



Debt Management Policy In Accordance With NRS 350.013

June 30, 2016

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DEBT MANAGEMENT POLICY

SECTION I DEBT MANAGEMENT POLICY

NRS 350.013 (1) (c)

Listed below are excerpts from Nevada Law which requires local governments to submit a debt management policy:

350.013 Municipalities to submit annually statement of current and contemplated general obligation debt and special elective taxes, statement of debt management policy, plan for capital improvement or alternate statement and certain information regarding chief financial officer; update of information; exceptions.

1. Except as otherwise provided in this section, on or before August 1 of each year, the governing body of a municipality which proposes to issue or has outstanding any general obligation debt, other general obligations or special obligations, or which levies or proposes to levy any special elective tax, shall submit to the department of taxation and the commission:

- (c) A written statement of the debt management policy of the municipality; which must include, without limitation:
 - 1) A discussion of its ability to afford existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt;
 - 2) A discussion of its capacity to incur authorized and proposed future general obligation debt without exceeding the applicable debt limit;
 - 3) A discussion of its general obligation debt that is payable from property taxes per capita as compared with such debt of other municipalities in this state;
 - 4) A discussion of its general obligation debt that is payable from property taxes as a percentage of assessed valuation of all taxable property within the boundaries of the municipality;
 - 5) Policy regarding the manner in which the municipality expects to sell its debt;
 - 6) A discussion of its sources of money projected to be available to pay existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt; and
 - 7) A discussion of its operational costs and revenue sources, for the ensuing 5 fiscal years associated with each project included in its plan for capital improvement submitted pursuant to paragraph (d), if those costs and revenues are expected to affect the tax rate.

This document is intended to meet the requirements of NRS 350.013 subsection 1 (c), it is not a review of the Truckee Meadows Water Authority's ("TMWA") total financial position.

General Policy Statement

The purpose of the Truckee Meadows Water Authority's Debt Management Policy is to manage the issuance of TMWA's debt obligations and maintain the ability to incur debt and other long-term obligations at favorable interest rates for capital improvements, facilities, and equipment that are beneficial to the residents of TMWA's service territory.

Ability to Afford Existing, Future and Proposed General Obligation Debt

Response to NRS 350.013 (1) (c)

- (1) A discussion of its ability to afford existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt; and
- (6) A discussion of its sources of money projected to be available to pay existing general obligation debt, authorized future general obligation debt and proposed future general obligation debt.

TMWA has authority pursuant to a cooperative agreement entered into pursuant to Nevada state statutes to issue special obligation bonds. TMWA does not have the authority to issue general obligations.

Bonded Indebtedness

The following table illustrates the outstanding bond issues currently being supported by operational revenues at June 30, 2016.

SPECIAL OBLIGATION BONDS				
SUPPORTED BY NET REVENUES				
Truckee Meadows Water Authority				
June 30, 2016				
		Issuance	Original	Amount Outstanding
		Date	Amount	June 30, 2016
Drinking Water SRF Loan, Series 2005		11/22/2006	\$4,669,565	\$2,613,745
TMWA Water Revenue Refunding Bonds, Series 2006		06/06/2006	150,745,000	400,000
Water Revenue Commercial Paper Notes, Series 2006A & Series 2006B		08/10/2006	148,600,000	87,800,000
TMWA Water Revenue Refunding Bonds, Series 2007		01/18/2007	218,975,000	214,290,000
DWSRF American Recovery and Reinvestment Act Loan, Series 2009		08/14/2009	2,401,120	1,669,528
Drinking Water SRF Loan, Series 2010		02/11/2010	4,381,614	3,772,012
Drinking Water SRF Loan, Series 2014		12/31/2014	9,109,437	7,965,667
TMWA Water Revenue Refunding Bond, Series 2015		04/09/2015	28,750,000	28,750,000
Drinking Water SRF Loan, Series 2015		01/01/2015	15,000,000	8,239,034
TMWA Water Revenue Refunding Bond, Series 2016		04/01/2016	124,790,000	124,790,000
Total				\$480,289,986
SOURCE: Truckee Meadows Water Authority				

Bonds Are Special Obligations of the Authority

The principal of and interest on the Bonds is payable solely from and secured by an irrevocable pledge of the Net Revenues derived by TMWA from the operation of the Water System, together with certain interest income and other amounts as provided in the Bond Resolution. The Bonds constitute an irrevocable pledge of the Net Revenues and the Bond Fund and the Reserve Account established by the Bond Resolution. The Bonds do not constitute a general obligation of TMWA. Owners of the Bonds may not look to any funds or accounts of TMWA other than those specifically pledged to the payment of the Bonds. The Bonds do not constitute a debt of the City of Reno, the City of Sparks, Washoe County, or the State of Nevada. TMWA has no taxing power. Payment of the Bonds is dependent upon the generation of sufficient Net Revenues of the Water System.

The Truckee Meadows Water Authority's guidelines for the execution and management of interest rate swaps or similar products ("Swap Products") and related transactions to meet the financial and management objectives of the Authority are included as Appendix A.

