DUBLIN CITY COUNCIL
FINANCE COMMITTEE OF THE WHOLE MEETING
Monday, June 11, 2018 – 5:30 p.m.
Council Chambers

- Call to Order
- Consent Agenda
  - Approval of Minutes of April 23, 2018 Meeting
- Revenue Projections
- Investment Strategies
- Questions/Discussion
- Adjourn

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Minutes of Meeting

Mr. Keenan, Chairperson, Finance Committee called the meeting to order at 5:00 p.m.

Finance Committee Members present: Mr. Keenan, Ms. Alutto, Ms. De Rosa.
Also present were Mayor Peterson, Vice Mayor Amorose Groomes, Mr. Reiner and Ms. Fox.
Staff present: Mr. McDaniel, Ms. Mumma, Mr. Gaines, Ms. Gibson and Ms. Readler.

DEBT PRESENTATION

Ms. Mumma thanked Council for the opportunity to present on this topic. The first quarter financial report was also provided in Council's packet.

Capital Financing

Tonight's discussion topic is Capital Financing, specifically the issuance of long-term debt. For the benefit of the two new Council members, this presentation will provide an understanding of the following:

- The different types of debt issued by municipalities in Ohio and the limitations that exist
- The City's current debt profile
- The City's current Debt Policy, as approved by Ordinance No. 31-16 (September 12, 2016)
- The factors analyzed by Moody's Investor Services as part of the rating process and the estimated impact of future financings on the City's rating
- The mechanisms of the City's policies/practices that help mitigate against declines in revenue, including: a dedicated revenue stream to retire debt; conservative planning; a healthy general fund balance; additional coverage for debt supported by TIF revenues; an annual update of the five-year CIP. These mechanisms all provide built-in protections to ensure that the City can pay its bondholders and is protected against declining revenues.

The goal is that Council will see that the financing plans laid out in the past by the Administration are affordable and be assured that staff will be presenting a 5-year CIP this year that is also affordable.

Two primary categories of debt that are issued by municipalities are: General Obligation Bonds (commonly referred to as GO Bonds) and Revenue Bonds.

- **General Obligation (GO) Bonds**

  GO Bonds are secured by the City's pledge to use all legally available resources to repay bondholders. Within the GO category are two subcategories:

  Limited Tax (LTGO) Unvoted GO Bonds

  - LTGO bonds pledge the full faith and credit of the City subject to the maximum rate at which taxes may be levied without voter approval.
  - They do not require voter approval to be issued.
  - Subject to state statutory and constitutional debt limitations.
  - Special Assessment – this is a type of LTGO bond in which bond proceeds are repaid by a special assessment tax levied on a specific parcel of land that directly benefits from the financed improvements.

Unlimited Tax (Voted GO Bond) (ULTGO)

- Pledges the full faith and credit of the City and obligates the City to raise property tax revenues in order to satisfy debt service requirements.
- Does require voter approval to be issued.
- Not subject to state constitutional debt limitations, as long as the voters have approved.

The best example of this category would be the school bonds. The majority of the school's bond issues are voted on by the electorate, which, if approved, results in an increase in property taxes to pay the debt service. Simply because the entity has the ability to repay the debt service through an increase in property taxes does not mean that it has to. Dublin has had a few bond issues that have been approved by voters in the past in which revenues from other sources, such as income tax and TIFs, were sufficient to pay the debt service. The potential to increase property taxes to pay the debt service is simply a backstop and would be mandated only if those other sources would be insufficient.

The City of Columbus is an entity that routinely requests voters to approve bond issues with the intent not to increase property taxes, but rather pay the debt service from other sources.

- Revenue Bonds

  These types of bonds are secured by a specific revenue of the City, such as Water, Sewer, Income Tax or Nontax Revenue.
  - The debt is payable solely from the revenue pledged, therefore does not have the backing of the full faith and credit of the City. Property taxes would not be raised in order to meet that debt service obligation.
  - These bonds do not count towards the City's GO debt limit, as they are pledged from specific revenue sources other than property taxes, and therefore do not require voter authorization

- GO debt is traditionally rated higher by the rating agencies than any other debt because of the backing of the entity to pledge the full faith and credit (utilizing all available resources) to repay bondholders.
- The City has chosen to use the GO pledge on most of the City's outstanding debt, even the debt which is funded by water, sewer and property tax revenues. This was done to obtain the highest bond rating to lower the interest costs on the bonds. However, by doing so, it has impacted the amount of debt that can be issued in the future, because it is reaching the capacity limitation.
- On the City's GO bond issues, most recently the 2017 General Obligation issue, the City was awarded the highest rating from each of the three rating agencies. The City's Revenue Bonds – issued in 2015 for the two parking structures in Bridge Park, with nontax revenue pledged as the security, were rated one notch below at Aa1 by Moody's. The nontax revenue came in the form of TIF payments that are associated with the block in which those two parking garages are located. That is backed by the minimum service payment guarantee.

Debt Limitations

There are three different constraints on the City's overall ability to issue debt: the statutory debt limit, the constitutional debt limit (also known as the 10-mill limitation), and the City's own debt policy.

- Statutory Limit
  - The statutory debt limit is based on the City's assessed valuation, which is currently over $2 billion, and limits the amount of debt to two levels depending on the type of debt issued. For unvoted and voted GO debt, the limitation is 10.5% of the assessed valuation. For unvoted GO debt only, the limitation is 5.5% of the assessed valuation.
  - The state statute also provides exemptions from this limitation. Specifically, all unvoted GO debt that pledges income tax revenue is considered exempt from the limitations. Because income tax revenue is our largest source of revenue, and the primary means to repay debt service, as opposed to property taxes, the City has pledged income tax revenue as a source of repayment on all of the City's GO debt. Therefore, with the exception of the voted GO bonds, of which the outstanding principal amount was $2.7 million as of 12/31/17, the remaining GO debt of the City is considered exempt; establishing the City's debt capacity for unvoted and voted at nearly $214 million.
  - For unvoted GO debt, the limitation is smaller. Again, because all of the unvoted GO bonds have the income tax pledge, unvoted GO debt is exempt; establishing our debt capacity for just the unvoted GO debt at nearly $113.5 million.
  - Because of the provision that an income tax pledge is considered exempt from the calculation, there is significant capacity that remains. As such, these limitations likely pose no issue for the City now or in the future as it relates to borrowing capacity.
  - How does Dublin compare to other Ohio municipalities? Looking at five other cities (Westerville, Mason, Blue Ash, Hudson and Beavercreek), Dublin's limitation far exceeds those other entities.
- Constitutional Limit

  The second limitation is that imposed by the State of Ohio's constitution. This is frequently referred to as the 10-mill limitation.
  - Millage is a property tax rate stated in terms of tenths of cents in tax per dollar of property value. The State mandates that the maximum property tax any overlapping subdivision can impose on a taxpayer is one percent of assessed valuation or 10 mills.
  - This limitation is applied on a county-wide basis. Therefore, in Dublin, we must look to the overlapping subdivisions and the debt issues by those subdivisions, which include the City, the Counties, the school districts, the townships, and SWACO. Our most restrictive is within Union County. The total millage utilized is 7.3088 mills, leaving 2.6912 mills remaining. This translates into approximately $75 million of GO bonds.
  - This level is ever-changing. The numbers reflected are a snapshot in time. As entities pay debt down and issue new debt, these available amounts change.

