

COUNTY OF BOONE – MISSOURI

DEBT MANAGEMENT POLICY



*Nicole Galloway, CPA
Boone County Treasurer
801 E. Walnut, Room 205
Columbia, MO 65201
Phone: (573) 886-4365
Fax: (573) 886-4369*

*Adopted by Commission on December 18, 2012
Commission Order # 593-2012*

Table of Contents	Page Number
I. Purpose	3
II. Types of Debt	3
III. Debt Structures	6
IV. Consultants and Other Professional Services	8
V. Debt Administration	9
Appendix	
AI. Debt Issuance Checklist	AI
AII. Glossary of Terms	AII

I. Purpose

The purpose of the Debt Management Policy (the “Policy”) adopted by the County of Boone, Missouri (the “County”) is to provide guidance for the types of debt issued, the issuance process, and the administration of the debt portfolio.

The Policy is intended to guide decisions, identify policy goals, and demonstrate a commitment to financial planning. Stakeholders in the debt issuance process, including bond buyers, rating agencies, and citizens, recognize the importance of having a structured framework in which to issue debt and meet those obligations.

Though this Policy gives guidance for making decisions, it is not intended to be inclusive of all debt issuance types and scenarios. External factors affecting the Policy can change over time; therefore, the Policy shall be reviewed on an annual basis by the County Treasurer, and any modifications made to the policy shall be approved by the County Commission. Authority to manage the Policy is granted to the County Treasurer. Debt will be issued in accordance with all applicable federal and state laws and County Commission Orders.

II. Types of Debt

The County has elected to limit the use of debt to certain circumstances. The County’s debt issuance has the following general limitations:

1. Long-term debt will not be used to fund current operations.
2. The capital project or asset lends itself to debt financing rather than pay-as-you-go funding based on the expected useful life of the project or existing market conditions.
3. Other financing options have been reviewed and are not viable for the timely or economic acquisition or completion of a capital project.
4. Short-term debt may be used to provide liquidity for capital projects until long-term financing is available; generally, the County will take steps to avoid issuing short-term debt for ongoing operations.
5. Long-term debt will have an identified revenue stream or other financial resources sufficient to meet future principal and interest payments.

The County has the ability to issue many different types of debt to meet its financing objectives. The following is a listing of the types of permitted debt and general guidelines as to their use.

A. General Obligation (Maximum Term – 20 years)

General obligation (G.O.) bonds have the full faith and credit of the County, because of the County’s authority to levy property taxes for debt service. G.O. bonds are authorized by the approval of the requisite number of qualified voters, as required by state statute. As such, G.O. bonds can be used to finance capital expenditures approved by voters. The

sum of all G.O. debt outstanding, regardless of type, is governed by the County's statutory legal debt margin. The County may incur indebtedness for authorized purposes not to exceed 10% of the valuation of taxable tangible property in the County.

Neighborhood Improvement District (NID) debt is issued as G.O. debt. On November 3, 1992, voters of the County approved \$3,500,000 in G.O. bonds for the purpose of financing the construction and repair of roads and streets within the County for road NID's. On November 4, 1997, voters of the County approved \$5,500,000 in G.O. bonds for the purpose of constructing, installing and extending main and lateral storm water drains and sanitary sewer systems for sewer NID's.

1. General Obligation Bonds - Full faith and credit. To be issued for capital projects which benefit the County as a whole. Principal and interest is to be paid from the County's debt levy assessed on all taxable tangible property. The County Commission may set the tax rate for debt service, without limitation as to rate or amount, at the level required to make such payments.
2. NID. To be issued for purposes consistent with the NID statute (RSMo 67.453-64.475) in accordance with voter approved G.O. bonds as stated above. Principal and interest is to be paid from special assessments levied on properties within the NID. The County attaches liens on the properties within the district to secure payment. If property owners do not pay their assessment, debt payments will be made from proceeds from the sale of the property.

