Department of Financial Services

COMPREHENSIVE DEBT POLICY

CITY OF Hollywood FLORIDA

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City of Hollywood
Comprehensive Debt Management Policy

INTRODUCTION

This Comprehensive Debt Management Policy (the "Policy") shall provide the framework for direct debt origination and issuance activities of the City of Hollywood (the "City"). The Policy applies to bonds, notes, bank loans, lines of credit, capital lease agreements and any other form of indebtedness originated, issued or incurred only by the City. This Policy does not apply to interfund borrowing or operating leases and does not cover indirect debt such as debt originated by any other overlapping jurisdiction or governmental agency. The goal of this Policy is to assist the City in maintaining or improving its bond credit ratings and obtaining the highest possible bond credit ratings while still providing the flexibility to obtain financing for the City's infrastructure improvements and other capital needs, as well as to realize potential debt service savings on future bond issuances. The responsibility for compliance with this policy shall be with the Director of Financial Services in coordination with the appropriate internal and external personnel.

OBJECTIVE

The debt goals of the City are to maintain or improve its bond credit ratings, to fund infrastructure improvements that add value to the residents and businesses, to spread the cost of those improvements over the life of the asset, to allocate those costs to those who will benefit from the infrastructure over its useful life, to provide interest and debt service savings to residents and businesses whenever possible and to provide for the safety of life and property in response to a disaster event.

DEBT PURPOSE and ANALYSIS LIMITS

The City will, from time to time, originate debt. This Policy will address three main types of debt: general obligation debt, revenue debt, and special obligation debt.

General obligation debt is debt approved by the voters of the City through a bond referendum. In effect, through an approved bond referendum, the voters opt to take the debt upon themselves, and it is paid for through an ad valorem tax added to the property tax bill. Limits on general obligation debt are determined by the public's appetite for capital improvements as weighed against their willingness to increase the ad valorem taxes levied to pay for the debt. However, even General Obligation Debt can impact the City's bond rating, and so should adhere to the principles of this Policy. General obligation debt must also be approved by the City Commission.

Revenue debt is debt distinguished by its guarantee of repayment from revenues generated by a specific revenue-generating activity associated with the purpose of the bonds, as opposed to from a tax. An example of such debt would be Enterprise debt such as water and sewer debt, which is self-supporting and repayable by the revenues generated by the water and sewer system of the City, and not by the City's taxes. Only the revenues specified in the contract between the City and the bondholders are required to be used for the repayment of the debt; other revenues, such as tax revenues, are not so pledged or encumbered. This type of debt does not require voter approval but does require the approval of the City Commission.

The third type of debt, special obligation debt, is general government debt that is payable from non-ad valorem revenues. The repayment (pledge) source is identified during the debt issuance and might be the City's sales tax, communications services tax, local business tax, or other established, reliable and ongoing revenue source of the City. Another type of special obligation debt includes debt secured by a covenant to annually budget and appropriate funds from any available non-ad valorem revenues to pay the debt service on the obligations, also referred to as CB&A debt. Special obligation debt also includes special assessment bonds, in which the City may create an assessment district to undertake and finance certain capital projects and impose special assessments on the benefitted properties. Special obligation debt may or may not involve voter approval, depending upon the issue and the type, but always requires the approval of the City Commission.

Debt origination should be limited to investments in assets either by purchase, replacement or improvement; refunding of outstanding debt; or temporary financial stress caused by a disaster event. Debt originated for the purpose of investing in assets should be in accordance with the City's adopted Capital Improvement Plan and will be further limited to assets not covered by any reserves committed to infrastructure assets.

This Policy recognizes that there are several types of debt. Prior to originating any new debt, an analysis shall be performed to evaluate the impact of new debt. Any new debt shall meet the following metrics prior to origination or issuance. If the new debt would exceed the limits of any two or more of the metrics, the City should justify and explain the need for the new debt and project how repayment of the debt will impact future projected City revenues and budgets. The metrics are:

- Total Projected Debt[(1)] (including the proposed new debt) per personal income ratio below 10%[(2)];
- Total Projected Debt (including the proposed new debt) less than 5% of the City real property just (market) value as calculated by the Broward County Property Appraiser's Office;
- Total projected annual debt service (including the debt service on the proposed new debt) less than 12% of total projected recurring operating expenditures (capital expenditures, existing debt service and other nonrecurring expenditures not included); and
- Projected pledged revenue coverage ratio of 1.20x or greater than projected related annual debt service. (Not applicable to general obligation bonds, as such debt is issued without a rate covenant).

(1) Total Projected Debt includes OPEB and pension liabilities. For general governmental debt, the share of OPEB and pension liabilities attributable to the enterprise funds should not be used in the calculation of these metrics. Total Projected Debt does not include general obligation debt, as the voters have voted to have themselves taxed to repay that debt.
(2) The City currently exceeds this metric. This is a goal for the future; however, any new debt should still be analyzed to see its impact upon the results of the calculation for this metric.