- Dublin Limits
  - And finally, while not statutory in nature or governed by the State constitution, the City has its own Debt Policy.
  - In summary, the City allocates 25% of income tax revenue to the Capital Improvement Tax Fund. Of that amount, 40% will be used to cash fund projects while 60% is reserved to pay debt service on capital projects. The City's policy further stipulates that the 60% allocation be limited to 90%. In addition to our conservative income tax estimates, this provides an additional layer of protection should income tax revenues decline, as every dollar is not programmed.
  - While this formal policy was adopted in 2016, the policy simply memorialized a long-standing practice of the City that was in place since prior to 1995 (per available CIP records).

- Debt Capacity Limitations

Determining the revenue available to pay debt service begins with the income tax revenue estimate that is established during the CIP process and revisited again during the operating budget. Income tax revenues are reviewed at different times throughout the year.

Revenues

- Conservative estimations are practiced. As reflected in the Income Tax Revenue chart provided, a 1.5% growth annually has been applied throughout the five-year period. The chart reflects the conservative nature in establishing our income tax revenues since 2005. With the exception of the downturn in the nation's economy in 2009, the City's income tax revenue estimates have been lower than actual revenues.
- If the City is aware that an existing company is leaving or downsizing, we look at the revenue brought in from that company the previous year, and either eliminate that amount or begin to reduce it according to the known timeline. With new companies coming into the City, the revenues are conservatively phased into the City's estimated income tax revenues only as solid information becomes available.
- Over the next eight years, the City averages nearly $12.1 million available to pay Debt Service annually.

Expenses

- First, we look at debt service in which there are no other revenue sources available to be used. These are primarily City facilities and some roadways.
- Additionally, TIF revenues are used to pay debt service. For those bonds, we will first look to the TIF fund to fund the debt service. Due to fluctuations that can occur in property tax values, it is important to have sufficient resources set aside from income tax revenues if TIF revenues do not materialize. To counter that, we have looked at each TIF fund that pays debt service. Where there is not 110% of the annual debt service available between the fund balance and the annual revenue, we set aside the difference from the income tax allocation.
- While Dublin's property values generally hold up well and appreciate, there are occasions when properties within TIF areas have been reduced in value, oftentimes as a result of an appeal filed by the property owner. An example of a TIF that we will see a reduction is the McKitrick TIF. The school district's purchase of the former Verizon building took a $10.2 million building in a TIF District -- from which the City

generated approximately $120,000 in annual TIF revenue -- and made it tax exempt.

- So with the revenues established to pay debt service and the debt service needed to support the City's existing debt, the last two columns reflect the debt allocation that is not committed (which averages $6.3 million annually) and the amount of 20-year debt at 5% interest that that amount could support (which averages $79 million).
- We believe we have sufficient conservative measures incorporated with our process to protect the City against declining revenue.
- Our estimates are conservative. The five and ten-year average income tax growth has been 3%. Through 2022, we have programmed a 1.5% increase and then looking forward for the next three years, we have utilized a 0% increase.
- Of that amount allocated to pay debt service, we do not permit every dollar to be spent, capping the available funds at 90%. This is yet another mechanism that protects us against a decline in income revenue.
- The City has an average of $5.8 million difference between our allocation to pay debt service and our actual debt payments; an amount that could support an average of $73 million in additional debt service.

Current Debt Profile

- The chart in Council's packet reflects the City's outstanding bonds as of today. In total, there is approximately $166.3 million in principal (or par amount) outstanding. This chart is broken down into the categories defined earlier – Limited Tax GO (those within the 10 mill limitation that were not voted on by the voters), Unlimited Tax GO (those that were approved by the voters, but which the City has never had to levy an increase in property taxes to pay the debt service), and our NTR bonds. The specific projects within each of these bond issues will be shown in the upcoming slides.
- Until 2019, we are unable to refund any of our current bonds. I know in past discussions, there have been Council members who have suggested using some cash on hand to retire debt service. Refunding opportunities are analyzed not only when we are preparing for an issue, but also at other times during the year. When the call date is approaching, we look to see if it makes sense to refund the bonds.
- With the exception of the City's nontax revenue (issued for the parking garages in 2015), all of the City's debt is GO -- even that paid from water and sewer revenue -- meaning it is backed by the full faith and credit of the City. This was done in order to lower our interest rate, as GO debt is traditionally rated higher by the rating agencies than any other debt given the full backing of the City.
- Reviewed the outstanding principal from 1991 – 2044, and a breakdown of the outstanding debt by project into unvoted GO bonds or unvoted special assessment bonds categories and date the bonds will be fully repaid.
- In the voted GO bonds segment, while the City is obligated to raise property tax revenues in order to satisfy debt service requirements, if necessary, we have never had to do so as sufficient income tax and TIF revenues have been generated to pay the debt service. Outstanding today are bonds on the Rec Center expansion, the Emerald Parkway Bridge, Woerner-Temple Road, the Emerald Parkway Overpass and the Coffman Park Expansion that voters approved in 1998 and 2000.
- The largest category of our outstanding bonds is in the unvoted GO bonds, which are payable from income tax, TIF or other sources such as hotel/motel tax revenue.

Projects – Debt:

- Avery-Muirfield Interchange (2019)
- Rings Road (2020)
- Arts Facility Acquisition/Renovation (2020)
- Perimeter Drive Extension (2020)
- Emerald Pkwy – Phase 7 (2020)
- Service Center (2021)
- South Pool (2025)
- Industrial Pkwy/SR 161 Improvements (2029)
- LED Street Lights (2022)
- Emerald Pkwy – Phase 8 (2033)
- BSD Land Acquisition (2033)
- 270/33 Interchange (Design/ROW) (2023)
- Justice Center (2035)
- BSD Transportation (2035)
- Bridge Park Transportation (2035)
- 270/33 Interchange (Construction) (2035)
- Dublin Rd/Glick Road Intersection (2026)
- John Shields Pkwy – Phase 2 (2036)
- Service Center Renovation/Expansion (2037)
- Pedestrian Bridge/N. High Street (2037)

- The NTR bonds. These were the bonds issued in 2015 for the construction of the two parking garages within Bridge Park as part of the City's responsibilities agreed to in the development agreement with Crawford Hoying. The non-tax revenue pledge was based on the MSP guarantee and the TIF revenues pledged for this debt service.