B. Special Obligation (Maximum Term – 20 years)

The County is authorized to incur special obligation debt without voter approval for the purchase, construction, or expansion of County buildings. This debt is not backed by the full faith and credit of the County, but instead the County's pledge of annual appropriation. Generally, they are first secured by the revenues of the particular project. If these revenues are insufficient, the County pledges an annual appropriation from general revenues. The rating agencies consider the annual appropriation pledge as a very serious commitment of the County, which is reflected in the credit quality of the debt. Failure to appropriate on any given bond issue would potentially lead to a downgrading of the County's credit rating. While the County Commission has the legal authority to appropriate special obligation commitments on an annual basis, the County enters into annual appropriation debt with the full expectation of making whatever annual appropriations are necessary to fund debt service on a timely basis.

1. Lease-backed debt. The County may issue tax-exempt and taxable leasehold revenue bonds and special limited obligation bonds by using a trust structure. Projects are to be limited to public purpose capital expenditures as described above. Principal and interest is to be paid from project revenues or specific taxes. Capital leases are not considered an indebtedness of the County because the lease payments are subject to annual appropriation; however, from a variety of perspectives (e.g. credit, accounting, etc.) all or most of this type of debt may be considered an obligation of the County.

2. Lease Purchase. It is the County’s policy not to issue lease-purchase debt. Legally, the County may enter short-term lease-purchase agreements to finance capital improvements, including acquisition of equipment with an expected useful life of less than ten years. Principal and interest is to be paid from the operating budget or other dedicated resources of the department purchasing equipment or constructing the capital improvement.
3. Certificates of Participation (COPs). A form of lease obligation in which the County enters into an agreement to pay a fixed amount annually to a third party, usually through a trust structure, subject to annual appropriation.

C. Revenue (Maximum Term – 30 years)

Revenue bonds may be issued to fund capital projects related to governmental enterprise functions or for special projects supported by distinct revenue sources. They are designed to be self-supporting through user fees, other specified receipts, or taxes and do not rely on the general taxing powers of the County. Principal and interest is paid from net revenues from enterprise operations or directly from the earmarked revenue source. Revenue bonds secured by certain dedicated revenue streams, such as sales taxes, are to be authorized by voter approval.

1. Boone County Hospital Revenue Bonds. The Boone Hospital Board of Trustees (the “Hospital”) is a legally separate entity for which the County is financially accountable, as debt issued for hospital operations must be approved by the County Commission (RSMo 210.160-210.169). The Hospital’s revenue bonds are issued by the County, though the County has no obligation to pay the long-term debt. Debt payments are made from lease revenues from hospital operations.

D. Industrial Revenue (Maximum Term – 10 years)

The County may issue industrial revenue bonds (per RSMo Chapter 100) for purposes consistent with state statute, which include but are not limited to: improvement of warehouses, industrial plants, buildings, machinery, etc. The County acts as a “conduit” issuer, as defined under federal law and state statute, on behalf of a private or non-profit party. Chapter 100 bonds are not included in the County’s debt burden because they are secured solely by revenues of the private or non-profit party. Principal and interest on Chapter 100 bonds is paid solely from the net revenues of the project and do not constitute a general obligation of the County.

E. Temporary Loans (Maximum Term –Flexible)

The County can use short-term funding, primarily temporary notes, to provide interim funding for capital projects until long-term debt is issued. In most instances, temporary notes are redeemed with subsequent long-term debt. Temporary notes will generally have a one-year maturity, with principle and interest paid at maturity, though longer maturities are allowed if the project necessitates.

The County does have the ability to issue tax anticipation notes to meet short-term liquidity needs before tax revenues are received. However, it is the preference of the County to avoid usage of anticipation notes by managing cash flows. Tax anticipation notes will be limited to six months maturity.

F. Interfund Borrowing (Maximum Term – Flexible)

The County can utilize interfund borrowing, mainly from the General Fund, for short-term or long-term debt. Interfund loans provide interim funding for capital projects and NIDs until long-term financing is secured. Interfund borrowing as long-term debt for NIDs must be evaluated on a case by case basis. Market rates of interest and defined repayment schedules will apply.

