VILLAGE OF BROADVIEW
DEBT MANAGEMENT POLICY

1. **Administration of debt policy:** The Finance Director and/or the Treasurer of the Village of Broadview (the "Village") is charged with overseeing and implementing the provisions of this policy. It shall be his/her specific responsibility to recommend to the Village President (Mayor) and the Village Board the selection of any external agents (bond counsel, financial advisors, underwriters, arbitrage rebate consultants, paying agents, trustees, printers, etc.), to review the proposed annual capital expenditures and financing plan, to recommend specific projects for debt financing, to participate as members of the financing team in the issuance of any debt obligations of the Village, and to ensure all continuing disclosure requirements are met following the sale of bonds. The Finance Director and/or the Treasurer of the Village are responsible for administration of the Village's financial policies. The Village President (Mayor) and Village Board is responsible for the approval of any form of the Village's borrowing and the details associated therewith. Unless otherwise designated, the Finance Director coordinates the administration and issuance of debt.

2. **Purpose and Objective:** The adoption of a written debt policy by the Village President (Mayor) and Village Board and its active use help ensure a consistent approach to debt issuance which will benefit existing and future holders of Village debt. Access to capital markets at reasonable interest rates and credit terms is a fundamental goal that is facilitated through the adoption of appropriate debt policies taking into consideration the amount and types of fixed and variable rate debt given the Village's risk tolerance to market fluctuations, capital market outlook, future capital needs, credit, rating agency considerations, tax implications and industry competition.

3. **Scope:** This policy shall apply to all debt obligations of the Village, whether for the purpose of acquisition or construction of Village assets and the refunding of existing debt.

4. **Exceptions:** Exceptions to this policy will be approved by the Village President (Mayor) and Village Board.

5. **Reporting Practices:** The Finance Director and/or Treasurer shall also respond to all inquiries from creditors, investors, and rating agencies in a complete and prompt fashion.

6. **General Debt Issue Policies:**

a. **Structure:** The Village's capital structure would only consist of fixed rate financial instruments. The risks associated with any given structure and the financial instruments used shall be fully explained to those who must decide and approve any final financing structure.

b. **Borrowing**: The Village Board shall have the authority to borrow money, contract loans and issue bonds in accordance with the provisions of the Constitution of the State of Illinois and the general laws of the state. However, approval by voter referendum shall be required prior to the issuance of any of the following categories of bonds per the Village Charter:

1. General obligation bonds which pledge the full faith and credit of the taxing power of the Village,
2. Revenue bonds intended to finance enterprises or projects which involve the purchase, lease and/or acquisition of real property by the Village or agencies thereof, or
3. Revenue bonds which pledge specific non ad valorem taxes as the primary source(s) of revenue to pay principal and interest and which have a principal value in excess of one (1) million dollars. This dollar limitation shall be adjusted annually as of the end of each fiscal year in accordance with changes in the cost of-living index as published by the federal government. Revenue bonds issued to finance the purchase, lease and/or acquisition of park real property and/or park projects by the Village or agencies thereof would not be limited by this requirement.

6. **General Debt Issue Policies: (continued)**

c. **Pay-As-You-Go:** The Village will strive to maintain a high reliance on pay-as-you go financing for its capital improvements and capital assets.

d. **General Obligation Debt Levels:** As a goal, the Village will maintain its net general obligation bonded debt at a level not to exceed 8.65% of the assessed valuation of taxable property within the Village unless otherwise directed by the Village President and Village Board.

e. **Reserves:** The Village will maintain revenue bond reserves to comply with the covenants of the bond issues and ensure adherence to federal arbitrage regulations.

f. **Purpose and Projects:** Long-term borrowing will not be used to finance current operating expenditures. However, this does not preclude the Village from using debt to meet short-term operating needs in the event of an emergency such as a natural or man-made disaster.

g. **Term:** The following guidelines should govern the issuance of new money financing.

- The maturities of debt will be equal to or less than the useful economic life of the item financed.
- Where practicable the debt service structure on new money financing should be level debt service if economically feasible.
- The use of credit enhancement should be evaluated on a maturity-by-maturity basis and only used where the economic benefits exceed the costs of issuing rated or unrated debt obligations.
- Call features should be utilized when prudent in order to provide future flexibility.
- The use of a fully funded debt service reserve should always be evaluated against the use of a surety or other debt service reserve product.