<u>Bridge Park Debt Service – Non Tax Revenue Bonds</u>
This is the debt that was issued as part of that development agreement.

- In addition to the two parking structures, the City agreed to fund a portion of the roadway system within Bridge Park. In total, $43.1 million was issued - $32 million in NTR for the parking garages and $11.1 for the roadway system.
- When the Development Agreement (DA) was negotiated, it was important that to the extent the City invested in the project, there would be reliable revenue streams available to pay the debt service. To accomplish that, the City is the recipient of all TIF revenues generated within Blocks B and C – which are the two blocks in which the parking structures funded by the City are located. Given potential fluctuations in property tax revenues, which obviously impact TIF revenues, a Minimum Service Payment (MSP) guarantee was incorporated that runs with the land and provides a guaranteed payment totaling $72.3 million over a 30-year period – which is the life of the bonds. What this does is ensures that at a minimum, the City will receive this amount. Should property values come in higher than what was conservatively estimated at the time the DA was created, the City will be the recipients of those revenues. However, should property values not materialize as planned, or decrease at any point in time, the MSP kicks in and acts as a floor. This MSP runs with the land. Therefore, should this property sell, regardless of the purchase price, the new property owner will be held to make this MSP each year if the TIF revenues are less than the amount stipulated in the agreement.

- In looking at the total principal and interest payments for this debt, which total $74,031,193, the MSP guarantee of $72,327,436 guarantees that the maximum amount the City would ultimately spend on this debt service is $1.7 million.
- During the first portion of the life of the bonds, the MSP is less than the principal and interest payments (averaging a little over $600,000 each year). However, beginning in 2036, the MSP is in excess of the debt service payments, allowing the City to be repaid for prior years.
- This is a worst case scenario. All indications are that the property values will come in higher than contemplated in the DA.

Overall Debt Service

It has been noted that the City has taken on a significant amount of debt in the past few years.

History:

- As Dublin grew in the 1990s, it made significant investment in the community, and the debt service associated with that capital investment has been paid down, and the City is now entering a re-investment phase.
- An appropriate measure of growth in the community is the Income Tax Revenues. To compare our growth as a City in terms of income tax revenues versus our total outstanding debt service is an appropriate comparison. To see a spike in debt service without growth from revenue would be a reasonable concern, but as the City has grown financially, so too, have the infrastructure needs. As a percentage of Income Tax Revenue, in the late 1990s and early 2000s, our outstanding principal was higher than it is today.

City's Ability to Pay:

- Regarding the debt service that is paid from other funds such as TIF funds and hotel/motel taxes -- the amount transferred on an annual basis from these sources to pay the debt service is the exact amount needed; in many cases, there is more revenue in the TIF fund balance. So the amount transferred is equal to the debt service.
- The amount of IT revenue allocated to pay debt service is in excess of what is actually needed. That excess amount is reflected in the purple bar on the slide. Therefore, the main point of this slide is to show that there are more than sufficient resources available to pay our debt service.
- In 2016 and 2017, the premium generated when bonds were issued went into the bond retirement fund balance and was used to pay interest costs until it is gone. Therefore, we are utilizing the fund balance to make part of the debt service payment, which is legally required of the City.
- In comparison to the excess capacity that the City has had in the past, and looking forward over the next eight years, we will continue to have excess capacity. We have not overextended ourselves.

Credit Ratings

The credit rating assigned to the City's bonds is very important and the City is grateful to have had the highest rating assigned by Moody's, Fitch on our GO bonds for many years. Additionally, in 2017, the City requested a rating from Standard & Poor's (S&P) in addition to Moody's and Fitch and was assigned the Triple-A rating from each agency.

Ms. Mumma introduced Municipal Advisor, Brian Cooper with Umbaugh. Mr. Cooper works with a number public entities including Dublin, in providing advisory services regarding the City's capital financing plans, which includes the rating process. Mr. Cooper will explain the City's strengths and weaknesses as identified in our 2017 bond issue and discuss the factors that one of the primary agencies, Moody's, uses to rate the City.

Brian Cooper, Municipal Advisor, stated that Umbaugh provides advisory services to cities, counties, townships, the State of Ohio, and many school districts throughout Ohio, Indiana and Michigan. Dublin is very fortunate to have a Triple-A rating from the three major rating agencies. The rating agencies:

- Are independent organizations that conduct an unbiased evaluations of entities' credit ratings. This provides a service to the investor communities, so that when investors are evaluating purchase and sale of bonds, they have an indication of the entity's general credit worthiness. The rating criteria varies slightly between the agencies, which is often updated every three to five years as the market changes and conditions dictate. The ratings agencies also reserve the right to review any entity's credit rating at any time for any reason; an entity's rating can change based on criteria, market factors, etc.
- First and foremost are interested in demonstrating to the investment community the entity's ability to repay. The fact that the City has a Triple-A rating from the three major rating organizations indicates that they all have high confidence in the City's ability to repay debt.
- While they look at the City's historical financial statements, their ratings are forward looking. The City's Five-Year CIP, its ability to forecast revenues and expenses over a long period of time, and the City's economic development projects that drive growth are important considerations of ratings agencies.
- Quantitative and qualitative factors. Looking at Moody's rating:
    - 30% of the rating is based on the City's Economy/ Tax Base;
    - 30% is based on the City's Finances/Fund Balances. This year the City's rating dropped slightly in this category due to the use of General Fund balance for capital projects; this is a purely quantitative viewpoint;
    - 20% on Financial Management, including institutional framework and operating history – average operating revenue/operating expenses. This also relates to the City's Debt, Investment and Cash Reserve policies. Those are characteristics that exist only with the very highest rating entities.
    - 20% is based on Debt and Pensions. One of the most common questions related to New Debt is how it will impact the City's credit rating. Only about 10% of the City's rating is based on its debt. If there was downward pressure on the City's rating from the issuance of debt, and the City went from Aaa to Aa1, what that would mean in terms of dollars/cents -- on a $25-million-dollar bond issuance, for example – would result in approximately $105,000 in additional debt service over 20 years. That is a nominal impact – five to seven basis points, depending on where the City is in the yield curve. From a financial perspective, the City wants the interest costs as long as possible, however.
    - In summary, Moody's final estimated score this year is a 1.67 – that's Aa1. Last year, we discussed other factors that would migrate an Aa1 score into a Triple-A score – those are the qualitative factors. Each of the agencies use qualitative

factors that determine the mathematical calculations of an entity from a rating standpoint.
- Moving from Triple-A to an A rating in the five-year Dollar Change in Fund Balances is simply a reflection of the City's finances. However, the rating agencies look at the City's capital plans and take that into consideration.
- Other adjustments that can move the City from Aa1 quantitative to a Triple-A rating would include whether or not the tax base is in an economic center of activity. Columbus, Dublin and Franklin County certainly is, so Dublin reaps the benefit of being within that larger economy. Institutional presence can also impact that, such as a large university or companies.

