(2) Unless otherwise justified and approved by Debt Committee, an advance refunding transaction shall require a present value savings of at least three (3) percent of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses. A maturity by maturity analysis shall be conducted to determine if the 3% or greater on a maturity by maturity basis threshold is met;

(3) Unless otherwise justified and approved by Debt Committee, refunding maturities shall not extend beyond the final refunded maturity; each year's principal shall be equal to or greater than the refunded principal payment; and

(4) Surplus monies in debt service funds or debt service reserve funds associated with the refunded bond issue shall be used as a source of funds for the refunding issue.

c) Advanced Refundings

(1) Requires the refunding escrow duration to exceed 90 days;

(2) Governmental bonds issued after 1985 may not be advance refunded with tax-exempt bonds more than once. Consequently, the City should carefully weigh the benefits and opportunity costs of such an action;

(3) Unless otherwise justified and recommended by Debt Committee an advance refunding transaction shall require a present value savings of at least three (3) percent of the principal amount of the refunding debt being issued and shall incorporate all costs of issuance expenses. A maturity by maturity shall be conducted to

determine if the 3% or greater on a maturity by maturity basis threshold is met;

(4) Unless otherwise justified and recommended by Debt Committee refunded maturities shall not extend beyond the final refunded maturity; each year's principal shall be equal to or greater than the refunded principal payment; and

(5) Surplus monies in debt service funds or debt service reserve funds associated with the refunded bond issue shall be used as a source of funds for the refunding issue.

5. Capital Appreciation Bonds (CABS)

a) The maximum annual accreted value at maturity of outstanding capital appreciation bonds shall not exceed the net pledged revenues available to pay debt service during the fiscal year preceding the issuance of said capital appreciation bonds.

b) Recognizing that Capital Appreciation Bonds are an expensive borrowing alternative, Capital Appreciation Bonds shall be used as a last resort.

c) Fully accreted values shall be included in the debt service calculation.

6. Liquidity and Credit Enhancement Facilities

The City may seek to use liquidity or credit enhancement when such enhancement proves to be cost effective or to improve or establish a credit rating. When their use is judged prudent and advantageous to the City, the Treasurer shall have the authority to enter into agreements with commercial banks or other financial entities for the purposes of acquiring lines or letters of credit, bond insurance or surety policies, etc. Selection of enhancement providers is subject to a competitive bid process developed by the financial advisor and approved by the Director of Finance.

a) Prerequisite to use

The present value of the estimated debt service savings from the use of credit enhancement should be at least equal to or greater than the premium paid by the City to obtain such credit support; and

b) Criteria to be used in the appointment of credit provider include:

(1) An objective evaluation of responses to a request for

qualifications;

(2) The short-and long-term credit ratings of the institution and the relative trading level of debt support by such credit provider;

(3) Institution's experience with providing liquidity facilities to municipal bond issuers;

(4) Competitiveness of fees submitted, interest charged on liquidity draws, maximum legal and administrative fees;

(5) Ability to agree to City and state legal requirements; and,

(6) Number and amount of liquidity facilities currently outstanding in the market.

7. Derivative Products – Commodities and Interest Rate Hedging

a) Where appropriate derivative products including but not limited to fuel hedging agreements, interest rate locks, interest rate swaps and caps or other hedging devices may be used to lock in prices or interest rates for budgetary purposes or reduce commodity prices and interest rate exposure. Derivative products may not be used for speculative purposes.

b) Interest rate swaps may not be used, if the effect of the commitment is to increase a City's credit exposure to interest rate risk (e.g., fixed to floating rate swap).

c) The City shall not have floating to fixed interest rate swaps in connection with variable rate debt in effect with an aggregate notional amount in excess of 20% of the aggregate outstanding principal amount of City's categorical debt by purpose. The City will evaluate the use of risk management products by comparison to traditional financing vehicles and structures and will only use a risk management product if it produces significant quantifiable value or reduces the risk exposure in management of the debt portfolio.

d) The City shall consult with its legal advisors, financial advisors and derivative advisor for guidance in incurring or managing derivative products. Risk factors to evaluate when considering commodity or interest rate swaps:

- > Termination risk;
- > Counterparty risk;
- > Basis Risk;
- > Rating agency considerations;

- > Liquidity risk;
 - > Tax risk; and
 - > Ability to receive independent third party fair market valuation.
- e) Pursuant to applicable regulatory requirements imposed under the authority of Section 731 of Title VII of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010, the City will select and designate a Qualified Independent Representative (the “QIR”) that meets the following criteria (the “Enumerated Criteria”):
- i. has sufficient knowledge to evaluate the transaction and risks;
 - ii. is not subject to a statutory disqualification;
 - iii. is independent of the Swap Dealer or Major Swap Participant;
 - iv. undertakes a duty to act in the best interests of the City;
 - v. makes appropriate and timely disclosures to the City;
 - vi. evaluates, consistent with any guidelines provided by the City, fair pricing and the appropriateness of the transaction; and
 - vii. is subject to restrictions on certain political contributions imposed by the CFTC, the SEC, or a self-regulatory organization subject to the jurisdiction of the CFTC or the SEC.
- f) At least annually, or as required by the City Council, the City shall conduct a review of its QIR to ensure that the QIR still meets the Enumerated Criteria delineated above. In the event that the QIR is determined not to meet the Enumerated Criteria, then prior to the execution of any Transaction the City shall select and designate a replacement QIR that meets the Enumerated Criteria.
- g) The Commodity Cost Management Policy is attached as an appendix.