6. **General Debt Issue Policies: (continued)**

h. **Bond Insurance:** Bond insurance is an insurance policy purchased by an issuer or an underwriter for either an entire issue or specific maturities, which guarantees the payment of principal and interest. This insurance provides a higher credit rating and must result in a lower borrowing cost for an issuer after consideration of the premium rate and underlying ratings. Bond insurance can be purchased directly by the Village prior to the bond sale (direct purchase) or at the underwriter's option and expense (bidder's option). When insurance is purchased directly by the Village, the present value of the estimated debt service savings from insurance should be at least equal to or greater than the insurance premium. The bond insurance company will usually be chosen based on an estimate of the greatest net present value insurance benefit (present value of debt service savings less insurance premium). Credit enhancement may take other forms such as Letters of Credit (LOC) or other securitization products and may be used if economically beneficial to the Village.

i. **Credit Ratings:** Credit ratings have wide investor acceptance as tools for differentiating credit quality of investments. The Village shall attempt to continually improve its credit ratings. Comprehensive annual credit rating reviews should be provided to the rating agencies as well as periodic updates and ongoing communication of events affecting the Village's overall credit, including asset and liability management issues.

j. **Non-Rated:** Non-rated securities may be issued if the credit rating on the issue does not perform any economic benefit or add any value to capital market participants.

k. **Tax Status:** The Village has traditionally issued tax-exempt debt which results in significant interest cost savings compared with the interest cost on taxable debt. Accordingly, all of the Village's debt should be issued to take advantage of the exemption from federal income taxes unless prohibited by federal law or applicable federal regulations.

6. **General Debt Issue Policies: (continued)**

l. **Subordinated Debt:** The lien status and credit rating on this type of debt is inferior and protection to the bondholder is lower, therefore, this type of debt should be minimized to reduce the Village's overall borrowing costs, unless it is the only method available to finance a project. There may be occasions when this type of debt is issued for potential restructuring reasons, when current senior-lien debt covenants are undesirable and this debt is soon to be retired or refunded.

m. **Capital Leasing:** Over the lifetime of a lease, the total cost to the Village will generally be higher than purchasing the asset outright. As a result, the use of lease/purchase agreements and certificates of participation in the acquisition of vehicles, equipment and other capital assets shall generally be avoided, particularly if smaller quantities of the capital asset(s) can be purchased on a "pay-as-you-go" basis.

n. **Callable Bonds:** Call provisions on bonds provide future flexibility to refinance or restructure debt and eliminate onerous covenants. Consequently, the Village shall attempt to always have call provisions on its debt. Call provisions on each transaction should be analyzed upon marketing the bond issue and determined at the time, upon recommendation of the Financial Advisor.

o. **Refunding Criteria:** Generally, the Village issues refunding bonds to achieve debt service savings on its outstanding bonds by redeeming high interest rate debt with lower interest rate debt. Refunding bonds may also be issued to restructure debt or modify covenants contained in the bond documents. Current tax law limits to one time the issuance of tax-exempt advance refunding bonds to refinance bonds issued after 1986. There is no similar limitation for tax-exempt current refunding bonds. The following guidelines should apply to the issuance of refunding bonds, unless circumstances warrant a deviation therefrom:

- refunding bonds should generally be structured to achieve level annual debt service savings;

6. **General Debt Issue Policies: (continued)**

- the life of the refunding bonds should not exceed the remaining life of the bonds being refunded or the assets financed, whichever is longer;

- in the case tax-exempt advance refundings are allowed for in the future advance refunding bonds issued to achieve debt service savings should have a minimum target savings level measured on a present value basis equal to 5% of the par amount of the bonds being refunded;

- current refunding bonds issued to achieve debt service savings should have a minimum target savings level measured on a present value basis equal to 3% of the par amount of the bonds being refunded;

- refunding bonds which do not achieve debt service savings may be issued to restructure debt or provisions of bond documents only if such refunding serves a compelling Village interest or under extraordinary conditions.

p. **Debt Service Coverages:** Debt service coverages shall conform to bond resolutions and remain at those levels to ensure that the Village's credit rating is not diminished.

7. Method of Sale: The Village's policy is to sell public debt using the method of sale expected to achieve the best result, taking into consideration short-term and long-term implications. The following section of this policy is intended to ensure that the most appropriate method of sale is selected in light of financial, market, transaction-specific and issuer conditions.

a. Competitive vs. Negotiated Preference: Competitive method sale should be preferred and considered when the following conditions are present:
   - The Village has been a stable and regular borrower in the public market.
   - There is an active secondary market for the Village's debt.
   - The Village has an underlying credit rating of A or above.
   - The issue is neither too large to be absorbed by the market or too small to attract
   - investors.
   - The issue is not composed of complex or innovative features.
   - Interest rates are stable, market demand is strong and the market is able to absorb reasonable levels of buying and selling with reasonable price reliability.