DEBT STRUCTURE LIMITS

Any debt originated by the City shall meet the following criteria:

- Debt originated for asset investment:
    - The maximum maturity term shall be the lesser of:
        - The economic useful life of the asset as determined by the completion of a study or evaluation performed by a qualified person or firm;
        - Thirty years.
    - The City should not issue debt for a project or purchase less than $1 million, as projects/purchases under that limit should be able to be achieved through capital outlay and use of operating budgets and/or reserves. If the City is purchasing multiple units that add up to greater than $1 million (for example, purchasing five new rescue units at $250,000 each), then debt issuance may be used.
    - The principal and interest payments shall be structured such that the periodic debt service shall be equal payments or equal principal payments with declining interest payments at the City's sole discretion.

    - The interest rate should be structured as a constant fixed rate. The City may use variable rate debt only in instances of short-term or interim financing, such as but not limited to a grant anticipation note associated with FEMA or FDOT that will have a maximum term not to exceed five years. The City strongly discourages the use of variable rate debt, but acknowledges there may be circumstances in which it makes sense to incur variable rate debt. However, the benefits of issuing such debt should be clearly demonstrated.
    - Whenever possible, the City shall include optional redemption provisions to all the debt to be called prior to maturity.
- Debt originated to refund or refinance outstanding debt:
    - The maximum maturity term should be the weighted average maturity term of the outstanding debt being refunded at that time, unless under distressed circumstances.
- For lines of credit drawn upon because of temporary financial distress caused by a disaster event:
    - The Mayor or designee must declare a state of emergency to draw on the line of credit.
    - The maximum maturity term shall be 24 months.
    - The City's current emergency letter of credit references that the note would be secured by future FEMA and State disaster reimbursement proceeds, with a further security on the City's covenant to budget and appropriate its legally available non-ad valorem proceeds. The City will also investigate using its investments as the collateral pledged.

ENTERPRISE FUND DEBT

Developing debt limits for enterprise fund debt, such as Water and Sewer Fund debt in the case of the City of Hollywood, is more complex than for General Governmental Debt. This is because those metrics used for General Governmental debt, which are usually not difficult to obtain (population, market value of real property, personal income, etc.), do not lend themselves as equally reliable metrics for utility and other enterprise fund debt.

A number of factors and criteria can be used as benchmarks, including the percentage of operating income from "monopolistic" characteristics (such as retail sales where there is no competition as to provider source, or bulk rate sales if there are long-term contracts), strength of service area economic and demographic trends (for example, utility customer base expanding, median household income greater than national median average, unemployment rates lower than national averages would all be positive trends), affordability ratios (costs of water & sewer services greater than 5% of household income is considered a negative metric), age of system plant and infrastructure, and other economic, operating and financial ratios and metrics. Regulatory requirements from DEP and FDEP and other agencies may require the City to use debt financing to satisfy the requirements if other resources are not readily available. All of these come into play and should be considered when an enterprise fund is considering the issuance of debt.

One metric that can be used as a general indicator of health in relationship to issuance of debt is called Operating Cost Burden. This represents the cost of providing the service in terms of operating and capital costs per million gallons of treated water and/or sewage. In general, utility systems with an operating cost of $6,500/mg or less are considered to be operating very efficiently. Those with operating costs of $9,500/mg or greater are not considered as efficient and should look closely before adding any additional debt burden on ratepayers, taking all other factors and needs into consideration. Note that for this metric, operating costs include purchased water and/or sewer services including both the operating and capital portion, labor, administration, maintenance, and fixed assets, as measured by depreciation. The costs also include net transfers. These are measurements of the costs of the supply, treatment and distribution of water as well as the collection, treatment and disposal of wastewater.

However, the primary metric is a simple one, and that is the affordability of the rates and the capacity and willingness of the customer base to pay them. It may be difficult to know for certain what the limit is or when it may come, but when the customer base pushes back against the administration and the elected officials with complaints about the rates being excessive, then it is fair to conclude their willingness and capacity to support further debt has been reached.

MONITORING and REPORTING

The City will review its debt composition annually in conjunction with its Annual Comprehensive Financial Report or as needed such as when considering new debt origination.

The City will, at a minimum, comply with all continuing disclosure requirements as contained within any applicable federal, state or local laws or as stated by any applicable agencies, or as further required by any bond documents or continuing disclosure undertaking. The Director of Financial Services will be responsible for ensuring continuing disclosure requirements are met. This may be through the use of an outside agency providing such services, such as DAC Bond (Digital Assurance Certification) or other similar provider.

The City shall retain a firm that specializes in arbitrage rebate calculation to perform the necessary calculation with respect to its tax-exempt debt on at least an annual basis.

NOTICE OF INTENT TO REIMBURSE

From time to time, it is in the best financial and operational management interests of the City to use fund balance or other available resources to pay for a capital purchase or project prior to the issuance of the debt financing which will provide funding for the purchase or project. In these circumstances, if the debt is to be issued as tax-exempt debt, the City administration shall present a resolution to the City Commission for its consideration in approving a Declaration of Official

Intent for Reimbursement of Expenditures from a Debt Financing, as prescribed under U.S. Treasury Regulations for purposes of Sections 103 and 141 to 150 of the Internal Revenue Code of 1986, as amended.