VIII. INVESTOR AND RATING AGENCY COMMUNICATIONS

A. Disclosure

It is the City's policy to provide primary and secondary disclosure to all its bond investors on a periodic basis as required by the Securities and Exchange Commission (SEC) Disclosure Rule 15c2-12 and SEC Antifraud Provision Rule 10b-5 and Municipal Securities Rulemaking Board (MSRB) Rule G-36 as stated below:

SEC Disclosure Rule 15c2-12 requires that issuers of municipal securities undertake in a written agreement or contract for the benefit of holders of such securities to provide certain annual financial information to various information repositories.

SEC Antifraud Provisions Rule 10b-5 requires that disclosure made by issuers of municipal securities be both accurate and complete in all material respects at the time the disclosure is provided.

MSRB Rule G-36 requires filing by the broker dealer of the Official Statement within 10 days of the Bond Purchase Agreement execution.

The City acknowledges the responsibilities of the underwriting community and shall assist underwriters in their efforts to comply with SEC Disclosure Rule 15c2-12, SEC Antifraud Rule 10b-5 and MSRB Rule G-36.

1. Official Statement Filing - Primary Disclosure

The City shall file its official statements with the MSRB, all nationally recognized municipal securities repositories (EMMA which currently the only nationally recognized municipal securities repository).

2. Comprehensive Annual Financial - The City shall provide its comprehensive annual financial report and shall disseminate other information that it deems pertinent to the market in a timely manner. The City shall file its CAFR with EMMA.

3. Annual Information Statement (AIS) – Secondary Disclosure

The City shall publish its Annual Information Statement (undertaking) within 210 days following the end of its fiscal year. The City shall file its AIS with EMMA, annually.

4. Securities disclosure policies and practices of the Mayor and administration officials

a) Purpose

In connection with the issuance of certain bonds, notes, and other municipal securities, the City is required to prepare and disseminate certain disclosure information in order to comply with Rule 15c2-12 promulgated by the Securities and Exchange Commission under the Securities Exchange Act of 1934, including a requirement for continuing disclosure of annual financial information and notices of certain material events. This policy shall centralize the information dissemination process, establish appropriate controls on disclosure statements made by the City and enable the City and its enterprises to comply with Rule 15c2-12, in order to assure the City's access to the capital markets as a source of funds for necessary and useful public undertakings of the City. This policy is not intended in any way to limit any person's access to public records or information, nor to infringe upon the normal political process, in particular the right of any elected official of the City to review, discuss, release, comment upon or criticize any information.

b) Policy

(1) The Treasurer shall be responsible for reviewing and recommending, prior to release to the public, all official statements and disclosure statements relating to municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12.

(2) No official statement relating to any municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be issued or released to the public until and unless approved in writing by the Mayor.

(3) No disclosure statement concerning municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be made, issued or released to the public by any employee, agent or official of the City until and unless such disclosure statement and the release thereof shall be approved in writing by the Mayor.

(4) The City shall not bind itself pursuant to an undertaking relating to securities, such as certain types of private activity bonds, as to which is not an obligated person for purposes of Rule 15c2-12. No undertaking relating to municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be binding upon the City without the written approval of the Mayor.

(5) No disclosure statement, official statement or undertaking in respect of any municipal securities as to which the City is the

issuer or an obligated person for purposes of Rule 15c2-12 that is issued or released to the public by any employee, agent or official of the City without the express written approval of the Mayor as required by this policy shall be deemed to be a statement or undertaking by or on behalf of the City.

c) Action

Unless otherwise required by law, prior to releasing to the public any official statement or disclosure statement intended to be made public, all non-elected employees, agents and officials of the City shall report to and file with the Treasurer any such proposed disclosure statement, together with such additional information requested by the Treasurer, including certificates as to the accuracy of such disclosure statement, and each such employee, agent and official of the City shall consult with the Treasurer concerning such proposed official statement or disclosure statement.

(1) Published disclosure statements

(a) All information and documentation requested by the Treasurer that may be required to support the preparation of a disclosure statement, official statement or undertaking shall be provided by the appropriate City departments, as identified by the Treasurer, on a timely, complete, and accurate basis.

(b) All disclosure statements, official statements and undertakings shall be compiled by disclosure counsel whom, together with the Treasurer and other counsel who are parties to the documentation. They shall be afforded, by the originating department, such unobstructed access to documentation and information, as they may deem appropriate.

(2) Rating agency, investor and media communications

(a) As previously required in Administrative Instruction No. 2-5, all communications with rating agency personnel, including responses to their periodic questions, shall be managed through and approved by the Treasurer.

(b) In order to ensure uniform market access to information that may be relevant to the valuation of the City's securities, the release of any information, whether in response to an ad hoc question or self-initiated, that may be potentially relied

upon by the market to impute the credit worthiness of the City's debt, whether intended for that purpose or not, shall be reviewed by the Treasurer and Disclosure Counsel to determine whether or not:

(i) The information is already in the public domain;

(ii) The information is a disclosure event as defined by the SEC, requiring prompt notification of the MSRB for EMMA filing; and

(iii) The information is full, accurate, complete and not misleading.