E. Derivatives

Generally, the County will not use debt derivatives including interest rate swaps, forward swaps, swap options, or any similar hedge instrument.

III. Debt Structures

The structure of debt issued by the County, regardless of type, is to be evaluated using the Debt Issuance Checklist attached in Appendix I.

A. Amount of Debt

The amount of debt required is derived from the underlying capital project or expenditure. The ability of the County to identify and commit resources to meet debt obligations limits the amount of debt issued. A financial analysis will be performed to evaluate the financial impact of the debt size.

B. Fixed or Variable Rate Debt

The County will in most circumstances pursue traditional, fixed-rate bond structures, where at the time of bond sale, all interest rates are known and do not change over the life of the issue. Variable interest rate bonds have interest rates that reset on a periodic basis. Particular conditions may arise where the County would consider the use of variable interest rate bonds, such as an adverse fixed-rate municipal market or the potential to accelerate debt retirement.

Variable interest rate debt exposes the County to interest rate risk over the term of the financing. The County can use unhedged variable rate bonds as part of a comprehensive asset/liability management program and will use various risk mitigation procedures. This includes investing excess cash to earn investment income that can be used as a direct offset to rising rates on the unhedged variable rate bonds. Excess cash means amounts not available for operations or used to earn regular investment income for County funds, and must be invested in an internally-restricted portfolio.

C. Taxable vs. Tax-exempt Debt

The County shall first seek to issue only tax-exempt debt and avoid taxable debt in order to reduce interest expense. However, the County recognizes that not all financings will be able to be completed on a tax-exempt basis and therefore reserves the right to participate in taxable financings if necessary.

D. Repayment Term

The County will structure its debt to comply with all federal and state and local requirements as to repayment terms. The County will manage financial resources in such a way to repay its debt in an expeditious and timely manner. Unless a specific situation necessitates, principal and interest payments will be made electronically via wire or ACH.

For debt requiring a debt service fund, the County may structure payment of the bonds to account for the release of the debt service fund as an offset to the final principal and interest payment.

E. Prepayment Provisions

Redemption provisions and call features shall be evaluated in the context of each bond sale to enhance marketability of the bonds, to allow flexibility, or to enable future refunding. The potential of additional costs, such as a call premium and higher interest rates, which result from including a call provision, will also be evaluated.

F. Credit Enhancement

The County will evaluate the cost-benefit of bond insurance, by comparing the premium cost of the insurance to the estimated difference in the true interest cost (TIC) of an insured versus uninsured bond issue. For competitive sales, the County will use bidder's option insurance.

G. Method of Sale

The best method of sale depends on the type of bonds being sold, market conditions, and the overall performance of the debt portfolio.

1. Competitive sale. Bonds are marketed to a wide audience of underwriters by the County and financial advisor. Their bids are submitted at a specified time. The underwriter is selected based on its best bid for the securities, evaluated in part on the TIC, which considers the time value of money.
2. Negotiated sale. The County selects the underwriter or group of underwriters for its securities in advance of the bond sale. The County works with a financial advisor to bring the issue to market and negotiates all rates and terms of the sale. In advance of the sale, compensation of each underwriter and the designation rules and priority of orders will be determined.
3. Private placement. The County sells its bonds to a limited number of investors or other governmental agency, and not the general public. Private placement

bonds are often characterized as having higher risk or a specific type of investor base. Private placement with governmental agencies is used to decrease interest and administrative costs.