Ms. Mumma thanked Mr. Cooper for his explanation. Staff hopes that this presentation has provided Council with an overarching understanding of the City's debt profile. While our recent CIPs have been significant in terms of our investment in the community, we have done this in an effort to ensure that the past financial success of the City continues into the future. Maintaining and growing our tax base is vital, and the projects we have funded and will propose funding in future CIPs is in support of that. Additionally, we believe our CIP is responsive to our residents. We are investing a significant amount to ensure that our transportation, parks and utility systems are maintained and improved. Our current debt and any future debt proposed to Council will operate within the legal limitations and the guidelines imposed by the City's debt policy. Most importantly, we will ensure it is affordable, based on our conservative revenue estimates.

<u>Current Debt Policy</u>

- The City's current Debt Policy, approved September 2016, formalized a long-standing practice (in place since AT LEAST the 1996-2000 CIP approved in 1995):
  - Allocates 60% of the income tax revenue dedicated to the Capital Improvement Tax Fund to support debt service
  - Provides that only 90% of the amount noted above is available to be programmed
- Staff recommends maintaining the current Debt Policy, which provides appropriate safeguards to help mitigate against declines in revenue:
  - Dedicated revenue stream to retire debt service
  - Conservative revenue estimates
  - Limit amount available to spend on debt service to 90% of estimated revenue
  - Significant cash balances
  - Additional coverage for debt supported by TIF revenues (subject to changes in property valuations)
  - A five-year CIP that is updated annually. The annual update of the five-year CIP provides an opportunity to revisit revenues and projects each year. If we were to experience a decline in income tax revenue, projects would be adjusted accordingly. The CIP, which provides a blueprint for projects within the upcoming five years, is a fluid document and timing and priorities of projects can shift from year-to-year.

While it is important to remain mindful with regard to debt levels with future projects, the City's Debt Policy is solid and provides a strategic tool that can be used in long-term capital planning.

Mr. Keenan invited input from Council members.

Ms. De Rosa inquired:

1. What is the City's cost of borrowing?

Ms. Mumma responded that it varies. The City's last issue was under four percent.

2. In the past, the City's interest rates have ranged between what percents?

Ms. Mumma responded that in 2012 when her employment with the City began, it was under three percent; the City's last issue was under four percent; there may be a couple outstanding ones at 4.25%.

3. For a normal cost to capital calculation, would that be five to six percent?

Ms. Mumma responded that the City would use five percent as a conservative estimate in today's environment.

Mr. Keenan inquired if older, more expensive debt is often wrapped into a new issue.

Ms. Mumma responded that it has been, when the timing was right.

4. Referred to Slides #14 and #15 in the presentation: Starting in 2014, the Actual Income Tax revenues, not what is budgeted in terms of planning, appeared to hit a plateau. 2018 First quarter revenues were down from 2017 First quarter revenues. The City's economic development is critical and the City has done that incredibly well. However, she would like to see a few more metrics around the City's revenue forecasting – items such as the total number of new companies entering the City and the industry makeup of those companies. The City will have to add more debt to do the aggressive projects it desires, so a future projection will be helpful. Currently, the City is in a three-four year flat holding period. In the past, the City has experienced some very nice revenue growth following investments. One question would be what economic investment return to the City is expected from Bridge Park. When the City conducted calculations on that project, what was the economic return expected from Bridge Park?

Ms. Mumma responded that from Bridge Park, the City did not bank on any additional new revenue because, at that time, the development was expected to be primarily residential and retail. We do not assume much return from retail, and the assumption was that residents would work primarily outside the City. What we have seen, however, and Crawford Hoying has also adjusted their plans, is that the Office use is proving to be very desirable in Bridge Park. Crawford Hoying is now converting space to Office that was originally planned for other uses. Because the project is still new, there is no data to support that. From an income tax standpoint, more office use in any area is beneficial to the City.

Ms. De Rosa responded that is good news. When the City moves into planning for its Operating Budget, she would like to see what the City anticipates that to mean in terms of revenue. It would be helpful to look at it not as the City's current debt situation, but as the future return on its investment.

Mr. Keenan stated that Block B has a significant amount of Office being built, as well. He pointed out that there was significantly greater uncertainty when the Bridge Street project launched than exists today -- it is an actual part of the City today. Past Councils made a leap of faith to move in that direction, and it is markedly different today than it was then.

Ms. De Rosa responded that she agrees, but she is interested in reviewing some numbers. The comment was made that, fundamentally, the City invests for economic growth. Because we are now starting to see some of that, it would be advantageous to have some projections.

Ms. Mumma responded that the challenge is it is difficult to quantify it at this point. At this point, it is anecdotal. It is part of the TIF discussion we have had, as well. To a large extent, the

Bridge Park development was forward looking. The question, is what we can do in the future so that in five to 15 years, a company doesn't leave.
Ms. De Rosa stated that the City has reached a plateau in terms of its revenues. Available land for growth disappears over time. It would be helpful to have data that reflects our projections.

5. Referred to the slide that depicted the $72 million guaranteed service payments.

She likes that chart, and a chart depicting the net present value (NPV) would be helpful. Until year 2036, the City is in a net cash outflow position; in a positive position the last ten years. However, the City's position will move from a positive to a negative difference when the cost of capital is applied to that, and it is important to share that.

6. The City's current Debt Policy for cash on hand – is that 50% of the normal Operating Budget for the year?

Ms. Mumma responded that is the City's General Fund Balance policy.
Ms. De Rosa inquired why it is not a balance of 70% - 100%. What is the City's General Fund Balance today?
Ms. Mumma responded that, as of the First Quarter, if the advance for the Library is removed, the City's General Fund Balance is 76% of the budgeted amount for this year. Throughout the course of the year, we compare the General Fund balance against the budget. We never spend all of the budgeted amount, so usually, it is higher than budget. In the past, there was one year in which the City was in excess of 100%. When the City formally established its General Fund Balance Policy -- similar to the City's Debt Policy -- it memorialized a long-standing practice of the City. Having a 50% General Fund Balance had been the City's standard practice for years. Because the City's top 10 employers comprise 30% of the Income Tax Revenue, the City's policy is to maintain a 50% General Fund Balance.

Mr. Keenan stated that, as Mr. Cooper could attest, many other public entities would be envious to have a 50% General Fund Balance.
Mr. Cooper responded that, from a ratings perspective, if the municipality's balance is in excess of 20%-25%, there is no additional credit given for that. Ultimately, the City has to manage its own operations and determine what is appropriate for itself; the rating factor is secondary. However, it is true that many other communities would be very pleased to have a General Fund Balance of 50%.