5. Securities disclosure policies and practices of with respect to the City Council

a) Background

In a January, 1996 Securities and Exchange Commission report in the Orange County, California bankruptcy case, the SEC expressed its views about the accountability of governing boards and commissions for the contents of official statements, which are the primary financial disclosure documents to accompany bond issues. While governing boards are not responsible for assembling data included in the official statement, governing board members may not authorize disclosure that the official knows to be false nor may governing boards authorize disclosure while recklessly disregarding facts that indicate that there is a risk that the disclosure may be misleading.

In the Orange County case, the SEC determined that there were certain investment practices and financial matters which were known (or could have been known upon due inquiry) to the governing board members, which threatened the security of six separate bond issues and were not described in the official statements approved by the governing board. The SEC concluded that the governing board members had acted recklessly in approving the official statements without prior review in light of the omission of this information and ordered the governing board members to cease and desist from violations of the antifraud provisions of the federal securities laws.

This policy, therefore, is promulgated in order to direct that the administration implement certain practices, which may be reasonably expected to facilitate City Councilors' compliance with the antifraud provisions of the federal securities laws.

b) Policy

(1) The City Council shall be encouraged to review and approve, prior to release to the public, all official statements of sale relating to the initial offering of municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12;

(2) All official statements relating to any municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be forwarded to the City Council for its timely review and formal approval prior to its release to the public;

(3) No undertaking relating to municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 shall be binding upon the City without the formal approval of the City Council;

(4) Any official statement or undertaking in respect of any municipal securities as to which the City is the issuer or an obligated person for purposes of Rule 15c2-12 that is issued or released to the public by any employee, agent or official of the City without the express approval required by this policy shall be deemed to be a statement or undertaking by or on behalf of the City.

c) Action

Unless otherwise required by law, prior to releasing to the public any official statement intended to be made public, the Mayor shall provide to the City Council for its review and approval copies of the official statement in substantially final form. Official statements forwarded to the City Council for approval shall, for the Council's convenience, be accompanied by:

(1) A cross-referenced narrative summary of disclosed risks prepared by the City's Disclosure Counsel;

(2) A written response to the questions postulated in the 1996 NLC/GFOA pocket guide for elected and other public officials To Ask Before You Approve A Bond Issue. See Appendix A for a copy of the questionnaire; and

(3) Notwithstanding, the review of such summaries shall not relieve individual Councilors of their obligation to substantively evaluate the adequacy of disclosure contained in the referenced official statement.

B. Credit Ratings

1. The City shall make every reasonable effort to maintain or improve its underlying high quality credit ratings;

2. The City shall seek a credit rating on all new bond issues, which are being sold in the public market. However, exceptions to this requirement, such as when privately placing a security with a sophisticated investor, are permissible, if warranted by the circumstances;
3. The City may request a underlying rating on all bond issues utilizing bond insurance, together with an insurance bond rating;
4. The City may secure ratings for all outstanding bond issues that have been advance refunded or otherwise defeased materially in advance of their maturity at the time of defeasance;
5. The City shall continue to apply for ratings on credits which have been rated by one or more of the rating agencies in the past;
6. The City shall maintain a line of communications with the bond rating agencies (Moody's and Standard & Poor's and Fitch or such agencies currently maintaining a rating on such bonds), informing them of major financial events in the City as they occur. All communications, both oral and written, in response to requests for information shall be made by the Director of Finance and Management or designee ;
7. The City shall report annually all financial information, including its comprehensive annual financial report after been accepted by the City Council, to agencies which provide credit ratings or credit enhancement for the City's outstanding;
8. The City shall provide full disclosure of operations to the bond rating agencies. The City staff, with the assistance of financial advisor, disclosure counsel, bond counsel, tax counsel, shall prepare the necessary materials for presentations to the bond rating agencies and
9. The City either shall notify the bond rating agencies by telephone or through written correspondence when the City begins preparation for a debt issuance. After the initial contact, a formal application shall be prepared and sent along with the draft of the Official Statement relating to the bond sale to the rating agencies. This application and related documentation should be sent several weeks prior to the bond sale to give the rating agencies sufficient time to perform their review. A personal meeting with the rating agencies shall be scheduled at least once every year or whenever a major project is initiated.

IX. INVESTMENT OF BOND PROCEEDS

- A. All bond proceeds of debt issues shall be invested in accordance with Federal and State laws and the City's Investment Policy - as authorized in Section 4-1-10 of the City's Code of Ordinances and approved by the Chief Administrative Officer.
- B. Escrow Accounts Funded with Treasury Securities - In the event that an escrow

account is to be funded with open market securities when subscription for State and Local Government Securities Obligations (SLGS), the Treasurer shall competitively purchase those securities as provided for in the City's investment policy, soliciting bids from no less than three (3) independent broker/dealers.

X. ARBITRAGE COMPLIANCE

It is the City's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

- A. The City shall maintain investment allocations by source of funds and record pro rata interest income of the commingled bond funds monthly.
- B. Project cash flows shall be carefully planned to insure the applicability of rebate exceptions, if feasible.
- C. Rebate computations should be performed annually, but no less often than every five years until the bonds mature.
- D. It is the City's policy to segregate current arbitrage earnings for future payment or credit, and to enter the amount as a liability on the books.
- E. The City shall report to the IRS as required and shall make rebate payments as required by Federal law.
- F. The City shall structure its financings in such a way as to reduce or eliminate future arbitrage rebate liability, wherever feasible.