In conjunction with a financial advisor, the County will select a method of sale that is likely to produce the lowest cost of borrowing given current market conditions. In some instances, the County may choose to employ a negotiated sale or private placement instead of a competitive sale when:

1. Market conditions exist where underwriters are unwilling to take reasonable risk to underwrite bonds, as required for successful competitive sales
2. The County rejected competitive bids after a failure to receive market-justified yields
3. Debt structures would benefit from a sale targeted directly to retail investors or governmental agencies
4. Bonds are unique or “story bonds” where the leadership of an underwriter from the beginning of the transaction would reasonably be expected to produce the best execution

IV. Consultants and Other Professional Services

The nature of the municipal bond industry requires certain specialized consultants to be retained. The County recognizes that continuity of consultants and their overall understanding of the County’s debt portfolio will enhance the debt transaction process. In general, a competitive selection approach will be used in the retention of consultants; however, the County Treasurer may also directly engage consultants on a case-by-case basis as approved by the County Commission.

A. Bond Counsel

Bond counsel will be retained for all debt transactions to provide assurance to the County and investors that the bonds are legal and tax requirements have been met. In addition to standard required documentation, bond counsel must issue a written letter addressed to the County Treasurer and County Commission giving a summary of all documents to be signed and the bond counsel’s affirmative opinion on the bond documents. The County Commission typically requests a minimum of five business days to review final documents requiring signature.

The County will select bond counsel using a request for proposal (RFP), and evaluate the RFQ for the bond counsel that will best meet the needs of the County and the type of financings being undertaken. A RFP for bond counsel will be evaluated every five - seven years.

B. Financial Advisors

Financial advisors assist in the structuring and issuance of bonds through the competitive or negotiated sales process. A financial advisor represents only the County in the sale of

bonds. While serving as the County's financial advisor, a firm may not underwrite County bonds, and also may not switch roles from financial advisor to underwriter after a financial transaction has begun within the term of the contract.

Financial advisors shall be selected through a competitive RFP process every four - six years. During the contract term of any party acting as financial advisor, neither the financial advisor nor any individual it employs will perform financial advisory, investment banking or similar services for any entity other than the County in transactions involving a County financial commitment without the specific direction of the County Treasurer.

C. Underwriters

For negotiated sales, an underwriter markets the County's bonds to investors. The County may use more than one underwriter for an issue. The underwriter or group of underwriters purchases the bonds from the County at an agreed upon price and resells the bonds to investors.

The County will use a financial advisor to assess request for proposals (RFP) from underwriters. RFP's will be obtained and evaluated on an issue-by-issue basis. The County will not be bound by the terms and conditions of any underwriting agreement, oral or written, to which it was not a party.

D. Other Parties

Depending on the specific bond issue, other parties customary in the bond issuance process may need to be engaged, such as paying agents, trustee banks, or bond insurers. The County will retain those professional services as needed.

V. Debt Administration

Proactive debt management is a key component to the immediate and long-term success of the County's objectives. Once issued, the professional oversight of individual issues and monitoring of the County's debt portfolio will allow for favorable financial positioning.

A. Disclosure

Disclosure is a regulatory requirement and a way to enhance the marketing of the County's bonds. Disclosure includes operational and financial information for the initial marketing of a bond to investors and ongoing information regarding the status of the issue and issuer, known as continuing disclosure requirements. The County will comply with disclosure requirements as outlined in bond documents prepared by bond counsel.

B. Credit Ratings

High credit quality is essential to cost-effective financing. The County's goal is to maintain its high bond rating, and look for opportunities to increase that rating within the parameters of each type of debt issuance.

Three national agencies are currently prominent in the municipal market: Standard & Poor's, Moody's Investors Service and Fitch Investors Service. Because the County's debt issues vary greatly in size, the County and its financial advisor will evaluate the cost-benefit of obtaining a credit rating from one of the rating agencies. The retention of a rating agency relationship will be based on the potential for more favorable interest costs as compared to the direct and indirect cost of maintaining that relationship.

In advance of obtaining a credit rating, the County will prepare rating presentations in the appropriate form prior to a bond sale. The County will also maintain an ongoing statistical analysis of credit quality indicators to measure its standing over time.

C. Defeasance, Prepayment and Refunding

Accelerated retirement and restructuring of debt can be a valuable debt management tool. Accelerated retirement occurs through the use of defeasance and the exercise of prepayment provisions. Debt is often restructured through the issuance of refunding bonds.