It shall be the responsibility of the Director of the Office of Budget and Performance Management to prepare and submit the resolution and accompanying Declaration to the City Commission in a timely manner. The Director shall also be responsible for ensuring the Declaration is signed after Commission approval, and signed copies distributed to the Budget Office, Financial Services Department and Office of the City Clerk.

Finally, the Budget Director shall ensure, in conjunction with the Financial Services Director and City Treasurer, that the actual reimbursement is made to the City after the debt financing is issued, in compliance with the timing and other requirements of the U.S. Treasury Regulations governing such reimbursements.

SELECTING AND MANAGING THE METHOD OF SALE OF BONDS

There are two primary methods of sale of bonds, competitive and negotiated. The City shall do competitive sales, unless the factors set forth below show that the best financial interest of the City would be better served by a negotiated sale. The City shall make a determination of the method of sale, in consultation with and taking into consideration the advice of its Municipal Advisor, through a thorough analysis of the expected credit rating, security, structure, existing market conditions and other relevant factors pertaining to the proposed bond issue. Due to inherent conflicts of interest, the City shall not use a broker-dealer or potential underwriter to assist in determining the best method of sale. Municipal Securities Rulemaking Board ("MSRB") Rule G-23 states that a broker-dealer firm may not serve as municipal advisor and underwriter on the same transaction. The City will avoid potential situations of such conflict by not using broker-dealers or underwriters for assistance in making this determination, and relying instead on its Municipal Advisor.

The Government Finance Officers Association of the United States and Canada ("GFOA") believes the following factors may favor the use of a competitive sale:

1. The rating of the bonds, either credit-enhanced or unenhanced, is at least in the single-A category.
2. The bonds are general obligation bonds or full faith and credit obligations of the City or are secured by a strong, known and long-standing revenue stream.
3. The structure of the bonds does not include innovative or new financing features that require extensive explanation to the bond market.

The GFOA believes the following factors may favor the use of a negotiated sale:

1. The rating of the bonds, either credit-enhanced or unenhanced, is lower than single-A category.
2. Bond insurance or other credit enhancement is not available or not cost-effective.
3. The structure of the bonds has features such as a pooled bond program, variable rate debt, deferred interest bonds, or other bonds that may be better suited to negotiation.
4. The City desires to target underwriting participation to include disadvantaged business enterprises ("DBEs") or local firms.
5. Other factors that the City, in consultation with its municipal advisor, believes favor the use of a negotiated sale process.

If the City, in consultation with its municipal advisor, determines that a negotiated sale is more likely to result in the lowest cost of borrowing, the City shall undertake the following steps and policies to increase the likelihood of a successful and fully documented negotiated sale process:

1. There should be a written contractual relationship with a municipal advisor to advise the City on all aspects of the sale, including selection of the underwriter, structuring, disclosure preparation and bond pricing.

2. The underwriter shall be selected through a formal RFP process.
3. The City shall remain actively involved in each step of the negotiation and sale processes.
4. The City shall require that any financial professionals make disclosures pursuant to MSRB Rule G-17 and disclose any conflicts of interest that may exist, as well as the name(s) of any person or firm compensated to promote the selection of the underwriter; any existing or planned arrangements between outside professionals to share tasks, responsibilities and fees; the name(s) of any person or firm with whom the sharing is proposed; and the method used to calculate the fees to be earned.
5. The City shall, with its municipal advisor and bond counsel, review the Bond Purchase Agreement and Agreement Among Underwriters and ensure that the terms and conditions are acceptable to the City and identify issues that need to be negotiated with the underwriters.
6. The City shall prepare a post-sale summary and analysis that documents the pricing of the bonds relative to other similar transactions priced at or near the time of the City's bond sale, and record the true interest cost of the sale and the date and hour of the verbal award.

SELECTING AND MANAGING MUNICIPAL ADVISORS

The City shall procure the services of a Municipal Advisor prior to any bond sale. The Municipal Advisor is an important member of the City's team as, unlike other professionals involved in a bond sale, the Municipal Advisor has an explicit fiduciary duty to the City per the DoddFrank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"). With the implementation of the Dodd-Frank Act, Municipal Advisors must register with the Securities and Exchange Commission ("SEC") and MSRB and meet professional and testing standards and meet the requirements as provided in MSRB Rule G-42 which prohibits a firm from providing Municipal Advisor services and acting as an underwriter on the same transaction.

A broker/dealer Municipal Advisor firm is prohibited under G-42 from acting in an underwriting capacity alone or jointly with any other broker/dealer firm on any bond sale undertaken while the firm is acting as the Municipal Advisor for the City. A firm may not provide underwriting services to the City for a period of two years after the date of completion of the contract during which it provided Municipal Advisor services to the City.