XI. LEGAL AND REGULATORY REQUIREMENTS

- A. The Treasurer and the City Attorney shall coordinate their activities to ensure that all securities are issued in the most efficient and cost-effective manner possible.
- B. The Treasurer and City Attorney shall coordinate their activities to ensure that in the opinion of the City Attorney and/or bond counsel all securities are issued in compliance with the applicable City, state, and federal statutes and regulations.
- C. The City Attorney shall review all documents related to the issuance of securities by the City.
- D. Other documents and opinions relating to the issuance of debt shall be prepared by nationally recognized bond counsel with extensive experience in public finance, securities regulation and tax issues.
- E. The Treasurer and the City Attorney shall consult and jointly recommend the appointment of bond, tax and disclosure counsel to the Mayor for his commendation to the City Council.

RECOMMENDED:

Director Department of Finance and Administrative Services & Debt Committee Chairperson

REVIEWED:

City Attorney

APPROVED:

Chief Administrative Officer

APPENDIX A

The debt structuring guidelines for each of the City's Bond Programs are as follows:

1. General obligation (GO) bonds

The following are general guidelines to be considered when issuing GO Bonds: General Obligation bonding should be used to finance only those assets which have been determined to be essential in the development of the City;

- a) General Obligation Bonding should be used only after considering alternative funding sources, such as federal and state grants and project revenues;
- b) The maturity of the City's GO bonds shall be limited to thirteen (13) years to maintain rapid payoff and high credit ratings;
- c) GO bonds shall be structured with substantially level principal payments except in instances where projected debt service fund balances exceed the amount necessary to pay the next year's principal and interest, including the debt service on any additional bonds to be issued within that period. In that event, the first principal payment of any new series to be issued shall be increased to a level sufficient to reduce the projected fund balance, after the payment of the first year's principal and interest, to a level equal to approximately one-twelfth of the average annual debt service for all outstanding GO bonds in the following year. The remaining principal payments for years two (2) through thirteen (13) of the new series shall be correspondingly reduced, but maintained as a substantially level principal retirement schedule for the remaining life of the new bonds;
- d) The City shall maintain or improve GO bond ratings of "Aa1" – Moody's, "AAA" – Standard and Poor's and "AA+" - Fitch. Refer to Section VIII, Section B – Credit Ratings;
- e) Capitalized Interest – No capitalized interest shall be funded with GO bond proceeds;
- f) Reserve Fund - No reserve funds shall be funded with GO bond proceeds;
- g) Limitation on GO Bonds;
 - (1) General Purpose GO Bonds – The Constitution of the State of New Mexico limits the amount outstanding general-purpose bonds to 4% of the assessed value of taxable property within the City.

(2) Storm Sewer GO Bonds – The City has unlimited authority for the construction or purchase of a system for supplying water or of a sewer system for the City.

(3) Principal and interest payments will be structured to maintain a debt service tax rate at the desired level resulting in no tax rate increase. Consideration will be given to return the debt service tax rate to original levels while reducing the operating tax rate as expenditure levels permit.

h) GO debt shall not be issued to finance enterprise activity assets.

2. Limited Obligation Revenue Bonds

The use of revenue bonds is favored as a means of insuring that the beneficiaries of a given improvement, where a direct benefit can be established, pay for a fair share of its amortized costs. The Credit management policy, by source of pledged revenue, for each of the City's revenue bond series follows:

a) Tax Supported Bonds

(1) State Shared Gross Receipts Tax (SSGRT) Revenue Bonds

The City currently issues SSGRT bonds for various capital projects of the City. The City may pledge its State Shared Gross Receipts Tax (1.225%) received from the State of New Mexico for direct payment or credit enhancement on SSGRT Bonds.

The following are general guidelines to be considered when issuing SSGRT Revenue Bonds:

(a) SSGRT Revenue Bonds may be used to finance capital improvements and long-term assets associated with, but not limited to constructing, acquiring, improving etc. public buildings, public parking facilities, public safety, street, storm sewer, airport facilities, parks and open space, and public transit facilities. For a more detailed list refer to Chapter 3, Article 31, Section 1 C & D NMSA 1978, as amended;

(b) SSGRT Revenue Bonds may be used after considering alternative funding sources, such as federal and state grants and project revenues;

(c) Maturity - The term of the SSGRT Revenue Bonds shall not exceed the average useful life of the improvements or assets being funded and as provided by

law;

(d) Principal and interest on GGGRT Revenue Bonds shall be structured to:

(i) Achieve a low borrowing cost for the City;

(ii) Accommodate the debt service payments of existing debt; and

(iii) Respond to perceptions of market demand.

