

# OHIO WATER DEVELOPMENT AUTHORITY

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## Debt Management Policy

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The following are the general policies that the Ohio Water Development Authority will follow in the issuance of program bonds (i.e., bonds or notes that the Authority issues for its revolving loan programs for local government agencies) and conduit bonds (i.e., bonds or notes that the Authority issues as a conduit for private business borrowers). The Authority intends for this Debt Management Policy to be applied in conjunction with and, to the fullest extent possible, consistently with its Investment Policy and its Interest Rate Swap Policy and not to supersede either.

### I. Program Bonds

Timing and Size of Bond Issues: The following are the basic principles that the Authority will apply to determine the appropriate timing and size of program bond issues:

- The Authority will issue bonds for a particular loan program when the unencumbered balance of funds available for that program's loans, in the judgment of the Authority, requires additional funds in order to avoid the risk that loan demand may exceed the unencumbered balance.
- The size of any bond issue for a particular loan program will conform to the additional bonds test under the trust agreement securing the bonds for that program. Based on the advice of its financial advisor, the Authority may, notwithstanding demand for additional funds for a particular program, issue additional bonds in a lesser amount than the additional bonds test applicable to those bonds would allow if the issuance of bonds in a lesser principle amount would serve to create or preserve a desirable credit rating on the bonds.
- The size and timing of bond issues will conform to the advice that the Authority receives from bond counsel regarding the requirements of federal tax law for the interest on those bonds to be excluded from gross income for purposes of federal income taxation.

Use of Variable Rate Debt: The loans that provide the source of revenues and security for the payment of program bonds bear interest at fixed interest rates that cannot be subsequently adjusted. Consequently, the Authority will generally issue program bonds bearing interest at fixed rates of interest to conform to the revenue stream anticipated from the loans pledged to the repayment of those bonds. The Authority will, however, consider the use of variable rate debt as a means of reducing debt service charges if: (i) the use of variable rate debt matches the cash flow from the loans for the program for which the debt is issued (as it has done and is expected to continue to do for the Authority's RD Loan Program), or (ii) the Authority can adequately

compensate for the variable rate exposure with the designation of cash reserves or the use of interest rate hedges.

**Refunding of Outstanding Program Bonds:** The Authority will issue bonds to refund or advance refund outstanding program bonds when doing so will enable the Authority to achieve reductions in debt service that equal at least five percent (5%) of the aggregate principal amount of the refunded bonds. The Authority may use cash balances to defease or refund outstanding program bonds when doing so will enable the Authority to achieve the equivalent of a return at least equal to the market rate of return on the funds to be used to effect that defeasance or refunding.

**Debt Structuring Practices:** The following are basic principles that the Authority will apply in structuring issuances of program bonds:

- **Interest Cost:** The Authority's primary goal in structuring its program bond issues is to achieve the lowest overall interest cost to the Authority.
- **Debt service requirements:** The Authority will structure the principal amortization schedules and resulting debt service requirements for each series of program bonds to conform to the scheduled loan payments on loans already made and pledged to that program's bonds and to comply with the applicable trust agreement's restrictions on the issuance of additional bonds for that program.
- **Maturity:** The Authority will schedule the final maturity of a series of program bonds to occur not later than the final year in which loan payments are scheduled to occur on loans already made and pledged to that program's bonds.
- **Optional Redemption:** In determining whether and how to utilize optional redemption features for program bonds, the Authority will strive to achieve the lowest cost of borrowing consistent with the preservation of desirable flexibility to take advantage of refinancing opportunities.

