

OHIO WATER DEVELOPMENT AUTHORITY

Debt Management Policy

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 pledge 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 (i) issue bonds to currently refund outstanding program bonds when doing so will enable the Authority to achieve reductions in debt service and generally demonstrate option value efficiency of 70% or higher, (ii) issue bonds to advance refund outstanding program bonds when doing so will enable the Authority to achieve reductions in debt service that equal a present value of at least four percent (4%) of the aggregate principal amount of the refunded bonds and generally demonstrate option value efficiency of 70% or higher for each maturity, (iii) use its discretion in reviewing each refunding candidate for inclusion, considering the criteria applicable to that candidate and the administrative cost of refunding or not refunding that particular candidate, and may choose to include candidates for refunding based upon a recommendation of the Financial Advisor, and (iv) use its discretion as to the minimum size of an allowable refunding bond issue, considering, among other things, the timing of any new money issues; provided, however, that the requirements of this sentence shall not apply to any debt obligations that the Authority may determine to issue to refund, in whole or in part, bond anticipation notes, commercial paper notes or any other outstanding debt obligations that are about to mature; and provided further, that if, at the time the Authority determines to issue long-term bonds either (i) to provide additional funds for one of its programs, or (ii) to refund, in whole or in part, bond anticipation notes, commercial paper notes or any other outstanding debt obligations that are about to mature. 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. The option value efficiency of any proposed refunding shall be verified in writing by the Financial Advisor.

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 underwrite 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 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 underwrites to engage as underwriter's 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 requirement 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 an 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.