(e) The City shall maintain or improve GRT bond ratings of “Aa2” – Moody’s, “AAA” – Standard and Poor’s and “AA+” - Fitch. Refer to Section VII, Section B – Credit Ratings;

(f) Capitalized Interest - SSGRT Revenue Bonds may require that capitalized interest on the bonds be funded from bonds proceeds. The term of the capitalized interest shall not exceed twenty-four (24) months. Interest earnings on capitalized interest deposits shall, at the City’s discretion, be applied to pay either principal or interest on the bonds;

(g) Reserve Fund - SSGRT Revenue Bonds may require a Debt Service Reserve Fund in order to secure a credit rating or provide insurance coverage. The reserve fund requirement shall be equal to the lesser of: (i) (10%) of the original principal amount of the bonds, (ii) maximum annual debt service or (iii) one hundred twenty-five (125%) of average annual debt service;

In order to fulfill the requirement and to lower the size of the bond issue, the City may purchase a Surety Reserve Fund from any qualified Bond Insurance Company (e.g. Assured Guaranty, Build America Mutual or similar company) if economically beneficial. Bond proceeds or cash funded reserve funds shall be discouraged;

(h) Additional Bonds Test - the City shall maintain, when issuing new SSGRT debt, an additional bonds test = $2.25 \times$ (Debt Service) computed for a period of any twelve (12) consecutive calendar months out of the preceding eighteen (18) months. The additional bonds test allows the City to issue additional bonds, if the City can produce net revenues annually to pay 225% of annual debt service requirements on all outstanding parity obligations;

(i) The use of the SSGRT as a pledged revenue source shall be primarily reserved for providing credit enhancement to non-rated or lower rated revenue streams pledged to the retirement of such bonds. For example, Lodgers or Hospitality Tax or Housing (real estate based) Revenue Bonds.

(2) Municipal Gross Receipts Tax (MGRT) Revenue Bonds

The City currently issues MGRT bonds for various projects of the City. The City may pledge its MGRT (.50%) portion received from the State of New Mexico for MGRT Bonds.

The following are general guidelines to be considered when issuing MGRT Revenue Bonds:

(a) MGRT Revenue Bonds shall be used to finance capital improvements and long-term assets associated with a specific purpose or area of municipal government services, including, but not limited to police protection, fire protection, public transportation or street repair and maintenance. For a more detailed list refer to Chapter 7, Article 19 D, Section 9 NMSA 1978, as amended;

(b) MGRT Revenue Bonds shall be used after considering alternative funding sources, such as federal and state grants and project revenues;

(c) Maturity - The term of the MGRT Revenue Bonds shall not exceed the average useful life of the improvements or assets being funded;

(d) Principal and interest on MGRT Revenue Bonds shall be structured to:

(i) Achieve a low borrowing cost for the City;

(ii) Accommodate the debt service payments of existing debt; and

(iii) Respond to perceptions of market demand.

(e) The City shall maintain or improve MGRT bond ratings of “Aa2” – Moody’s, “AAA” – Standard and Poor’s and “AA” - Fitch. Refer to Section VII, Section B – Credit Ratings;

(f) Capitalized Interest - MGRT Revenue Bonds may

require that capitalized interest on the bonds be funded from bond proceeds. The term of the capitalized interest shall not exceed twenty-four (24) months. Interest earnings on capitalized interest deposits shall, at the City's discretion, be applied to pay either principal or interest on the bonds;

(g) Reserve Fund - MGRT Revenue Bonds may require a Debt Service Reserve Fund in order to secure a credit rating or provide insurance coverage. The reserve fund requirement shall be equal to the lesser of: (i) (10%) of the original principal amount of the bonds, (ii) maximum annual debt service or (iii) one hundred twenty-five (125%) of average annual debt service;

In order to fulfill the requirement and to lower the size of the bond issue, the City may purchase a Surety Reserve Fund from any qualified Bond Insurance Company (e.g. Assured, Guaranty, Build America Mutual or similar company) if economically beneficial. Bond proceeds or cash funded reserve funds shall be discouraged;

(h) Additional Bonds Test - The City shall maintain, when issuing new MGRT debt, an additional bonds test = $2.25 \times$ (Debt Service) computed for a period of any twelve (12) consecutive calendar months out of the preceding eighteen (18) months. The additional bonds test allows the City to issue additional bonds, if the City can produce net revenues annually to pay 225% of annual debt service requirements on all outstanding parity obligations.

(3) Lodgers / Hospitality Tax Revenue Bonds

The City currently issues Lodger's Tax Revenue Bonds for Convention Center projects for the City. The City may pledge 50% of Lodger's Tax Revenue received from various lodging entities throughout the City of Albuquerque.

The following are general guidelines to be considered when issuing Lodger's Tax Revenue Bonds:

(a) Lodger's / Hospitality Tax Revenue Bonds shall be used to finance only those capital improvements and long term assets associated with tourist related facilities and attractions. For a more detailed list of uses refer to Chapter 3, Article 38, Section 21 NMSA 1978, as amended;

(b) Lodger's / Hospitality Tax Revenue Bonds shall only be

used only after considering alternative funding sources, such as federal and state grants and project revenues;

(c) Maturity - The term of the Lodger's / Hospitality Tax Revenue Bonds shall not exceed the average useful life of the improvements or assets being funded;

(d) Principal and interest on Lodger's / Hospitality Tax Revenue Bonds shall be structured to;

(i) Achieve a low borrowing cost for the City;

(ii) Accommodate the debt service payments of existing debt and;

(iii) Respond to perceptions of market demand

(e) Future debt retirement schedules (pledges) shall require the support of a year-to-year growth in Lodgers / Hospitality Tax revenues of no more than three (3) percent compounded annually;

(f) Capitalized Interest – Lodger's / Hospitality Tax Revenue Bonds may require that capitalized interest on the bonds be funded from bonds proceeds. The term of the capitalized interest shall not exceed twenty-four (24) months. Interest earnings on capitalized interest deposits shall, at the City's discretion, be applied to pay either principal or interest on the bonds;