Prepayment provisions are structured into the original bond issue. These opportunities take the form of using cash to reduce all or a portion of outstanding principal and future debt service obligations.

Debt can be refunded using current or advance refunding methods to achieve one or more of the following objectives: reduce future interest costs, restructure future debt service, or modify the legal requirements or bond covenants of the original issue. The County will generally look to a net present value savings in a minimum range of 3% to 5% of the present value of the refunding bonds. These refunding targets are not intended to prevent restructuring of outstanding debt as necessary to achieve other financial goals. The County will generally look to structure the refunding bonds in the same way as the original debt.

D. Investment of Bond Proceeds

The County will seek to lower its cost of borrowing through the investment of bond proceeds, including debt service funds, debt service reserve funds, and construction funds. Draw downs of construction proceeds will be managed to maximize investment opportunity. Debt service funds and construction funds will be part of the County's investment pool and invested in the safest investments that optimize return on investment. Debt service reserve funds and other funds held by a trustee bank are to be invested in the safest investments available while earning a return. Bond proceeds will be invested in accordance with bond documents prepared by bond counsel.

E. Arbitrage and Tax Compliance

The County will comply with federal arbitrage and rebate regulations. The County recognizes its obligations to account for potential arbitrage rebate exposure and engage bond counsel to provide these calculations and certifications as required by bond documents. Steps will be taken to minimize any rebate liability through proactive

management in the structuring and oversight of its individual debt issues and investment of bond proceeds.

For each debt issuance, the County Treasurer will maintain a “Tax Advantage Obligation File” that contains documents needed to adhere to IRS requirements and to implement tax and securities law compliance procedures. The file will include an annual compliance checklist, documenting the maintained tax status of the debt issuance.

Appendix I
Debt Issuance Checklist

**Debt Management Policy
Appendix I
Debt Issuance Checklist**

Note: The structure of debt issued by the County, regardless of type, is to be evaluated using the Debt Issuance Checklist. This checklist is not meant to be inclusive of all factors that apply when evaluating debt, but a tool to analyze the structure of debt issuance. There may be factors to consider that are not included on the Debt Issuance Checklist.

General Information

Type of debt:

Short or long term debt:

Bond proceeds will be used to:

Identify the financial resources that will be used to meet debt obligations:

Amount of Debt

Analyze the following ratios to evaluate the County's ability to meet debt obligations. To project into future years, use the current budget's growth estimates.

_____ Total Debt Service per Total Expenditure
_____ Total Debt Service per Non-Capital Expenditure
_____ Total Debt Service per Total Revenues
_____ Total Debt Service not Supported by Dedicated Revenues
per Total Revenues

Conclusion:

Interfund Borrowing

Evaluate the interfund borrowing for the issuance by considering:

_____ Financing resources used to retire the debt
_____ Interest costs over time
_____ Interest income earned over time
_____ Size of the debt issuance
_____ Opportunity cost of borrowed funds
_____ Repayment schedule
_____ Marketability and flexibility of issuance

Conclusion:

Fixed or Variable Rate Debt

Evaluate the impact of fixed or variable interest rates by considering:

- _____ Cost of interest on fixed rate debt
- _____ Cost of interest on variable rate debt
- _____ Ability to accelerate debt retirement
- _____ Ability to offset interest expense through investment income

Conclusion:

Taxable vs. Tax-exempt Debt

Evaluate the impact of taxable vs tax-exempt debt by considering:

- _____ Cost of interest on taxable issue
- _____ Cost of interest on tax-exempt issue
- _____ Marketability and flexibility of issuance

Conclusion:

Method of Sale

Evaluate the method of sale that produces the lowest cost of borrowing:

- _____ Competitive sale
- _____ Negotiated sale
- _____ Private placement

Conclusion:

Prepayment Provisions

Evaluate the impact of call provisions by considering:

- _____ Cost of call premium
- _____ Cost of higher interest rates
- _____ Ability to refund issuance in future
- _____ Marketability and flexibility of issuance