The Municipal Advisor will assist the City in determining the best type of financing for the City, selecting other finance professionals, planning the bond sale and successfully selling and closing the bonds. Please note that the Municipal Advisor is in an advisory role, and the City remains in control of final decision making.

The City shall have an Municipal Advisor on board prior to making a decision on whether a particular bond sale is to be competitive or negotiated, so it may receive the advice of the Municipal Advisor during the decision-making process. Also, the Municipal Advisor shall be brought on board prior to the City procuring the services of an underwriter, so the Municipal Advisor can assist the City in preparing the underwriter RFP and in the evaluation of the underwriter responses.

The City shall procure the services of an Municipal Advisor through a competitive process, either an RFP or an RFQ.

The RFP/RFQ to solicit the services of a Municipal Advisor shall include at least the following components:

(1) The municipal advisor must be registered with the SEC and the MSRB.
(2) A clear and concise description of the scope of work, specifying the term of the contract and indicating whether joint proposals are acceptable.
(3) Clarity on whether the City reserves the right to select more than one municipal advisor or to form municipal advisory teams.
(4) A requirement that all fee structures be presented in a standard format. The City will ask all proposers to identify which fees are to be proposed on a not-to-exceed basis, describe any conditions attached to their fee proposal, and explicitly state which costs

are included in the fee proposal and which costs are to be reimbursed. Any MSRB fees imposed upon municipal advisors shall not be passed on to the City.

(5) A requirement that the proposer provide at least three references form other public-sector clients, preferably from ones that the firm provided similar services to those proposed to be undertaken as a result of the RFP/RFQ.
(6) A description of the objective evaluation and selection criteria and explanation of how proposals will be evaluated.

The RFP/RFQ should request information related to the areas listed below in order to distinguish each firm's qualifications and experience.

(1) Relevant experience of the individuals to be assigned to the City, identification of the individual in charge of day-to-day management, and the percentage of time committed for each individual on the account.
(2) Relevant experience of the firm with financings of the City or comparable issuers and financings of similar size, types and structures, including financings in the State of Florida.
(3) Discussion of the firm's municipal advisory experience necessary to assist the City with either competitive or negotiated sales.
(4) Demonstration of the firm's understanding of the City's financial situation, including ideas on how the City should approach financing issues such as bond structures, credit rating strategies and investor marketing strategies.
(5) Demonstration of the firm's knowledge of local political, economic, legal or other issues that may affect the proposed financing.
(6) Discussion of the firm's familiarity with GFOA's best practices relating to the selling of bonds and the selection of finance professionals.
(7) Disclosure of the firm's affiliation or relationship with any broker-dealer and whether any personnel of the municipal advisor firm who would provide advice to the City were associated with a broker-dealer firm with in the past two years preceding the RFP/RFQ.
(8) Analytic capability of the firm and assigned individuals and the availability of ongoing training and educational services that could be provided to the City.
(9) Description of the firm's access to sources of current market information to assist in pricing of negotiated sales and information to assist the City in planning and executing competitive sales.
(10) Amounts and types of insurance carried, including the deductible amount, to cover errors and omissions, improper judgments, or negligence.
(11) Disclosure of any finders fees, fee splitting, payments to consultants, or other contractual arrangements of the firm that could present a real or perceive conflict of interest.
(12) Disclosure of any pending investigation of the firm or enforcement or disciplinary actions taken within the past three years by the SEC, the Financial Industry Regulatory Agency ("FINRA"), MSRB, or other regulatory agency.

Basis of Compensation

The City should consider what fees paid to the Municipal Advisor shall be on an hourly or retainer basis, reflecting the nature of the services to the City, and what fees may be paid on a contingent basis. Fees paid on a continent basis may offer the actual or appearance of a potential incentive for the Municipal Advisor to provide advice that might unnecessarily lead to the issuance of bonds. This is one reason it is important to use a competitive solicitation in procuring these services, so that any hourly, retainer and contingent basis fees can be taken into consideration and evaluated. The City shall include a provision in the RFP prohibiting any firm from engaging in activities on behalf of the City that produce a direct or indirect financial gain for the Municipal Advisor, other than the agreed-upon compensation, without the City's informed written consent. The contract will state that the Municipal Advisor will receive compensation only for work specifically authorized by the City to avoid incurring expenses for work not authorized by the City.

SELECTING BOND COUNSEL

Bond counsel ("BC") is an essential member of the finance team. BC renders an opinion on the validity of the bond offering, the security for the offering, and whether and to what extent interest on the bonds is exempt from gross income for federal income tax purpose and the State law tax treatment of the bonds. BC offers assurance to both issuers and investors who purchase the bonds that the legal and tax requirements relevant to the matters covered by the opinion are met.

The City should procure the services of BC through a competitive process using an RFP or RFQ to be able to compare qualifications of firms.