(g) Reserve Fund - Lodger's / Hospitality Tax Revenue Bonds may require a Debt Service Reserve Fund in order to secure a credit rating or provide insurance coverage. The reserve fund requirement shall equal to the lesser of: (i) (10%) of the original principal amount of the bonds, (ii) maximum annual debt service or (iii) one hundred twenty-five (125%) of average annual debt service;

In order to fulfill the requirement and to lower the size of the bond issue, the City may purchase a Surety Reserve Fund from any qualified Bond Insurance Company (e.g. Assured Guaranty, Build America Mutual or similar company) if economically beneficial. Bond proceeds or cash funded reserve funds shall be discouraged;

(h) All collections of the Lodgers / Hospitality tax that are pledged to pay debt service that are in excess of minimum mandatory repayment obligations shall be utilized to

optionally retire additional principal;

(i) The City shall maintain a 1:1 coverage ratio between Lodger's / Hospitality legally pledgeable tax revenue and total outstanding debt service requirements; and

(j) GRT revenues of the city may be used as an additional pledged revenue source for providing credit enhancement to Lodger's / Hospitality Tax Revenue bonds.

(4) Special Assessment District Bonds/NMFA Loans– The City has issued bonds in the open market and currently issues loans through New Mexico Finance Authority for funding: (i) Street/Storm Drainage Improvements, (ii) Water and Sewer Improvements and (iii) Gas & Electric Improvements for Special Assessment Districts located within the City limits. Debt service on the bond/loans shall be paid from assessments levied against the property benefited by the related improvements.

The following are general guidelines to be considered when issuing Special Assessment District (SAD) Bonds/NMFA Loans:

(a) All SAD Revenue Bonds/Loans shall be issued in accordance with items stated below and with City Council Ordinance O-12, [Enactment No.44-1996] adopted September 16, 1996;

(b) All SAD Revenue Bonds/Loans shall be used to finance only those improvements that benefit the tracts or parcels of property in the SAD. The improvements include: Street/Storm Drainage Improvements, Water/Sewer Improvements, and Gas/Electric Improvements;

(c) Maturity - The term of the SAD Revenue Bonds/Loans shall be limited to twenty (20) years, preferably ten (10) years as in most of the City's bonds/private placement loans;

(d) SAD Revenue Bonds/Loans should only be used only after considering alternative funding sources, such as federal and state grants and project revenues;

(e) Additional Bonds Test – By contract parity pledge gasoline tax receipts obligations or parity surplus water and sewer obligations have an additional bonds test = $1.25X(\text{Debt Service})$ for twelve (12) months preceding date

of issuance. The additional bonds test allows the City to issue additional bonds, if the City can produce net revenues annually to pay 125% of maximum annual debt service requirements on all outstanding parity obligations. Bond ordinance requires an additional bonds test = 1.15 X (Debt Service);

(f) SAD Revenue Bonds/ Loans shall be structured with 90% level principal for ten (10) years with the remaining 10% of principal allocated to the final maturity. In theory, this type of structuring allows the City to pay debt service, even though, there may be a limited delay in payment/s from property owners;

(g) Capitalized Interest - SAD Revenue Bonds/Loans may require that capitalized interest on the bond be funded from bond/loan proceeds. The term of the capitalized interest shall not exceed twenty-four (24) months. Interest earnings on capitalized interest deposits shall, at the City's discretion, be applied to pay either principal or interest on the bonds;

(h) Reserve Funds;

(i) SAD Bonds – A reserve fund equal to the lesser of (10%) of the original principal amount of the bonds, maximum annual debt service, or one hundred twenty-five (125%) of average annual debt service may be funded from the proceeds of each bond series. In order to fulfill the requirement and to lower the size of the bond issue, the City may purchase a Surety Reserve Fund from any qualified Bond Insurance Company (i.e. Assured Guaranty, Build America Mutual or similar company). Bond proceeds or cash funded reserve funds shall be discouraged;

(ii) SAD Loans – No reserve funds shall be funded if loan is acquired from New Mexico Finance Authority unless required.

(i) Other Pledges - When issuing SAD revenue bonds, the City may pledge supplemental revenues to SAD revenue bonds to help enhance the marketability of the bonds or to improve or establish a credit rating. Types of supplemental revenues pledged in the past: Gasoline Tax and Franchise Fees.

b) Enterprise Fund Bonds

(1) Airport Revenue Bonds

The following are general guidelines to be considered when issuing Airport Revenue Bonds:

(a) Airport Revenue Bonds shall be used to finance capital improvements and long-term assets associated with the Airport's Capital Plan. Types of projects include, but not limited to, constructing, acquiring, enlarging, extending, bettering, repairing or improving Airport facilities. For a more detailed list refer to Chapter 3, Article 31, Section 1 C6 NMSA 1978, as amended;

(b) Airport Revenue Bonds may be issued, at the discretion of the City, on either a Senior, Subordinate or Junior Lien on the Airport's net revenues;

(c) Airport Revenue Bonds shall be used as a source of funding, after considering alternative funding sources, such as federal and state grants, pay as you go financing, Federal Aviation Association (FAA) grants and other Airport related project revenues;

(d) Maturity - The term of the Airport Revenue Bonds shall be limited to the average useful life of the assets being funded;

(e) The City shall maintain or improve the Airport's underlying bond ratings of "Aa3" – Moody's, "A+" – Standard and Poor's and "A+" - Fitch. Refer to Section VII, Section B – Credit Ratings;

(f) Capitalized Interest – Airport Revenue Bonds may require that capitalized interest on the bonds be funded from bond proceeds. The term of the capitalized interest shall not exceed twenty-four (24) months. Interest earnings on capitalized interest deposits shall, at the City's discretion, be applied to pay either principal or interest on the bonds;

(g) Reserve Fund - Airport Revenue Bonds may require a Debt Service Reserve Fund in order to secure a credit rating or provide insurance coverage. The reserve fund requirement shall equal to the lesser of: (i) (10%) of the original principal amount of the bonds, (ii) maximum annual debt service or (iii) one hundred twenty-five (125%)

of average annual debt service.