Conclusion:

Debt Maturity

Evaluate the optimum maturity for the issuance by considering:

- _____ Financial resources used to retire the debt
- _____ Interest costs over time
- _____ Marketability and flexibility of issuance

Conclusion:

Credit Enhancement

Evaluate the impact of bond insurance by considering:

- _____ Cost of bond insurance to estimated savings in the TIC

Conclusion:

Appendix II

Glossary of Terms

Acceleration

A provision, normally present in a bond indenture agreement, mortgage, or other contract, that the unpaid balance is to become due and payable if specified events of default should occur. These include failure to meet interest, principal, or sinking fund payments, insolvency, and nonpayment of taxes on mortgaged property.

Advance Refunding

A method of providing for payment of debt service on a municipal bond until the first call date or maturity from funds other than an issuer's revenues. Advance refundings are done by selling a new bond issue and investing the proceeds in a portfolio of U.S. government securities structured in order to provide enough cash flow to pay debt service on the refunded bonds. Refunding bonds are settled more than 90 days in advance of an optional prepayment date. The federal restrictions are that any issue can only be advance refunded once on a tax-exempt basis.

Arbitrage

Investment earnings representing the difference between interest paid on bonds and the interest earned on securities in which bond proceeds are invested. The Internal Revenue Code regulates the amount and conditions under which arbitrage on the investment of bond proceeds is permissible and the 1986 Tax Reform Act requires, with limited exceptions, that arbitrage from investments must be rebated to the federal government.

Average Effective Interest Cost

The average interest rate on a bond issue, including all issuance costs, expressed as either net interest cost or true interest cost.

Balloon Maturity

An extremely large proportion of bond principal coming due in a single year.

Basis Point

One basis point is 1/100 of 1 percent (0.01 percent). One hundred basis points equal 1 percent.

Bond Anticipation Note

A short-term borrowing that is retired with the proceeds of a bond sale.

Bond Insurance

Insurance as to timely payment of interest and principal of a bond issue. The cost of insurance is usually paid by the issuer in the case of a new issue of bonds, and the insurance is not purchased unless the cost is more than offset by the lower interest rate that can be incurred by the use of the insurance.

Bond Purchase Agreement

Contract that outlines the terms, prices, and conditions under which the underwriters agree to purchase the bonds from the issuer.

Bond Register

A record, kept by a transfer agent or registrar on behalf of an issuer, of the names and addresses of registered bond owners.

Bond Resolution

Adopted by the issuer's governing body to authorize the issuance and sale of municipal securities. The bond resolution describes the nature of the bond offering, the terms and conditions of the sale, and the obligations of the issuer to the bondholders. When a trust indenture is used, the bond resolution also approves the trust indentures and appoints a trustee and is called a Deed of Trust.

Bond Transcript

The legal documents associated with a bond offering.

Bond Year

An element in calculating average life of an issue and in calculating net interest cost and net interest rate on an issue. A bond year is the number of 12-month intervals between the date of the bond and its maturity date, measured in \$1,000 increments. For example, the "bond years" allocable to a \$5,000 bond dated April 1, Year 1, and maturing June 1, Year 2, is 5.830 [1.166 (14 months divided by 12 months) x 5 (number of \$1,000 increments in \$5,000 bond)]. Usual computations include "bond years" per maturity or per an interest rate, and total "bond years" for the issue.

Bonded Debt

The portion of an issuer's total indebtedness as represented by outstanding bonds.

- *Direct or gross bonded debt:* The sum of the total bonded debt and short-term debt.
- *Net direct debt or bonded debt:* Direct debt less sinking fund accumulations and all self-supporting debt such as tax anticipation notes and revenue anticipation notes.
- *Total overall debt or total direct and overlapping debt:* Total direct debt plus the issuer's applicable share of the total debt of all overlapping jurisdictions.
- *Net overall debt or net direct and overlapping debt:* Net direct debt plus the issuer's applicable share of the total debt of all overlapping jurisdictions.
- *Overlapping debt:* On a municipal issuer's financial statement "overlapping debt" is the debt of other issuers which is payable in whole or in part by taxpayers of the subject issuer.