Mr. Keenan noted that in the private sector, there is also a thinking that using too much cash to spend is counter to having more debt. They would advise an entity to take more long-term debt and keep the Cash Reserves.
Mr. Cooper stated that comment dovetails with the City's weighted average interest rate on its Debt Portfolio. If the City's weighted average interest rate is 375, when preparing for a new bond issuance, the City would want to add new debt below 375. It is also important to consider what bonds are callable, and determine if there is anything that could be paid down that is above 375. The City is constantly using financial tools to lower that weighted average interest rate on its Debt Portfolio. Often, the focus is on how debt impacts the City's finances, but in reality, the City uses much more cash to fund capital projects than it ever uses in debt.

<u>Ms. Fox inquired:</u>

1. If there is a bankruptcy within a TIF area, what results?

Ms. Mumma responded that a TIF is tied to the property value. A bankruptcy may not impact the TIF value. It is based on the County Auditor's determined value of that property. The County

looks at the exchange difference between the previous value and the ultimate sale. Such circumstances do impact TIFs. In the property valuation reappraisals that occurred last year, there is a building in the City that dropped $10 million in value. Fortunately, because the School District is the largest recipient of property tax dollars, they are usually very aggressive in appealing these types of decisions. Dublin as a whole is very strong – it experienced an 8.6% increase in assessed valuation as a result of the reappraisal. However, recognizing there can be unique situations, the TIFs are backed by the minimum service payment. The language in the agreement states that credit will be received toward their minimum service payment guarantee for any TIF revenues received.

2. In the worst case scenario, if a large development goes bankrupt and no one purchases the building, is the City "stuck" with it?

Ms. Mumma responded that a disruption could be experienced until the building eventually sells; however, someone will own that building at some point in time. The assessment remains with the property, so the new property owner would be required to make the service payments current.

3. Requested clarification of the ratings agencies' reference to an "unfunded pension burden."

Mr. Cooper responded that each of the ratings agencies have their own criteria, which are applied across all states and in all areas. Moody's, in particular, has realized that there are many state pension systems that are under-funded. They account for that under-funded portion in the rating. In Ohio, there is a very good system -- the contribution that the City is required to make is defined by law. That is the limit of the exposure on the public pension system. From a criteria perspective, the way in which Moody's deals with the unfunded pension liability is by pushing it down to each of the political subdivisions – the City, County and School System. They assign a portion of the liability to the quantitative factors within the criteria.

Mr. Keenan noted that OPERS is far above other state pension programs in terms of the funding.
Mr. Cooper responded that OPERS is doing quite well; he does not believe OPERS falls within the top 20 unfunded pensions. There has been significant focus on this issue in the last few years prior to the stock market uptake, and many of those factors will be re-evaluated.

Mr. Keenan noted that one of the earlier issues was the health insurance for retirees that was a significant obligation.
Ms. Mumma noted that a new accounting standard was put in place a couple of years ago that requires the City to put that unfunded liability on its balance sheet. The City receives information from each of the pension systems that we pay into – OPERS, Ohio Police and Fire, and we show that as a liability, even though it is not a City liability. For some entities, that can be significant, causing their net position to show negative. Fortunately, Dublin has sufficient capital assets to offset that. However, that number is reflected on the financial statements within the CAFR.
Mr. Keenan added that a few years ago, the City decided to encumber funding for the cashing out of sick time by employees.
Ms. Mumma responded that amount is assessed annually. The City's liability is not 100% funded, because not every employee will leave soon; a portion of the amount is set aside.

4. Over the last five years, has the City increased its Operating Budget expenses; if so, by what percentage?

Ms. Mumma responded that they have remained level, particularly in the last three years. There were a couple of large expenses, which were budgeted in the General Fund: the income tax

refund, the Rings Farm purchase, and the land for the Nationwide Building parking lot. Absent those purchases, the General Fund balance has been very level over the past three years.
Mr. Keenan stated that a large part of that has been payroll, and over the past five-seven years, there has not been much increase in the number of employees.

5. The City has the capability for more debt to be taken on; however, as we build more projects, we have more operating expenses. It is important to make sure payroll raises come as they should for our staff, and that maintenance of all amenities and services don't suffer. When we consider the debt for our Capital Projects, these items also need to be considered. We also have "operating" debt that will increase along with all these projects.
6. Although we can give the rating agencies the full faith and credit based on our citizens' property taxes, that is not what should be asked of the citizens. It is best for the City to manage its money appropriately.

Ms. Mumma responded that it is a very limited portion that is voted, and that will be retired in the next couple of years. The City has not had a need to do that, and we don't foresee that occurring.

<u>Vice Mayor Amorose Groomes:</u>

1. Referred to the slide showing the history of percentages of debt – what are the kinds of things the City has issued debt for in 1998 – 2002?

Ms. Mumma responded that for the debt that will be repaid in 2019-2020, it is the debt that was issued 20 years ago for projects such as the Avery-Muirfield Interchange, Rings Road, and many other roadway improvements.
Vice Mayor Amorose Groomes stated that these projects came about in response to the population growth that the City had experienced.
Mr. Keenan stated that, unlike many cities, the City's strategy was to build the infrastructure ahead of development.
Vice Mayor Amorose Groomes stated that the large debt was a result of the infrastructure improvements the City was making.

2. What have been the most valuable buildings in the City over the course of time? Her first job in the 1980s was in Metro Center. Metro Center Buildings 1, 2 3 and 4 were brand new, cutting edge and contemporary -- the way in which development was trending. What were the values of those buildings then versus today? Generally speaking, real estate becomes more valuable over time. However, some real estate becomes significantly more valuable than other types. We need to look at what kind of real estate has the most increase in value, and why. Conversely, what is on the lower end of those increasing values? With TIFs, we are relying on the value of those properties to hold beyond the 20-30 year TIF. Which of these buildings are most likely to hold and gain value, and which are likely to remain steady or perhaps decline in value?

Ms. Mumma stated that she would gather information on this topic.
Vice Mayor Amorose Groomes clarified that her interest is in knowing, over the course of Dublin's history, what have been our most valuable buildings when they were built versus today, and for which of those does the City have tax increment financing.
Ms. Alutto inquired if occupancy would be a part of that calculation.
Vice Mayor Amorose Groomes responded that she would assume that owner-occupied facilities, both commercial and residential, likely hold their value better. If the City is going to use TIFs, we need to ensure we are doing some with the assurance of the future values.