In order to fulfill the requirement and to lower the size of the bond issue, the City may purchase a Surety Reserve Fund from any qualified Bond Insurance Company (e.g. Assured Guaranty, Build America Mutual or similar company) if economically beneficial. Bond proceeds or cash funded reserve funds shall be discouraged;

(h) Principal and interest on Airport Revenue Bonds shall be structured to:

- (i) Achieve a low borrowing cost for the City;
- (ii) Accommodate the debt service payments of existing debt; and
- (iii) Respond to perceptions of market demand.

(i) Debt Service Coverage - The City's Aviation Department shall promise to fix, charge and collect rentals, rates, fees and other charges for the use of the Airport and from time to time to revise such rates and charges as may be necessary to pay Operation and Maintenance Expenses and to maintain a rate covenant as follows:

- (i) Test 1: Senior Parity Obligations - The Aviation Department shall maintain a minimum debt service coverage on all senior lien parity Airport debt = 1.20 X (Senior Parity Outstanding Debt Service).
- (ii) Test 2: Senior, Subordinate, Junior Lien Obligations -The Aviation Department shall maintain an inclusive minimum debt service coverage for all levels (senior, subordinate, junior lien) of Airport debt = 1.10 X (Total Outstanding Debt Service).

(j) Additional Bonds Test - When issuing additional Airport Revenue Bonds, the City's Aviation Department shall provide for an additional bond tests for the following obligations:

- (i) Senior Parity Obligations - The Aviation Department shall maintain an additional bonds test = 1.20 X (Senior Parity Lien Debt Service) computed for a period of any twelve (12)

consecutive calendar months out of the preceding (18) months. The additional bonds test allows the Airport to issue additional bonds, if the City can produce net revenues annually to pay 120% of debt service requirements on all outstanding senior parity obligations;

(ii) Subordinate Parity Obligations - The Aviation Department shall maintain an additional bonds test = 1.10X (Senior, Subordinate, Junior Parity Lien Debt Service) computed for a period of any twelve (12) consecutive calendar months out of the preceding (18) months. The additional bonds test allows the Airport to issue additional bonds, if the Airport can produce net revenues annually to pay 110% of debt service requirements on all outstanding senior, subordinate and junior lien parity obligations;

(iii) Junior Lien Obligations - no additional bonds test established.

(2) Refuse Removal and Disposal Revenue Bonds

The following are general guidelines to be considered when issuing Refuse Removal and Disposal Revenue Bonds:

(a) Refuse Revenue Bonds shall be used to finance capital improvements and long-term assets associated with the Refuse Removal and Disposal System's Capital Plan. Types of projects include, but not limited to, constructing, acquiring, enlarging, extending, bettering, repairing or improving Refuse System facilities. For a more detailed list refer to Chapter 3, Article 31, Section 1 a NMSA 1978, as amended;

(b) Refuse Revenue Bonds may be issued, at the discretion of the City, on either a Senior, Subordinate or Junior Lien on the System's net revenues;

(c) Refuse Revenue Bonds shall be used as a source of funding, after considering alternative funding sources, such as federal and state grants, pay as you go financing and project revenues;

(d) Maturity

(e) - The term of the Refuse Revenue Bonds shall not exceed the average useful life of the improvements or assets being funded;

(f) The City shall maintain or improve the Refuse System's underlying bond ratings of "A1" – Moody's, "AA" – Standard and Poor's and "AA" - Fitch. Refer to Section VII, Section B – Credit Ratings;

(g) Capitalized Interest – Refuse Revenue Bonds may require that capitalized interest on the bonds be funded from bond proceeds. The term of the capitalized interest shall not exceed twenty-four (24) months. Interest earnings on capitalized interest deposits shall, at the City's discretion, be applied to pay either principal or interest on the bonds;

(h) Reserve Fund - Refuse Revenue Bonds may require a Debt Service Reserve Fund in order to secure a credit rating or provide insurance coverage. The reserve fund requirement shall equal to the lesser of: (i) (10%) of the original principal amount of the bonds, (ii) maximum annual debt service or (iii) one hundred twenty-five (125%) of average annual debt service.

In order to fulfill the requirement and to lower the size of the bond issue, the City may purchase a Surety Reserve Fund from any qualified Bond Insurance Company (e.g. Assured Guaranty, Build America Mutual or similar company) if economically beneficial. Bond proceeds or cash funded reserve funds shall be discouraged;

(i) Principal and interest on Refuse Revenue Bonds shall be structured to:

(i) Achieve a low borrowing cost for the City;

(ii) Accommodate the debt service payments of existing debt; and

(iii) Respond to perceptions of market demand.