**Method of Sale:** The Authority will periodically distribute requests for proposals or qualifications to qualified investment banking firms. Based on the submissions in response to those requests, the Authority will select a group of firms to be interviewed for further examination of their qualifications and commitments. From that group, the Authority will select a group of firms among whom the position of senior and co-senior underwriter will be rotated on the Authority's forthcoming issuances of program bonds. The Authority will reserve the discretion to select the most appropriate senior and co-senior underwriter for each issuance, and in exercising that discretion, the Authority will strive to reward the special efforts and initiative that particular firms may have shown in coming forward with innovative proposals. The Authority will include other firms that submitted suitable responses in the underwriting groups for program bond issues. The Authority will generally sell program bonds through negotiation with the senior underwriter for a series of program bonds, and will utilize the services of its financial advisor to provide assurance that the interest rates, purchase price and other terms proposed by the senior underwriter are fair under then current market conditions and otherwise meet the Authority's criteria and objectives. Notwithstanding the foregoing, the Authority may elect to sell any particular issuance of program bonds through competitive bidding rather than

through negotiation if, based on the advice of its financial advisor, the Authority determines that doing so would, under the circumstances, enhance the likelihood of the Authority's achieving the optimal available terms for the program bonds.

**Disclosure and Continuing Disclosure:** In connection with each issuance and sale of program bonds, the Authority will require the selected underwriters to engage as underwriters' counsel a firm with nationally recognized expertise in the area of municipal finance and to require that underwriters' counsel render a customary "10b-5" opinion in connection with the issuance of the program bonds and with respect to the official statement or other disclosure document prepared and utilized in connection with that issuance and sale. At the time of its approval of any issuance and sale of program bonds, the Authority shall also obtain the assurance that, prior to the closing of that sale, the appropriate members of the Authority's staff shall have reviewed the portions of the official statement or other disclosure document describing the Authority, its programs and financial condition, and that the Authority's bond counsel shall have reviewed the portions thereof describing the legal aspects of and the contractual documents for the program bonds and shall have found them accurate in all material respects. In connection with each such issuance and sale, the Authority shall also provide undertakings for continuing disclosure sufficient to satisfy the requirements of SEC Rule 15c2-12 and shall comply with all such undertakings.

## II. Conduit Bonds

In general, the Authority allows the ultimate borrower for each issue of conduit bonds to determine the structure, terms and method of sale of those bonds, because the Authority bears no financial obligation for the payment of debt service on conduit bonds. Nonetheless, because defaults or other adverse developments regarding conduit bonds that bear the name of the Authority as issuer may cause adverse publicity detrimental to the Authority's reputation in the municipal bond market, the Authority will impose the following requirements on conduit bonds :

**Credit Quality:** The Authority will require that at least one of the following requirements be met to provide appropriate assurance of credit quality and investor suitability:

- The debt must be rated by a nationally recognized rating agency, and that rating must be evidenced on the cover or in another prominent place in the offering document.
- The guarantor of the debt must be rated by a nationally recognized rating agency, and the rating of the guarantor must be evidenced on the cover or in another prominent place in the offering document.
- The debt must be insured by a nationally recognized firm that is in the regular business of providing bond insurance.
- The debt must be backed by an irrevocable direct pay letter of credit by a provider recognized nationally or who has a investment grade published rating from Moody's or Standard & Poor's or Fitch.
- The debt must be sold in denominations of \$100,000 or greater to "sophisticated investors."

In the event that either of the first two of the foregoing requirements is met with a rating that is below investment grade, then the Authority may determine, based on the advice of its financial advisor, that it is also appropriate to require that at least one of the latter three requirements be met.

Legal Assurances. The Authority must receive, or be authorized to rely on, the unqualified opinion of nationally recognized bond counsel that the conduit bonds are legal, valid and (subject only to customary exceptions for matters such as bankruptcy and equity) enforceable and, if applicable, that the interest on the conduit bonds is excluded from gross income for purposes of federal income taxation. In addition, the Authority will require the borrower to submit all documentation for the conduit bonds to issuer's counsel for the Authority to determine that all appropriate legal protections for the Authority have been included and all applicable legal requirements have been met.