The RFP/RFQ should require firms proposing to serve as bond counsel to submit information that permits the City to evaluate the following factors at a minimum:

(1) Experience of the firm with financings of the City or comparable issuers, and financings of similar size, type and structures, including financings in the State of Florida.
(2) For those instances where the City determines specialized tax advice beyond normal bond counsel advice is required, the firms experience in tax matters and the attorneys who practice full time in the area of public finance tax law should be identified in detail.
(3) For those instances where the City determines specialized securities law services beyond normal bond counsel services is required, the firms experience in municipal securities law matters and the attorneys who practice full time in the area of municipal securities law should be identified in detail. If the firm has no attorneys who specialize in municipal securities law, the response must indicate how the firm intends to provide competent municipal securities law advice.
(4) Knowledge and experience of the attorneys that would be assigned to the transaction, particularly the individual with day-to-day responsibility for the City's account.
(5) Ability of the firm and assigned personnel to evaluate legal issues, prepare documents, and complete other tasks of a bond transaction in a timely manner.
(6) Relationships or activities that might present a conflict of interest for the City.
(7) Level of malpractice insurance carried, including the deductible amount, to cover errors and omissions, improper judgments, or negligence.

Basis of Compensation

Different fee arrangements are possible depending upon the type and nature of the engagement. Fee arrangements may include both fixed fee and hourly which may or may not include a cap on the total compensation. Additionally, fees may also be paid contingent on the sale of bonds. The

City should consider what fees paid to bond counsel shall be on an hourly, fixed or retainer basis, reflecting the nature of the services to the City, and what fees may be paid on a contingent basis.

Fees paid on a contingent basis may offer the actual or appearance of a potential incentive for bond counsel to render legal or tax opinions that would result in the inappropriate issuance of bonds.

It is important to use a competitive solicitation in procuring these services, so that any hourly, retainer and contingent basis fees can be taken into consideration and evaluated. Fees and method of compensation (fixed fee, hourly, retainer or contingent) should appropriately reflect the complexity and scope of the services to be provided.

SELECTING AND MANAGING UNDERWRITERS FOR NEGOTIATED BOND SALES

Underwriters are used in negotiated sales to market the City's bonds to investors. Underwriters may also make suggestions regarding the structure, timing, and marketing of the bonds being sold. The roles of the underwriter and the municipal advisor are separate, distinct roles and therefore cannot be provided by the same party. In fact, MSRB Rule G-23 prohibits the same broker-dealer from acting in both roles on the same transaction. Since the City's goal is to obtain the lowest possible borrowing cost for the bonds it will issue, it should look to select an underwriting firm that has demonstrated both experience in underwriting the type of bonds the City is issuing and also has the strongest marketing/distribution capabilities.

The City should have procured the services of a municipal advisor prior to the selection of an underwriter, since the municipal advisor should play an important role in assisting the City in the process of selecting an underwriter.

The RFP/RFQ process can result in the selection of one or more underwriters for a single transaction or result in identifying a pool of underwriters from which firms will be selected over a specific period of time for a number of different transactions. This may include senior managers and co-managers (levels of involvement and responsibility multiple underwriting firms may have on a particular transaction).

An RFP/RFQ should include at least the following components:

1. A clear and concise description of the contemplated bond sale transaction or financing program.
2. A statement noting whether firms may submit joint proposals. In addition, the RFP/RFQ should state whether the City reserves the right to select more than one underwriter for a single transaction.
3. A description of the objective evaluation and selection criteria and explanation of how proposals will be evaluated.
4. A requirement that all underwriter compensation structures be presented in a standard format. Proposers should identify which fees are proposed on a not-to-exceed basis, describe any condition attached to their fee proposal, and explicitly state which costs are included in the fee proposal and which costs are to be reimbursed.
5. A requirement that the proposer provide at least three references from other public-sector clients, preferably clients where the firm provided underwriting services similar to those proposed to be undertaken as a result of the RFP/RFQ.

RFPs/RFQs should include questions related to the areas listed below to distinguish firm qualifications and experience, including but not limited to:

1. Relevant experience of the firm and the individuals assigned to the City, and the identification and experience of the individual in charge of day-to-day management of the bond sale, including both the investment banker(s) and the underwriter(s).

2. A description of the firm's bond distribution capabilities including the experience of the individual primarily responsible for underwriting the proposed bonds. The firm's ability to access both retail and institutional investors should be described.
3. Demonstration of the firm's understanding of the City's financial situation, including ideas on how the issuer should approach financing issues such as bond structures, credit rating strategies and investor marketing strategies.
4. Demonstration of the firm's knowledge of local political, economic, legal or other issues that may affect the proposed financing.
5. Documentation of the underwriter's participation in the City's recent competitive sales or the competitive sales of other issuers in the State of Florida.
6. Analytic capability of the firm and assigned investment banker(s).
7. Access to sources of current market information to provide bond pricing data before, during and after the bond sale.
8. The amount of uncommitted capital available and the ability and willingness of the firm to purchase the entire offering of the City, if necessary, in the case of a firm underwriting.
9. Disclosure by the underwriter of any conflicts of interest, as stated in MSRB Rule G-17, including finder's fees, fee splitting, or other contractual arrangements of the firm that could present a real or perceived conflict of interest. Additionally, the firm should disclose if there are any pending investigations of the firm or enforcement or disciplinary actions imposed on the firm within the past three years by the SEC, FINRA, MSRB or other regulatory agencies.