Mr. Keenan inquired if the building leases involve that type of cost analysis in terms of the value. From an appraisal perspective, commercial valuations reflect both market and replacement values.
Ms. Mumma responded that she does not know that the County's appraisal reflects that level of detail in establishing values. However, Council is interested in knowing the TIF value.
Mr. Keenan noted that the City receives very little of the property tax revenue from those buildings.
Vice Mayor Amorose Groomes responded that the City receives the TIF payments – that is how the City funds a significant portion of this debt.

Mr. Reiner stated that the Frantz Road commercial office buildings reflected a significant tax base for the City in the early years. For that reason, the City should be looking carefully at redeveloping that area to make it more valuable as Office rentals.

Ms. Alutto inquired:

1. Does the City have any debt that it shares with another agency?

Ms. Mumma responded that that with the SIB loan, which is part of the 270/US33 Interchange project, the City agreed to pay MORPC's interests costs. Those numbers can change as the project progresses. MORPC pays its principal. The City is responsible for its principal and interest and for MORPC's interest.

2. In the consideration of paying off debt early versus refinancing it, what criteria is considered?

Ms. Mumma responded that anytime the City can achieve a savings, that is the determining factor. Since she has been with the City, the most notable one that the City has refinanced or called was the Build America bonds. These involved three projects – a water tower, sewer project and roadway project -- that were refinanced at that point in time (2012). The general rule of thumb is that it would result in at least a three percent savings.

Mr. Cooper stated that the GFO recommendation is for a three—five percent savings on a net present value basis to determine whether to pay down debt early. The City would look at the alternate borrowing rate and the opportunity costs.
Ms. De Rosa stated that, according to the schedule, the City does not have much debt that is callable at this point.
Ms. Mumma responded that 2019 is the next year. To clarify, she is not sure that the SIB loan can be pre-paid; it may be possible. She will provide follow-up information on that.

Mr. Reiner, referring to the slide information, inquired why there is such a difference in the amount of debt that Westerville can absorb compared to Dublin.
Mr. Cooper responded that their debt limit is based on their tax base, the overall assessed value of the community. Westerville is likely smaller in land mass than Dublin.

Vice Mayor Amorose Groomes noted that Dublin's property valuation is $2 billion; Westerville's is $900 million.

Mr. Keenan inquired:

1. Do the rating agencies give different ratings, and does that occur often?

Mr. Cooper responded that it does occur; usually, it reflects a difference in one category.

2. The City has many checks and balances in terms of its policies. Do they recommend any specific changes in policies?

Mr. Cooper responded that they do not. They have reviewed the City's debt, investment and cash reserve policies; they are excellent. The City's debt policy is driven off its income tax dollars, and the City of Dublin has 100% flexibility on how those income tax dollars are deployed. Not every community has that. From a credit perspective, flexibility gives the most amount of corrective change possible. It allows the City to re-evaluate and re-deploy based on market conditions.

Ms. Mumma clarified that Westerville's assessed valuation is slightly over $1 billion, which is approximately half of Dublin's assessed valuation.

Ms. De Rosa inquired if there is any overview to share on the First Quarter report.
Ms. Mumma stated that all the information was included. In regard to the Income Tax revenues provided, not much stock is placed on what occurs January – March. The months of April and October are the two heavy income tax periods.
Mr. Keenan noted that most businesses file for an extension on March 15.
Ms. De Rosa stated that she was more interested in trends over the last five years, not the numbers. An extension would not be any different this year than that, would it?
Ms. Gibson responded that can depend. One is always looking at the end of the prior year versus the first quarter of this year. It depends on what payouts occur at the end of the year. We don't have any accurate picture until after April; that is when you can begin to project trends.
Ms. De Rosa responded that the analysis would be helpful, going forward.

Mr. Keenan thanked Finance staff for the excellent presentation. This information will be utilized and referenced over the next months and years.

There were no further comments.

The meeting was adjourned at 6:33 p.m.

_____
Clerk of Council

City of Dublin

Office of the City Manager
5200 Emerald Parkway • Dublin, OH 43017-1090
Phone: 614.410.4400 • Fax: 614.410.4490

Memo

To: Members of Dublin City Council
From: Dana L. McDaniel, City Manager
Date: June 7, 2018
Initiated By: Angel L. Mumma, Director of Finance
Re: Investment Policy

Summary

On Monday, June 11, 2018 at 5:30 p.m., the Finance Committee will hold a meeting for the purpose of discussing two topics - the City's investments and revenue projections. Attached for Council's review is a copy of the City's current Investment Policy, which was approved by City Council in 2013 and effective January 1, 2014.

Recommendation

Information only.

Attachments

CITY OF DUBLIN, OHIO
INVESTMENT POLICY

I. Introduction

The purpose of this investment policy is to establish the definition(s) of eligible investments of the City of Dublin, Ohio (hereinafter referred to as the "City"), including guidelines and parameters regarding the investment management of the City's investment funds [hereinafter referred to as the "Portfolio"]. This investment policy, as approved by City Council, shall serve to define authorized investments and eligible investment transactions of the City. Such eligible investments may be derived from, or based upon Chapter 135.14 ORC, and/or include certain other investments not authorized or defined under 135.14 ORC. Investments not defined under 135.14 ORC, but authorized pursuant to this investment policy, are considered as authorized investments of the City. That this Ordinance shall take effect and be in force in accordance with Section 4.04 (b) of the Dublin City Charter. This policy includes [totally or partially] sections of the statute in order to describe certain eligible investments. In some sections, the policy places further limits upon the use eligible investments or investment transactions.

II. Scope

This policy applies to all financial assets of the City of Dublin. Such funds are accounted for in the City's Comprehensive Annual Financial Report (CAFR), and includes all funds of the reporting entity.

III. INVESTMENT OBJECTIVES

The investment objectives of the City, in priority order, include:

A. *Safety of principal*

Safety of principal is the foremost objective of the investment program. The investment of City funds shall be conducted in a manner that seeks to ensure the preservation of capital within the context of the following criteria:

- Market risk (interest rate risk)

  The market value of securities in the City's portfolio will increase or decrease based upon changes in the general level of interest rates. The effects of market value fluctuations will be minimized by (1) maintaining adequate liquidity so that current obligations can be met without a sale of securities;(2) diversification of maturities; (3) diversification of assets.

- Credit Risk

  Credit risk is the risk of loss due to the failure of a security issuer to pay principal or interest, or the failure of the issuer to make timely payments of principal or interest. Eligible investments affected by credit risk include certificates of deposit, commercial paper, bankers acceptances, and corporate medium term notes. Credit risk will be minimized by (1) diversifying assets by issuer; (2) ensuring that required, minimum credit quality ratings exist prior to the purchase of commercial paper, bankers acceptances, and corporate medium term notes; and (3) maintaining adequate collateralization of certificates of deposit.