# **OHIO WATER DEVELOPMENT AUTHORITY**

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## **Interest Rate Swap Policy**

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### **BACKGROUND**

The following are the general policies that the Ohio Water Development Authority will follow in the utilization of interest rate swaps and related interest rate hedging techniques. The Authority intends for this Interest Rate Swap Policy to be applied in conjunction with and, to the fullest extent possible, consistently with its Investment Policy and its Debt Management Policy and not to supersede either.

### **DEFINITIONS**

“Counterparty” shall mean the party to an Interest Rate Agreement other than the Authority.

“Interest Rate Agreement” shall mean an interest rate swap or exchange agreement, an agreement establishing an interest rate floor or ceiling or both, and any other interest rate hedging agreement, including options to enter into or cancel such agreements, as well as the reversal or extension thereof.

### **GUIDELINES**

#### **A. Conditions to Entering into Interest Rate Agreements.**

The Authority will consider entering into an Interest Rate Agreement only for one or more of the following purposes:

1. Reduce the Authority’s exposure to changes in interest rates with respect to a particular borrowing; or
2. Manage interest rate risk, taking into account the Authority’s current asset/liability balance and reasonably expected changes therein for the particular program for which the Interest Rate Agreement is being considered; or
3. Achieve a reasonably anticipated lower net cost of borrowing with respect to related obligations.

In connection with each proposed Interest Rate Agreement, the Authority shall obtain the advice of its financial advisor and shall analyze and determine how the Interest Rate Agreement is intended to accomplish one or more of the foregoing purposes. In providing such advice and in making such determinations, the financial advisor and the Authority shall consider that the loans that provide the source of revenues and security for the payment of program bonds generally bear interest at fixed interest rates that cannot be subsequently adjusted and that the Authority's payment obligations (whether direct or synthetic) with respect to its program bonds need to conform to the revenue stream anticipated from the loans pledged to the repayment of those bonds.

No Interest Rate Agreement shall be entered into unless such agreement relates to indebtedness of the Authority that is either outstanding or authorized at the time of the execution or effective date of the Interest Rate Agreement.

**B. Procurement of Interest Rate Agreements.**

The Authority may enter into an Interest Rate Agreement through negotiation with a Counterparty or through a competitive bidding process and shall obtain the advice of its financial advisor regarding the preferable course in the particular circumstances.

**C. Form of Documentation.**

To document any Interest Rate Agreement, the Authority shall utilize the standard documentation prepared by the International Swaps and Derivatives Association, Inc. ("ISDA"), such as the Master Agreement, Schedule and Confirmation, with such modifications and supplements as the Authority deems necessary to accomplish the purposes of the Interest Rate Agreement, and the Authority shall obtain the advice of bond counsel regarding such modifications and supplements and regarding the conformity of the Interest Rate Agreement with the applicable law and with any applicable trust agreements or other agreements to which the Authority is at the time already a party. Notwithstanding the foregoing, the Authority may approve other forms of documentation if, after obtaining the advice of bond counsel, the Authority determines that such other forms of documentation serve the best interests of the Authority. Regardless of the form of documentation, the Authority shall, in connection with its consideration of any proposed Interest Rate Agreement, obtain the advice of its bond counsel and financial advisor regarding the proposed source or sources of payment for any obligations of the Authority under the Interest Rate Agreement and the security for such payment and, based on that advice, shall cause the Interest Rate Agreement to specify the source or sources of and the security for periodic and non-periodic payment obligations of the Authority (which may or may not be the same), which the Authority shall have determined to be consistent with applicable law and trust agreements and with the best interests of the Authority.

**D. Risks Associated with Interest Rate Agreements.**

Prior to entering into an Interest Rate Agreement, the Authority shall obtain the advice of its financial advisor regarding the risks associated with entering into the Interest Rate Agreement, including, if applicable and without limitation:

- counterparty risk,
- basis risk, and
- tax risk,

and the full range of circumstances that might result in a termination of the Interest Rate Agreement either with or without the approval or consent of the Authority and any consequent obligation of the Authority to make a termination payment. The Authority shall consider the identified risks in determining whether the potential benefits offered by the Interest Rate Agreement justify the Authority's assuming its inherent risks. The Authority shall also consider the likely or potential repercussions from a proposed Interest Rate Agreement for the ratings on any of the Authority's outstanding or proposed debt obligations.