Book Entry

Securities in the form of entries in the issuer's or a clearing house's books, rather than in the form of paper certificates with coupons. All but the smallest bond issues are sold in book-entry format.

Call

Actions taken to pay the principal amount of the bonds prior to the stated maturity date, in accordance with the provisions for "call" stated in the proceedings and the bonds.

Callable

Subject to payment of the principal amount (and accrued interest) prior to the stated maturity date, with or without payment of a call premium.

Call Premium

A dollar amount, usually stated as a percentage of the principal amount called, paid as a "penalty" or a "premium" for the exercise of a call provision.

Capital Project

Large scale capital expenditures that require significant financial resources. This includes purchase, construction, renovation or addition of capital assets and infrastructure improvements.

Closing Date

The date on which a new issuance of bonds is delivered to the purchaser upon payment of the purchase price and the satisfaction of all conditions specified in the bond purchase agreement.

Coverage

This is a term usually connected with revenue bonds. The margin of safety for payment of debt service, reflecting the number of times (e.g. "120 percent coverage") by which annual revenues either on a gross or net basis exceed annual debt service.

Current Refunding

Refunding bonds are settled within 90 days of an optional prepayment date

Dated Date (or Issue Date)

The date of a bond issue from which the bondholder is entitled to receive interest, even though the bonds may actually be delivered at some other date.

Debt Limit

Statutory or constitutional limit on the principal amount of debt that an issuer may incur (or that it may have outstanding at any one time).

Debt Service

Principal and interest.

Debt Service Reserve Fund

Used in revenue bond issues, a fund usually amounting to principal and interest payments for one year and used only if normal revenues do not cover debt service.

Defeasance

Funds are accumulated in a dedicated debt service fund or other available reserve to place in an irrevocable escrow account an amount sufficient such that the initial deposit plus accumulated investment earnings pay all scheduled debt service obligations on the refunded bonds until an optional prepayment date, at which time all remaining refunded bonds are retired.

Depository

A clearing agency registered with the Securities and Exchange Commission which provides immobilization, safekeeping and book-entry settlement services to its participants. The four registered depositories are The Depository Trust Company (New York), the Midwest Securities Trust Company (Chicago), the Pacific Securities Depository Trust Company (Chicago) and the Philadelphia Depository Trust Company.

Discount

(1) Amount (stated in dollars or a percent) by which the selling or purchase price of a security is less than its face amount. (2) Amount by which the amount bid for an issue is less than the aggregate principal amount of that issue.

Due Diligence

The investigation of a bond issue, by underwriter's and issuer's counsel, to ensure that all material facts related to the issue have been disclosed to potential buyers in the official statement (OS).

Duration

The sum of the present values of each of the principal and interest payments of a security, weighted by the time to receipt of each payment, divided by the total of the present values of the payments. Unlike average life or average maturity, duration takes into account the timing of both principal and interest payments.

Interest Rate Swap

An agreement between two parties to exchange future flows of interest payments. One party agrees to pay the other a fixed rate; the other pays the first party an adjustable rate usually tied to a short-term index.

Issue Date (or Dated Date)

The date of a bond issue from which the bondholder is entitled to receive interest, even though the bonds may actually be delivered at some other date.

Joint Managers

Underwriting accounts are headed by a manager. When an account is made up of several groups of underwriting firms that normally function as separate accounts, the larger

account is often managed by several underwriters, usually one from each of the several groups, and these managers are referred to as "joint managers."

Lease Financings

Under the structure, a municipality borrows money to rent equipment that it will acquire at the end of a stipulated period.

Legal Opinion

An opinion of bond counsel concerning the validity of a securities issue with respect to statutory authority, constitutionality, procedural conformity and usually the exemption of interest from federal income taxes.