B. *Liquidity*

The portfolio shall remain sufficiently liquid to meet all current obligations of the City. Minimum liquidity levels [as a percentage of average investable funds] may be established in order to meet all current obligations. The portfolio may also be structured so that securities mature concurrently with cash needs.

C. Yield/Return

The portfolio shall be managed to consistently attain a market rate of return throughout budgetary and economic cycles. Whenever possible, and consistent with risk limitations and prudent investment management, the City will seek to augment returns above the market average rate of return through the implementation of active portfolio management strategies.

IV. Standards of Care

A. Prudence

Investments shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The standard of prudence to be used by investments officials shall be the "prudent person" standard and shall be applied within the context of managing an overall portfolio. Investment officers or registered investment advisors, acting in accordance with established procedures and the approved investment policy, and exercising due diligence, shall be relieved of responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

B. Delegation of Authority

Management responsibility for the investment program is hereby delegated to the Director of Finance pursuant to the City Charter. The Director of Finance shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director of Finance. The Director of Finance shall be responsible for all transactions undertaken and shall establish a system of internal controls to regulate the activities of subordinate officials.

C. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with the proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions with which they conduct business. They shall further disclose any personal financial or investment positions that could be related to the performance of the investment portfolio. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

V. Authorized Investments (itemized)

- U.S. Treasury Bills, Notes, and Bonds; various federal agency obligations including, but not limited to, obligations of Federal National Mortgage Association (FNMA), Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Bank (FHLB), Federal Farm Credit Bank (FFCB), Government National Mortgage Association (GNMA), and other agencies or instrumentalities of the United States. GNMA mortgage-backed, pass-through securities are considered as eligible investments of the City and are not subject to the definition of derivative securities, as defined under various sections of the Ohio Revised Code (ORC). Collateralized mortgage obligations (CMOs) of any kind are expressly prohibited. Eligible investments include securities that may be "called" by the issuer prior to the final maturity date. Any eligible investment may be purchased at a premium or a discount.

- Interim deposits in the eligible institutions applying for interim moneys as provided in Section 135.08 and 135.12 of the ORC. Certificates of deposit in excess of the amount insured by the Federal Deposit Insurance Corporation (FDIC) must be collateralized with at least a five percent excess market value amount to secure such certificates of deposit. The City may elect to use either 135.18 of the ORC (individual assignment method) or 135.181 of the ORC (pooling method) when requiring the pledge of eligible collateral to secure certificates of deposit or other deposits of the City. The City may elect to require a higher percentage of excess market value in pledged collateral to secure all deposits. -No-load money market mutual funds, as defined in 135.14(B)(5), rated in the highest category by at least one nationally recognized rating agency, investing exclusively in the same types of eligible securities

as defined in Division B(1) or B(2) under 135.14 ORC, and repurchase agreements secured by such obligations. Eligible money market funds shall comply with 135.01 ORC, regarding limitations and restrictions.

- Commercial paper issues of companies incorporated under the laws of the United States, rated in the highest category by two nationally recognized rating agencies. The maximum maturity of commercial paper shall be 270 days from the date of purchase.

- Bankers acceptances issued by any bank domiciled in the State of Ohio or bankers acceptances issued by any domestic bank, provided that such bank has a long term credit rating of A, or the equivalent, by a nationally recognized rating agency at the time of purchase.

- The combined total of commercial paper and bankers acceptances shall not exceed 25% of the average portfolio, based upon the calculation methodology approved by the Finance Director.

- Repurchase agreements with any eligible institution mentioned in section 135.03 ORC, or any eligible securities dealer pursuant to (M) of 135.14 ORC of this section, except that such eligible securities dealers shall be *restricted to primary government securities dealers.* Repurchase agreements will settle on a delivery vs. payment basis with collateral held at a qualified custodian or agent, designated by the City. Eligible repo collateral is restricted to securities listed in division (B)(1) or (B)(2) under 135.14 ORC. The market value of securities subject to an overnight written repurchase agreement must exceed the principal value of the overnight repurchase agreement by at least two per cent. A written repurchase agreement shall not exceed thirty days and the market value of securities subject to a written repurchase agreement must exceed the principal value of the written repurchase agreement by at least two percent and be market to market daily. Prior to the execution of any repo transaction, a master repurchase agreement will be signed by the City and the eligible parties.

- Medium term notes issued by a domestic corporation having assets in excess of $500 million, provided that such medium term notes have a maximum maturity of five years and are rated [at the time of purchase] by Standard & Poor's or Moody's under the following limitations:

Standard & Poor's		Moody's	
A+	(2-yr max maturity)	A1	(2-yr max maturity)
A	(2-yr max maturity)	A2	(2-yr max maturity)
A-	(2-yr max maturity)	A3	(2-yr max maturity)
AA+	(3-yr max maturity)	Aa1	(3-yr max maturity)
AA	(3-yr max maturity)	Aa2	(3-yr max maturity)
AA-	(3-yr max maturity)	Aa3	(3-yr max maturity)

AAA (maturities > 3 years) Aaa (maturities > 3 years)

If a security has a split rating, the higher of the two ratings shall be used to determine the eligibility for investment purposes. In no event shall a corporate security [at the time of purchase] be rated less than A- by Standard & Poor's or less than an A3 by Moody's.

The aggregate total of all corporate medium term notes shall not exceed 15% of the total average portfolio, as determined and calculated by the Director of Finance. Commercial paper and bankers acceptances shall not be included when calculating the fifteen percent maximum limit. No more than five percent of the total average portfolio shall be invested in a single issuer. Commercial paper and bankers acceptances shall be considered when calculating the maximum holdings in any single issuer.

- The state treasurer's investment pool [STAR OHIO], pursuant to Section 135.45 ORC, or any other investment option offered to Ohio political subdivisions by the Treasurer of the State of Ohio.

- Bonds and other obligations of the State of Ohio, various issuances of the agencies of the State of Ohio, and obligations or debt issuances of any Ohio political subdivision, including the City of Dublin, Ohio. Except for obligations of the City of Dublin, Ohio, all such debt issuances will have a minimum credit rating of AA, or the equivalent, by a nationally recognized rating agency, at the time of purchase. Except for obligations of the City, obligations of the State of Ohio or obligations of any agency of the State of Ohio, or obligations of any Ohio political subdivision may not be purchased as private placements.

- The use of derivative securities, as defined in 135.14 (C), is expressly prohibited except where certain exemptions to the definition of derivative securities is defined in this investment policy. Such exemptions to the definition of derivative securities include stripped principal or interest obligations of the United States Treasury or stripped principal or interest obligations of any federal agency, obligations of the Government National Mortgage Association (GNMA) mortgage-backed securities, or asset-backed commercial paper shall not be considered as derivative investments.