(j) Debt Service Coverage - The City's Refuse System shall promise to charge and collect rates and other charges for the use of the System and from time to time to revise such rates and charges as may be necessary to pay Operation and Maintenance Expenses and to maintain a rate covenant as follows:

(i) Senior Parity Obligations - The Refuse System shall maintain a minimum debt service coverage on all senior lien parity Refuse debt = 1.50 X (Senior Parity Outstanding Debt Service);

(ii) Subordinate Parity Obligations – no debt service coverage test established; and

(iii) Junior Lien Obligations – no debt service coverage established;

The planning target debt service coverage for rates and charges proposed to City Council is 1.50 X (Senior Parity Outstanding Debt Service).

(k) Additional Bonds Test - When issuing additional Refuse Revenue Bonds, the City's Refuse System shall provide for an additional bond test for the following obligations:

(i) Senior Parity Obligations - The Refuse System shall maintain an additional bonds test = 1.50X(Senior Parity Lien Debt Service) computed for a period of any twelve (12) consecutive calendar months out of the preceding (18) months. The additional bonds test allows the Refuse System to issue additional bonds, if the System can produce net revenues annually to pay 150% of debt service requirements on all outstanding senior parity obligations;

(ii) Subordinate Parity Obligations – no additional bonds test established; and

(iii) Junior Lien Obligations – no additional bonds test established;

(3) Golf Course Revenue Bonds

The following are general guidelines to be considered when issuing Golf Course Revenue Bonds:

(a) Golf Course Revenue Bonds shall be used to finance capital improvements and long-term assets associated with the Golf Course System's Capital Plan. Types of projects

include, but not limited to, constructing, acquiring, enlarging, extending, bettering, repairing or improving recreational golf facilities. For a more detailed list refer to Chapter 3, Article 31, Section 1 C NMSA 1978, as amended;

(b) Golf Course Revenue Bonds may be issued, at the discretion of the City, on either a Senior, Subordinate or Junior Lien on the System's net revenues;

(c) Golf Course Revenue Bonds shall be used as a source of funding, after considering alternative funding sources, such as federal and state grants, pay as you go financing and project revenues;

(d) Maturity - The term of the Golf Course Revenue Bonds shall not exceed the average useful life of the improvements or assets being funded;

(e) Capitalized Interest - Golf Course Revenue Bonds may require that capitalized interest on the bonds be funded from bond proceeds. The term of the capitalized interest shall not exceed twenty-four (24) months. Interest earnings on capitalized interest deposits shall, at the City's discretion, be applied to pay either principal or interest on the bonds;

(f) Reserve Fund - Golf Course Revenue Bonds may require a Debt Service Reserve Fund in order to secure a credit rating or provide insurance coverage. The reserve fund requirement shall equal to the lesser of: (i) (10%) of the original principal amount of the bonds, (ii) maximum annual debt service or (iii) one hundred twenty-five (125%) of average annual debt service.

In order to fulfill the requirement and to lower the size of the bond issue, the City may purchase a Surety Reserve Fund from any qualified Bond Insurance Company (i.e. Assured Guaranty, Build America Mutual or similar company). Bond proceeds or cash funded reserve funds shall be discouraged;

(g) Principal and interest on Golf Course Revenue Bonds shall be structured to:

(i) Achieve a low borrowing cost for the City;

(ii) Accommodate the debt service payments of

existing debt; and

(iii) Respond to perceptions of market demand.

(h) Debt Service Coverage - The City's Golf Course System shall promise to charge and collect rates and other charges for the use of services of the Golf Courses and from time to time to revise such rates and charges as may be necessary to pay Operation and Maintenance Expenses and to maintain a rate covenant as follows:

(i) Senior Parity Obligations - The Golf Course System Department shall maintain a minimum debt service coverage on all senior lien parity Golf Course System Debt = 1.50 x (Senior Parity Outstanding Debt Service);

(i) Additional Bonds Test - When issuing additional Golf Course Revenue Bonds, the Golf Course System shall provide for an additional bond tests for the following obligations:

(i) Senior Parity Obligations - The Golf Course System shall maintain an additional bonds test = 1.50 X (Senior Parity Lien Debt Service) computed for a period of any twelve (12) consecutive calendar months out of the preceding (18) months. The additional bonds allows the Golf Course System to issue additional bonds, if the System can produce net revenues annually to pay 150% of debt service requirements on all outstanding senior parity obligations;

(ii) Subordinate Parity Obligations – no additional bonds test established; and

(iii) Junior Lien Obligations – no additional bonds test established.

(j) GRT revenues may be used as an additional pledged revenue source for providing credit enhancement to Golf Course Revenue Bonds.

3. Non-Recourse Debt

a) Affordable Housing Revenue Bonds

The City may issue non-recourse bonds for financing affordable housing projects within the City limits. The Bonds shall not

constitute indebtedness within the meaning of any constitutional charter or statutory provision or limitation, nor shall they be considered or held to be general obligations of the City, the State or any other political subdivision thereof. Payment of the bonds shall be secured by a mortgage on the Projects.

b) Conduit Bonds

(1) The City shall obtain a clear opinion that it shall not be liable for payment of principal or interest in the event of default by a conduit borrower;

(2) Where applicable, all corporations that seek conduit bond issues under the City's name shall covenant to provide the municipal securities market with continuing disclosure in compliance with SEC regulations;

(3) See Section 14-8-6 of the City's Code of Ordinances which is hereby incorporated by reference.