Letter of Credit (LOC)

A security document usually issued by a bank that back-stops, or enhances, the basic security behind a bond. In the case of a direct pay "LOC," the bondholder can request the bank to make payment directly rather than through the issuer, in which case the County agrees to promptly repay the bank or pay the bank in advance.

Level Debt Service

The result of a maturity schedule that has increasing principal amounts maturing each year so that the debt service in all years is essentially "level." "Level debt service" is often used with revenue bond issues (and, in a familiar area, in the traditional approach to monthly payments on home mortgages).

Maturity Date

The stated date on which all or a portion of the principal amount of a security is due and payable.

Maturity Schedule

The schedule (by dates and amounts) of principal maturities of an issue.

Net Interest Cost (NIC)

The traditional method of calculating bids for new issues of municipal securities. The total dollar amount of interest over the life of the bonds is adjusted by the amount of premium or discount bid, and then reduced to an average annual rate. The other method is known as the true interest cost (TIC), which takes into account the time value of money

$$\text{NIC} = (\text{Total Coupon Interest} + \text{Discount} \text{ or } - \text{Premium}) / \text{Bond Years}$$

Net Tax-Supported Debt Service

Annual principal and interest due for aggregate tax-supported debt less any principal and interest due for tax-supported debt determined to be self-supporting (i.e., annual debt service is fully paid from dedicated taxes, fees, incremental revenues, etc.).

Notice of Sale

An official document disseminated by an issuer of municipal securities that gives pertinent information regarding an upcoming bond issue and invites bids from prospective underwriters.

Official Statement

Discloses pertinent information regarding the debt offering of a governmental entity. It should contain complete information about the bonds being offered such as a description of the security pledge for the repayment of debt, the issuer's financial condition, structure of the offering, tax status, and economic/demographic information.

Optional Redemption

A right to retire an issue or a portion thereof prior to the stated maturity thereof during a specified period of years. The right can be exercised at the option of the issuer or, in pass-through issues, of the primary obligor. "Optional redemption" may require the payment of a premium for its exercise, with the amount of the premium decreasing the nearer the option exercise date is to the final maturity date of the issue.

Par Value

The principal amount of a bond or note due at maturity.

Paying Agent

Place where principal and interest are payable. Usually a designated bank or the office of the treasurer of the issuer.

Syndicate

A group of underwriters formed for the purpose of participating jointly in the initial public offering of a new issue of municipal securities. The terms under which a "syndicate" is formed and operates are typically set forth in the "agreement among underwriters." Those terms will establish the pro rata participation of each syndicate member; the methods by which offering prices and other terms of sale will be established; in what priority orders for securities will be taken and confirmed; and the joint or several nature of the liability assumed by each member for the purchase of unsold securities. The purpose of a "syndicate" formation is to share the risk of the offering among participating underwriters and to establish a distribution network in which to market the offered securities. One or more underwriters will act as manager of the "syndicate" and one of the managers will act as lead manager and "run the books." A "syndicate" is also often referred to as an "account" or "underwriting account."

Tax-Supported Debt Service

Annual principal and interest due for aggregate tax-supported debt.

True Interest Cost

A method of calculating bids for new issues of municipal securities that takes into consideration the time value of money (see "Net Interest Cost").

Trustee

A bank designated by the issuer as the custodian of funds and official representative of bondholders. "Trustees" are appointed to insure compliance with the contract and represent bondholders to enforce their contract with the issuers.

Trust Indenture

A legal contract between the issuer and the trustee establishing responsibilities of the issuer and the rights of the bondholders. The trust indenture defines the security, flow of funds, bond covenants, and other provisions for the protection of the investors and is enforced by the trustee.

Underwriting Spread

The difference between the offering price to the public by the underwriter and the purchase price the underwriter pays to the issuer. The underwriter's profit, expenses and selling costs are usually paid from this amount.

Yield to Maturity

Total return on a bond, taking into consideration its coupon, length of maturity, and dollar price.