Underwriters Compensation

The underwriter in a negotiated sale is compensated through the underwriters discount, which is the negotiated difference between the amount the underwriter pays the City for the bonds and the amount the underwriter expects to receive selling the bonds to investors. This is also referred to as the spread or takedown. Current levels of takedown can be determined by the City in consultation with its municipal advisor just prior to the time of negotiation. Less common forms of compensation might include a management fee and an underwriting fee. The City should consult with its municipal advisor as to the appropriateness of including management or underwriting fees as part of their underwriting compensation. Costs of issuance and other transaction-related expenses such as credit rating agency fees, CUSIP fees, official statement printing fees, etc., should only be at cost without any additional markup. Any underwriter-related expenses, including but not limited to underwriters' counsel fees, travel expenses and administrative overhead should be clearly identified and negotiated in advance of the bond sale.

The City should include a provision in the RFP/RFQ which prohibits any firm from engaging in activities on behalf of the City that produce a direct or indirect financial gain for the firm, other than the agreed upon compensation, and requires disclosure of other conflicts of interest to the City.

BANK LOANS

Bank loans are a valuable tool in the City's debt management toolkit. They can be flexible and tailored to meet the specific needs of the City. The federal government currently provides for the ability to issue "Bank Qualified", or BQ bank loans, tax-exempt and at low interest rates. The current cap for BQ loans is that the issuer does not borrow more than $10 million in the same calendar year. Where possible the City should look at the feasibility of doing bank loans on a BQ basis.

Bank loans have some beneficial features for the City in addition to relative ease and low upfront costs, such as the ability to structure them as the City desires, issuing them for example with a term directly matching the expected life of the project or purchase being funded through the bank loan. The City should do a cost-benefit analysis to determine if a loan is more cost effective than a bond issue. Bank loans can be solicited through either an RFP/RFQ process or even a Bid, and in all circumstances should be solicited competitively.

When using a bank loan, the City should indicate in the soliciting documents that a fixed interest rate is required (no variable interest rates: see discussion under DEBT STRUCTURE LIMITS, above, on variable interest rates, for possible exceptions) and also that the annual debt service should be level, so that either 1) the sum of principal and interest payments are equal over each year of the amortization schedule, or, when reviewing the future debt service with the budget office for affordability, 2) the debt service schedule has level annual principal payments, with the associated annually decreasing interest payments associated with this structure. The former is most likely to be used most often given budgetary constraints. This structure provides for security in avoiding interest rate volatility and also aides the budgeting process, with the debt service amortization schedule known and set at the time of issuance.

The City should also describe in the RFP/RFQ soliciting the bank loan the revenue source that will be used as a pledge for repayment of the loan, set forth the ratio of pledged revenue to maximum annual debt service (such as, for example, the ratio will not be required to exceed 1.2 times), that it may use pledged revenues in excess of the ratio requirement for any purpose including as a pledge on other future debt, and that there will be the opportunity for prepayment of the loan in whole or in part with no penalty at any time after a time certain period, such as two years, for example, and that acceleration of the debt shall not be a remedy for default. Identifying these specifications up front will provide flexibility for the City in the future to meet its financial needs.

PENSION OBLIGATION BONDS

Note: The GFOA, an organization of over 20,000 federal, state and local finance officials, whose mission is to advance excellence in public finance, has taken the extraordinary step of issuing an Advisory on the issue of pension obligation bonds ("POBs"). The Advisory states that the GFOA "…recommends that state and local governments do not issue pension obligation bonds". Advisories are issued when the GFOA believes it is necessary to minimize governments' exposure to potential loss. The Board of the GFOA approved the Advisory as recommended from the Committee on Governmental Debt Management, which is a national committee comprised of state and local debt management professionals as well as advisors from underwriting and municipal advisory firms.

The use and issuance of POBs is prohibited by this Policy. POBs are taxable bonds that are used to fund all or part of the unfunded portion of their pension liabilities by creating debt. The use of POBs is based on the assumption that the bond proceeds, when invested with pension assets in higher-yielding asset classes, will be able to achieve a rate of return that is greater than the interest rate owed over the term of the bonds. However, they involve considerable investment risk, making this goal, and the use of POBs, very speculative. Failing to achieve the expected rate of return would burden the City with both the debt service requirements of the taxable bonds plus the unfunded pension liabilities that remain unmet because the invested portfolio did not perform as anticipated, resulting in increased financial stress.