- All eligible investments will mature within five years from the date of settlement, unless the investment is matched to a specific obligation or debt of the City, and the investment is specifically approved by the Director of Finance.

VI. Safekeeping and Custody

Securities purchased for the City will be held in safekeeping by a qualified trustee (hereinafter referred to as the "Custodian"), as provided in Section 135.37 ORC. Securities held in safekeeping by the custodian will be evidenced by a monthly statement describing such securities. The

custodian may safekeep the City's securities in (1) Federal Reserve Bank book entry form; (2) Depository Trust Company (DTC) book entry form in the account of the custodian or the custodian's correspondent bank; or (3) Non-book entry (physical) securities held by the custodian or the custodian's correspondent bank. All securities transactions will settle using standard delivery-vs-payment (DVP) procedures. The records of the custodian shall identify such securities in the name of the City. Broker/dealer firms used by the City or broker/dealer firms used by the City's designated investment advisor to purchase or sell investment assets shall not hold any such investment assets in safekeeping. All investment assets of the City will be held in safekeeping by a custodian bank where such custodian bank and the City have entered into a custodian agreement.

VII. Director of Finance and an Investment Advisory Committee

The City may establish an investment advisory committee which shall meet quarterly to review the investment portfolio of the City. Specific areas of review include the investment inventory, transactions for the period, and realized income.

Any amended policy that has been approved by the City Council shall be filed with the Auditor of State.

VIII. Internal Controls

The Director of Finance is responsible for establishing and maintaining an internal control structure designed to reasonably ensure that the investment assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurances that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and, (2) the valuation of costs and benefits requires estimates and judgments by management.

The Director of Finance shall establish a process for annual independent review by an external auditor. This review will provide internal control by assuring compliance with policies and procedures.

IX. Pooling of Funds

The Director of Finance is authorized to pool cash balances from the several different funds of the City for investment purposes. Interest and other portfolio income will be credited to the fund proportionate to the amount invested.

X. Investment Accounting and Portfolio Reporting

The City shall maintain an inventory of all portfolio assets. A description of each security will include security type, issue/issuer, cost [original purchase cost or current book value], par value [maturity value], maturity date, settlement date [delivery versus payment date of purchased or sold securities], and any coupon [interest] rate. The investment report will also include a record of all

security purchases and sales. Regularly issued reports will include a monthly portfolio report and a quarterly portfolio report to the Director of Finance, detailing the *current* inventory of all securities, all investment transactions, any income received [maturities, interest payments, and sales], and any expenses paid. The report will also include the purchase yield of each security, the average-weighted yield and average-weighted maturity of the portfolio. The portfolio report shall state the name(s) of any persons or entity effecting transactions on behalf of the City. Any premium paid over par may be amortized equally during the life of the investment as a deduction from semi-annual or annual interest payment(s) received each year, or such premium paid may be amortized at the final maturity date of the investment. Any discount from par will be recognized at the final maturity date of the investment.

XI. Investment Advisors, Qualified Dealers and Financial Institutions

The City may retain the services of a registered investment advisor. The investment advisor will manage the City's portfolio, or a portion thereof, and will be responsible for the investment and reinvestment of City's investment assets, including the execution of investment transactions. Upon the request of the Director of Finance, the investment advisor will attend meetings and/or City Council meetings to discuss all aspects of the City's portfolio, including market conditions affecting the value of the City's investments. The investment advisor will be required to issue monthly and quarterly portfolio reports as defined under section VIII of this investment policy ["Portfolio Reporting"].

The investment advisor may transact business (execute the purchase and/or sale of securities) with eligible Ohio financial institutions, primary securities dealers regularly reporting to the New York Federal Reserve Bank, and regional securities firms or broker dealers licensed with the Ohio Department of Commerce, Division of Securities, to transact business in the State of Ohio.

Broker/dealers and financial institutions transacting investment business with the City are required to sign the approved investment policy as an acknowledgment and understanding of the contents of said policy.

Under no circumstance will brokers or broker/dealer firms act as an investment advisor or in a similar capacity as an investment advisor, either directly or indirectly, if such broker/dealers participate in transaction business (purchase and sale of securities) with the City of the City's designated investment advisor.

XII. Sale of Securities Prior to Maturity

Portfolio assets may be liquidated or sold prior to maturity under the following conditions:

(1) To meet additional liquidity needs
(2) To purchase another security to increase yield or current income
(3) To lengthen or shorten the portfolio's average maturity
(4) To realize any capital gains and/or income

(5) To adjust the portfolio's asset allocation

Such transactions may be referred to as a "sale and purchase" or a "bond swap". For purposes of this section, redeemed shall also mean "called" in the case of a callable security.

XIII. Procedures for the Purchase and Sale of Securities

Securities will be purchased or sold through approved broker/dealers on a "best price and execution" basis. All such investment transactions, executed by the City's designated investment advisor, will be communicated electronically or by facsimile transmission to the Director of Finance or to an authorized representative, designated by the Director of Finance. A purchase or sale of securities will be represented by transaction advices issued by the City's investment advisor which will describe the transaction, including par value, coupon (if any), maturity date, and cost. A facsimile transmission or electronic advice will also be sent to the City's designated custodian bank and will serve as an authorization to such custodian to receive or deliver securities versus payment. Confirmation advices, representing the purchase or sale of securities, will be issued by the eligible broker/dealer and sent to the investing authority. Copies of such advices will be sent to the City's investment advisor.

XIV. Statements of Compliance

This investment policy has been approved by the investing authority and the governing board and filed with the Auditor of State, pursuant to 135.14 (N)(1) ORC.

The investment portfolio will be managed in accordance with the parameters specified within this policy. Performance of the portfolio will be periodically monitored and compared to an appropriate benchmark.

All brokers, dealers, and financial institutions executing transactions initiated by the City or the City's investment advisor have signed the approved investment policy. Investment policies [signed by such brokers, dealers, and financial institutions] have been filed with the City. The City's investment advisor is registered with the Securities and Exchange Commission and possesses public funds investment management experience, specifically in the area of state and local government investment portfolios. The investment advisor has additionally signed the approved investment policy and the signed policy is filed with the Director of Finance.

The Director of Finance will be responsible for providing regular reports to City Council. Such reports will accurately describe all portfolio assets, including transaction activity for the period. The City's investment policy shall be adopted by Ordinance and modifications must be approved by City Council.

Any amendments to this policy will be filed with the Auditor of State [Attn: Clerk of the Bureau, P.O. Box 1140, Columbus, OH, 43216-1140] within fifteen days of the effective date of the amendment.

The following broker/dealer [or financial institution] has signed, herein, this approved

investment policy, having read the policy's contents thereby acknowledging comprehension and receipt:

_____ _____

Name of Registered Representative Date
Financial Institution Representative
Registered Investment Advisor

For: _____
(Name of Organization)