7. **Method of Sale: (continued)**

If conditions for a competitive bond sale are not available then the following practice will apply to negotiated bond sales:

- A competitive underwriter-selection process that ensures that multiple proposals are considered will be used.
- The Finance Director and/or Treasurer and the Financial Advisor will remain actively involved in Each step of the negotiation and sale processes to uphold the public trust.
- The Finance Director and/or Treasurer and Financial Advisor, who are familiar with and abreast of the condition of the municipal market shall assist in structuring the issue, pricing, and monitoring sales activities. The Financial Advisor will submit recommendations regarding the method of sale, structure and timeline of events for the issue to the Village in written form.

b. **Financial Advisor Serving as Underwriter:** The financial advisor to the Village may not act as underwriter on any loan, bond or other undertaking of the Village of Broadview. Additionally, no affiliate of the financial advisor shall act as an underwriter on any financial undertaking, issue or bond of the Village of Broadview unless the loan, bond or other undertaking is competitively bid through a process that does not give an affiliate of the financial advisor an advantage. For purposes of this policy, an affiliate of the financial advisor would include a subsidiary, division, holding company, sister corporation, or partner of the financial advisor. Additionally, a firm that has acted as a financial advisor to the Village of Broadview or any affiliate thereof may be an underwriter if the firm is not under contract or retained to be the financial advisor to the Village at the time of the issue or bond.

c. **Private Placements:** The Village may determine to seek funding by way of a private placement or bank loan where the size and structure of the borrowing does not warrant the issuance of publicly offered debt. The Village's Financial Advisor will compare the overall

7. **Method of Sale: (continued)**

costs of a private placement with those of a public offering and recommend the most cost effective approach. In the event the Village chooses to use a negotiated or private placement sale, staff shall document the reasons this method was chosen.

8. Capital Improvement Plan

The Finance Department will prepare, as part of the annual budget process, a Capital Improvement Plan that will be submitted to the Village Board for approval. Such Capital Improvement Plan will address at a minimum the amount of debt projected to be issued during the next five fiscal years.

Factors to be considered in the final projections are:

- The forecast of spending levels for capital projects.
- The availability of internal funds to pay for capital projects.
- Desired debt service coverage levels consistent with a highly-rated municipality.
- The additional bonds test calculation outlined in the applicable bond ordinances or
- related documents.

9. Fixed Rate Debt

a. Overview: Fixed rate debt is authorized to finance capital projects and for any other allowable purpose as stipulated in the governing bond ordinances and tax regulations.

b. Type: The Village may issue any type of fixed rate debt as authorized by the Village's various bond ordinances and recommended by the Village's Financial Advisor.

c. Maturity, Structure, and Call Provisions: Prudent debt management requires that there be a proper matching of the lives of the assets and the length of the debt, whether taxable or tax-exempt, used to finance such asset. In addition, the Village will, at all times, structure the amortization and maturity of any fixed rate debt to comply with the appropriate tax regulations. To provide the maximum amount of flexibility, the Village will utilize call provisions whenever

9. Fixed Rate Debt (continued)

possible. Village staff, along with the financial advisor and underwriter, will assess the market at the time of pricing to determine its ability to issue bonds with such features while minimizing interest costs.

d. Providers: The Village is allowed to sell debt by either negotiated sale or competitive bid. The determination of the method is to be made prior to each financing. If the Village selects the "competitive sale" method, determination of the winning bid will be based on the underwriting firm with the lowest True Interest Cost (TIC) proposal. The Village will employ staff or an outside professional financial advisor, other than the underwriter, who is familiar with and abreast of the conditions of the municipal market, and is available to assist in structuring the issue, pricing, and monitoring of sales activities. The Village shall not use a firm to serve as both the financial advisor and underwriter. Selection of underwriters, financial advisors, bond counsel, and other necessary consultants involved in the debt transactions will be selected as outlined in the Village Purchasing Policy.

e. Debt Service Reserve Fund: Unless otherwise recommended by the Village's financial adviser and approved by the Village President (Mayor) and Village Board, a debt service reserve fund will be funded, maintained, and held for the benefit of bondholders as specified in the ordinance authorizing the sale of the bonds to pay principal and/or interest on the bonds should revenues from operations not be sufficient for such purpose in accordance with the appropriate bond ordinance. The debt service reserve fund may be in the form of cash and/or investments funded from the proceeds of bonds and/or revenues from operations or other pledged sources. The Village will weigh the benefits of each method of funding the debt service reserve fund prior to each issue and will choose the method most beneficial to the Village based upon the facts and circumstances of each issue.