As included in the caution by the GFOA Advisory, the following are a number of reasons why the City of Hollywood shall not issue POBs:

1. The invested POB proceeds might fail to earn more than the interest rate owed over the term of the bonds, leading to increased overall liabilities for the City.
2. POBs are complex instruments that carry considerable risk. POB structures may incorporate the use of guaranteed investment contracts, swaps, or derivatives (prohibited by the City's Investment Policy), which must be intensively scrutinized as these embedded products can introduce counterparty risk, interest rate risk, and credit risk.
3. Issuing taxable debt to fund the pension liability would increase the City's bonded debt burden and potentially use up capacity that could be used for other purposes, such as capital improvements and capital purchases. In addition, taxable debt is typically issued without call options or with "make-whole" calls, which can make it more difficult and costly to refund or restructure than traditional tax-exempt debt.
4. POBs are frequently structured in a manner that defers the principal payments or extends repayment over a longer period than the actuarial amortization period, thereby increasing the City's overall costs.
5. Rating agencies may not view the proposed issuance of POBs as credit positive, particularly if the issuance is not part of a more comprehensive plan to address pension funding shortfalls.

REFUNDING BONDS

The Financial Services Director and City Treasurer, working with the City's Municipal Advisor, should review all outstanding debt at least annually, or whenever changes in interest rates provide for opportunities to generate savings through refinancing.

Net Present Value Debt Service Savings – Current and Advanced Refundings

The City should look at refunding outstanding debt when the net present value ("NPV") savings are at least 5%. Alternatively, NPV savings of $1 million or more may also be reason to proceed with refunding outstanding bonds. There may be circumstances where refundings make sense even if the forgoing thresholds are not satisfied if the City is looking at restructuring debt for covenant or other reasons. These situations should be evaluated on a case-by-case basis with the advice of the Municipal Advisor.

An instance where undertaking a refunding for less than the minimum 5% (or $1 million) NPV savings may make sense is if outstanding bonds are to be refunded by a bank loan which provides for more flexible prepayment provisions; in such case a minimum of 3% NPV savings should be achieved. Again, such a decision should take into consideration the advice of the City's Municipal Advisor.

Savings Structure

As a general rule, savings should be spread out over the life of the original debt to be refunded, through "uniform savings" or "proportionate savings" structures. The former of these two would have approximately the same dollar amount of savings in each year remaining of the debt as compared with the amortization schedule of the bonds being refunded; the latter would have approximately the same percentage of savings in each year remaining of the debt as compared with the amortization schedule of the bonds being refunded.

There may be instances where other factors can be considered, such as financial and budgetary situations that would make taking the savings "upfront", or accelerating the savings into the first one or more years of the remaining term of the refunding bonds term. Total savings may be less under this scenario than if the refunding were structured to achieve uniform savings or proportionate savings, so careful analysis should be done and the best option for the financial benefit to the City determined. However, the debt service on the later maturities should not be greater than that of the refunded bonds.

The City should not do refundings that have a final year of debt service which would extend beyond the final year of debt service of the refunded bonds, unless extraordinary and distressed circumstances are present, and, after proper analysis, extending the term is determined to be essential to the best financial interests of the City. Refunding should not be used to lower annual debt service payments by extending the length of the remaining years of the amortization term of the refunded bonds. This is poor public policy, as it not only pushes the burden off to future taxpayers and ratepayers to benefit current taxpayers and ratepayers, but also frequently results in debt service becoming extended beyond the useful life of the projects and purchase for which the debt was originally issued.

Other Issues

The City should also take into consideration, in conjunction with its Municipal Advisor, the preservation of future refunding opportunities, through the review of bond structuring elements such as optional redemption provisions (call dates and prices) and the coupon (not yield) of each bond maturity after the call date. The City should structure optional call dates that are not later than ten years from the date of issuance of the refunding.

There may be other reasons to refund bonds than to achieve savings, such as to eliminate restrictive bond or legal covenants, restructure the stream of debt service payments, or achieve other policy objectives. These should be clearly understood and considered as part of the City's long-term financial plan.

Refunding Proceeds

Current refunding (refundings done not earlier than 90 days prior to the first call date) proceeds must comply with the investment requirements of the debt service or related fund, and any investments must also provide for the proceeds to be available on the redemption date.

Advanced refunding (refundings done more than 90 days prior to the date of the first call date) proceeds should be placed in an escrow fund. These should be held until the call date of the refunded bonds and should be invested so the earnings minimize the cost of the escrow. The most common investments for tax-exempt refunding bond escrow accounts are federally issued state and local government securities ("SLGS") and open market Treasury investments, such as T-bills, notes and bonds. SLGS are a preferred investment vehicle for refunding proceeds, when available, due to the ease and reliability of execution. The City should review these alternatives with its Municipal Advisor and Investment Manager, and should consider the cost of acquiring the investments, the yields, and the matching of timing of investment cash flows with debt service payments. [It should be noted that as of the date of the adoption of this Policy, advance refudnings of tax-exempt bonds are not permitted by federal tax law.]

POST ISSUANCE AND CONTINUING DISCLOSURE POLICIES AND PROCEDURES

In general, the Financial Services Director is responsible for post issuance compliance, arbitrage rebate and continuing disclosure requirements, with the assistance of the City Treasurer. The Financial Services Director will be designated as the City's Chief Compliance Officer. The City may procure the services of a third-party provider for some or all of the compliance activities including continuing disclosure, dissemination agent and arbitrage rebate.