**E. Standards for Counterparty Selection and Security for Financial Interest.**

Except as provided in the next sentence, the Counterparty to an Interest Rate Agreement with the Authority or the Counterparty's guarantor shall be required to have either a counterparty rating or a long-term debt rating at the time the Interest Rate Agreement is entered into of not less than a "AA" category from a nationally recognized ratings service. In the event a proposed Counterparty or its guarantor does not have or fails to maintain either a counterparty rating or a long-term debt rating equal to or higher than a "AA" category, the Counterparty or its guarantor shall be required to collateralize the termination value of the Interest Rate Agreement with eligible collateral or shall provide a guaranty, surety, or other credit enhancement for its obligations under the Interest Rate Agreement from a guarantor, surety or other credit enhancement provider with a long-term debt rating equal to or higher than a "AA" category. Eligible collateral shall mean direct obligations of the United States or any agency thereof. At all times the eligible collateral shall have a market value (as evidenced by weekly valuations) at least equal to 102% of the termination value of the Interest Rate Agreement. If collateral is required, the Authority shall designate a custodian bank independent of the Counterparty to hold such collateral on behalf of the Authority, and the Authority shall execute a written custodial agreement with the custodian bank to provide for the custody of collateral required from a Counterparty. If the rating of the Counterparty or its guarantor is lowered below a "AA" category or is suspended after an Interest Rate Agreement is entered into, the Counterparty shall be required to (i) collateralize in the manner described above the termination value of the Interest Rate Agreement, (ii) provide a guarantor or a substitute entity with a counterparty rating or a long-term debt rating equal to or higher than a "AA" category within 5 business days of such downgrade or suspension, or (iii) take such other actions for the preservation of the security for the Counterparty's payment obligations as the Authority shall have approved for the particular Interest Rate Agreement, based on the advice of its financial advisor.

**F. Credit Enhancement, Liquidity and Reserves.**

The Guidelines do not require (except in those cases where the Counterparty is required to provide collateral, guaranty, surety, or other credit enhancement to secure the termination value of an Interest Rate Agreement) either the Authority or the Counterparty to obtain credit enhancement or a liquidity facility in connection with entering into an Interest Rate

Agreement or to maintain any reserves in connection with such agreement, but the Guidelines do not preclude such arrangements or requirements if the Authority approves them for a particular Interest Rate Agreement based upon the advice of its financial advisor.

G. Financial Statement Reporting.

The Authority shall account for any Interest Rate Agreement on its financial statements through generally accepted governmental accounting principles.

H. Financial Monitoring.

Unless the Counterparty has provided collateral to secure its obligations under an Interest Rate Agreement, the Counterparty shall agree to provide the Authority with at least monthly mark-to-market calculations showing the current termination value of the Interest Rate Agreement. If the Counterparty or its guarantor has provided collateral to secure its obligations under an Interest Rate Agreement, the Counterparty shall agree to provide at least weekly valuations of the collateral and the termination value of the Interest Rate Agreement. The Authority shall establish and maintain a process for monitoring and reviewing the valuations required by these Guidelines.

I. Application and Source of Payments.

If the Authority receives a non-periodic payment in connection with entering into or performing under an Interest Rate Agreement, including any termination payment, the Authority shall consult with its bond counsel as to whether there are any restrictions on the application or investment of such payment under state law, federal tax law (with regard to tax-exempt debt) or any applicable trust agreement or other agreement to which the Authority is a party. If the Authority is required to make any payment, including a non-periodic payment, under an Interest Rate Agreement, it shall make such payment only from sources as are identified in the Interest Rate Agreement and otherwise are legally available for such payment.