9. Fixed Rate Debt (continued)

f. Approvals: The structure, maturity, and call provisions for each fixed rate financing must be approved by the Finance Director or designee on or prior to the date of pricing. Negotiation with the underwriter on negotiated bond transactions will be conducted by the Financial Advisor. Final transaction approval must be obtained from the Village Board.

g. Compliance/Reporting Requirements: All outstanding debt will be reported annually in the CAFR as required by generally accepted accounting principles. The Village will monitor and report any arbitrage rebate liability due to the U.S. Treasury on bond proceeds from fixed rate transactions.

10. Investment of Bond Proceeds: The proceeds of the bond sales will be invested until expended for the intended project in order to maximize the utilization of the public funds. The investments will comply with the Village's investment policy unless superseded by a bond covenant or related agreement. All bond proceeds shall be invested in manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issue. Bond proceeds to be used for the construction or acquisition of the capital assets shall be conservatively invested according to draw schedules which will be amended as needed.

11. Continuing Disclosure Requirements: The Finance Director and/or Treasurer with the assistance of the Financial Advisor and Bond/Disclosure Counsel will produce all the necessary documents for disclosure. All debt issues will meet the disclosure requirements of the Securities and Exchange Commission and other government agencies before and after the bond sales take place. The Village's CAFR will be the primary vehicle for compliance with the continuing disclosure requirements. The CAFR may be supplemented with additional documentation if necessary. The Village will follow a policy of "full disclosure" in its CAFR and bond official statements. The Finance Director will be responsible

11. Continuing Disclosure Requirements: (continued)

for filing the CAFR and providing disclosure on the status of all material events to the Municipal Securities Rulemaking Board, (MSRB) via the Electronic Municipal Market Access (EMMA) system.

12. Effective Date

This Policy will become effective upon adoption by the Village President (Mayor) and Village Board. This Policy shall be reviewed on an annual basis and amended as necessary with the approval of the Village Board.

Definitions

Advance Refunding - A bond is treated as issued to advance refund another bond if it is issued more than 90 days before the redemption of the refunded bond.

Amortization Risk – the potential cost to the issuer resulting from a mismatch between the outstanding underlying bond amortization and the outstanding notional amount of the swap.

Basis Risk – movement in the underlying variable rate indices may not be perfectly in tandem, creating a cost differential that could result in a net cash outflow from the issuer. Also, a mismatch can occur in a swap with both sides using floating, but different, rates.

SIFMA Index – The Securities Industry and Financial Markets Association Swaps Index, the principal benchmark for the floating rate payments for tax-exempt issuers. The index is a national rate based on a market basket of high-grade, seven-day tax-exempt variable rate bond issues.

Commercial Paper Note - shall mean any Bond which has a maturity date which is not more than 270 days after the date of issuance thereof.

Competitive Bid - a method of submitting proposals for the purchase of new issue of municipal securities by which the securities are awarded to the underwriting syndicate presenting the best bid according to stipulated criteria set forth in the notice of sale.

Counterparty risk – the risk that the other party in the derivative transaction fails to meet its obligations under the contract.

Credit Enhancement - shall mean, with respect to the Bonds of a Series, a maturity within a Series or an interest rate within a maturity, the issuance of an insurance Policy, letter of credit, surety bond or any other similar obligation, whereby the issuer thereof becomes unconditionally obligated to pay when due, to the extent not paid by the Village or otherwise, the principal of and interest on such Bonds.

Credit Support Annex - is a standard supporting document that is made part of the ISDA Master Swap Agreement that governs the use of posting collateral when required.

Current Refunding - A bond is treated as issued to current refund another bond if the refunding issue is issued not more than 90 days before the redemption of the refunded bond.

Hedge – a transaction entered into to reduce exposure to market fluctuations.

Letter of Credit (LOC) – A financial product generally purchased from a bank to provide credit enhancement and liquidity on variable rate bonds.

Medium Term Note - any bond which has a maturity date which is more than 365 days, but not more than 15 years, after the date of issuance and is designated as a medium term note in the supplemental ordinance authorizing such bond.

Negotiated Sale - the sale of a new issue of municipal securities by an issuer through an exclusive agreement with an underwriter or underwriting syndicate selected by the issuer.

Tax Event Risk - the risk that tax laws will change, resulting in a change in the marginal tax rates on swaps and their underlying assets or, in a more extreme situation, remove the tax-exempt status of the issue and, therefore, its contractual obligations priced as tax-exempt facilities.

True Interest Cost - is the rate, compounded semi-annually, necessary to discount the amounts payable on the respective principal and interest payment date to the purchase price received for the bonds.

Variable Rate Bond - shall mean any Bond not bearing interest throughout its term at a specified rate or specified rates determined at the time of initial issuance. while in the flexible or term mode. The frequency of a change in the interest rate of a variable rate demand obligation is based upon the particular mode the security is in at the time.