At the time of the closing of each bond issue, the documents should be identified which set forth the requirements being monitored. These might be the Continuing Disclosure Agreement ("CDA"), the bond indenture, the tax certificate, or other such documents.

When bonds are issued, the City commits (via the CDA) to provide certain annual financial information and material event notices to the public. In accordance with SEC Rule 15c2-12, those filings must be made electronically at the Electronic Municipal Market Access ("EMMA") portal.

In addition to filing on EMMA, the City should continue to post its Annual Comprehensive Financial Report, Budget and other financial reports and information on its web site.

The Chief Compliance Officer should be familiar with the specific requirements of the CDA for each bond issue. Frequently, filing the Annual Comprehensive Financial Report on EMMA will satisfy the annual information requirements of the CDA, but additional information may be required to be filed in the case of a material event. Note that SEC Rule 15c2-12 currently requires issuers to file event notices within ten days after the event.

In addition to the documents referenced above, the frequency of actions to be undertaken should be identified. To ensure compliance, the City should review a compliance checklist at least annually.

The City should also work with its Municipal Advisor and Bond Counsel/Disclosure Counsel to monitor for any changes to regulations, rules, new interpretive guidance or altered market practices and expectations and how these might impact requirements for continuing disclosure.

The Financial Services Department should prepare a deadline reminder ("tickler") system. Where deadlines exist, a reminder system should be established, and a backup reminder used to assist in avoiding missing any deadlines. Some examples of such deadlines include continuing disclosure filing dates, deadlines for meeting spend down requirements for rebate compliance, paying any rebate if applicable, and making final allocations of bond proceeds.

Records should be maintained in a continuing disclosure file such as:

- The bond transcript for each bond issue, including the trust indenture, loan, lease or other financing agreement, the relevant IRS Form 8038 with proof of filing, the bond counsel opinion and the tax agreement.

- Records of debt service payments for each bond issue.
- Documentation evidencing the expenditure of bond proceeds, such as construction or contractor invoices and receipts for equipment and furnishings, bond trustee requisitions and project completion certificates, as well as records of any special allocations made for tax purposes, including (i) reimbursement allocations made pursuant to a Declaration of Official Intent/reimbursement resolution and (ii) post issuance changes in allocations.
- Documentation pertaining to investment of bond proceeds, including the yield calculations for each class of investments, actual investment income received from the investment of proceeds, investment agreements, payments made pursuant to investment agreements with rebate calculations and copies of any 8038-T or 8038-R filed with respect to the bonds.
- Any documentation related to remedial action and other change-of-use records, particularly if the change in use might create potential private activity bond concerns because of the expected amount of private use and direct or indirect private payments.
- Amendments and other changes to the bond documents including any interest rate conversions and defeasances.
- Letters of credit and other guarantees for bond issues.

Periodic training for the Financial Services Director and the City Treasurer on post-issuance compliance should be identified and recorded.

The City should describe what actions will be taken to correct any non-compliance. This may include engaging counsel or third-party advisors to assist in any remedial actions such as material event notices related to continuing disclosure requirements or dealing with IRS tax compliance issues by using the IRS Voluntary Closing Agreement Program.

Bond indentures may include language which contains a variety of stipulations including:

- Notice requirements
- Reporting requirements
- Additional bond tests
- Permitted investments
- Debt service payment requirements
- Debt service reserve fund requirements
- Security/source of payment for the bonds
- Bond insurance or surety bond requirements
- Required accounts/segregation of funds
- Requirements related to a trustee or paying agent
- Restrictions on the use of bond proceeds
- Redemption provisions

The National Association of Bond Lawyers ("NABL") and the GFOA worked jointly to develop a Post Issuance Compliance Checklist. The Checklist is attached to this Policy. The Chief

Compliance Officer should use this Checklist to assist in keeping track of post issuance and continuing disclosure requirements.

Acronyms

BC Bond Counsel

BQ Bank Qualified. A class of municipal securities, frequently through a bank loan, that enjoy a tax-advantaged status when purchased by commercial banks. Granted by the Tax Reform Act of 1986.

CDA Continuing Disclosure Agreement

EMMA The Electronic Municipal Market Access filing site of the MSRB

FINRA The Financial Industry Regulatory Authority

GFOA The Government Finance Officers Association of the United States and Canada

MA Municipal Advisor

MSRB The Municipal Securities Rulemaking Board

NABL The National Association of Bond Lawyers

NPV Net present value; the value in the present of a sum of money, in contrasts to some future value it will have when it has been invested at compound interest.

OPEB Other Post-Employment Benefits, or benefits other than pensions that retired employees may have. In the case of the City, this is retiree health care costs.

POB Pension obligation bonds

SEC The Securities and Exchange Commission

Notes

This document was compiled with the use of multiple Best Practices from the GFOA and additional sources.