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Current and Proposed Debt Service Requirements

The following table illustrates the debt service to maturity on TMWA's currently outstanding special obligation bonds, the Drinking Water State Revolving Fund (the "DWSRF") loans and the Drinking Water American Recovery and Reinvestment Act loan. During Fiscal Year 2016-17, the Authority proposes to complete the following transactions:

1. A proposed refunding of the TMWA Water Revenue Refunding Bonds, Series 2007 in the amount of \$218,975,000. It is anticipated that a continued favorable interest rate environment will yield very significant future interest savings and lower the total debt of TMWA.

Further, if an unanticipated need arises, TMWA reserves its authority to pursue additional debt consistent with applicable Nevada Revised Statutes. These bonds and loans are supported by Net Revenues.

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NET REVENUE SUPPORTED BY DEBT (1)(2)(3)
Currently Outstanding Bonds and Loans
Truckee Meadows Water Authority
June 30, 2016

Fiscal Year Ending June 30	Currently Outstanding		Proposed SRF Loan Series 2015 A		Total
	Principal	Interest	Principal	Interest	
2017	\$14,162,712	\$15,639,162	129,669.67	167,168.00	\$30,098,712
2018	3,099,653	17,019,896	264,457.61	172,019.04	\$20,556,026
2019	3,381,970	16,917,930	271,431.79	165,044.87	\$20,736,376
2020	3,350,676	16,807,223	278,589.87	157,886.77	\$20,594,376
2021	17,605,814	16,403,854	285,936.74	150,539.91	\$34,446,145
2022	17,947,425	15,685,375	293,477.35	142,999.30	\$34,069,276
2023	19,135,552	14,920,229	301,216.83	135,259.83	\$34,492,257
2024	19,925,241	14,113,352	309,160.40	127,316.25	\$34,475,070
2025	20,761,539	13,272,223	317,313.45	119,163.20	\$34,470,239
2026	19,185,142	12,428,128	325,681.52	110,795.13	\$32,049,747
2027	21,140,097	11,552,836	334,270.26	102,206.38	\$33,129,409
2028	22,090,638	10,590,719	343,085.51	93,391.14	\$33,117,834
2029	23,066,784	9,585,249	352,133.22	84,343.42	\$33,088,509
2030	24,041,718	8,534,468	361,419.55	75,057.10	\$33,012,663
2031	24,612,047	7,441,189	370,950.76	65,525.89	\$32,489,712
2032	25,653,968	6,251,930	380,733.33	55,743.32	\$32,342,375
2033	26,936,204	4,948,444	390,773.88	45,702.77	\$32,321,125
2034	28,268,762	3,579,886	401,079.22	35,397.43	\$32,285,125
2035	29,671,652	2,143,246	411,656.32	24,820.33	\$32,251,375
2036	10,014,881	1,163,267	422,512.36	13,964.29	\$11,614,625
2037	10,232,510	662,939	215,416.37	2,821.95	\$11,113,687
2038	8,205,000	205,125			\$8,410,125
Total	\$392,489,987	\$219,866,670	\$6,760,966	\$2,047,166	\$621,164,788

Totals may not add due to rounding.

(1) Currently Outstanding Combined Debt includes Series 2006, 2007, 2015, 2016 and the DWSRF Loans Series, 2005, 2010, 2014, 2015 draws to date and DWSRF ARRA Loan, Series 2009.

(2) Excludes debt service for the Water Revenue Commercial Paper Notes, Series 2006A and 2006B. The outstanding amount at June 30, 2016 is \$87,800,000.

(3) Proposed Debt includes anticipated remaining draws for DWSRF Loan Series 2015A.

Operational Costs and Revenue Sources

The TMWA revenues and expenses are accounted for in an Enterprise Fund. TMWA has no General Fund or any other Governmental Fund. It is anticipated that the operational costs associated with TMWA's capital improvement program will be paid from the Enterprise Fund for the next five years and beyond. The revenues that support TMWA's Enterprise Fund that are currently in place are expected to continue. It is the policy of TMWA to review water service rates and facility charges annually.

Debt Capacity

Response to NRS 350.013 (1) (c):

- (2) *A discussion of its capacity to incur authorized and proposed future general obligation debt without exceeding the applicable debt limit.*

Introduction and Purpose

Analysis of TMWA's debt position is important, as growth in the service territory has resulted in an increased need for capital financing. The Debt Capacity Analysis is premised on the idea that resources, as well as need, should drive TMWA's debt issuance program. Proposed long-term financings are linked with the economic, demographic and financial resources expected to be available to pay for that debt. The primary emphasis of the analysis is the impact of TMWA's projected capital financing requirements on the credit quality of its debt obligations. TMWA strives to ensure that, as it issues further debt, its credit quality and market access will not be impaired.

No Statutory Debt Limit

TMWA does not have the statutory authority to issue general obligations, and, therefore, does not have a statutory debt limit.

General Obligation Debt Comparison

Response to NRS 350.013 (1) (c):

- (3) *A discussion of its general obligation debt that is payable from property taxes per capita as compared with such debt of other municipalities in the state;*
- (4) *A discussion of its general obligation debt that is payable from property taxes as a percentage of assessed valuation of all taxable property within the boundaries of the municipality.*

TMWA does not have the statutory authority to issue general obligations.

Policy Statement for Sale of Debt

Response to NRS 350.013 (1) (c):

(5) Policy regarding the manner in which the municipality expects to sell its debt.

Administration of Policy

The General Manager and Chief Financial Officer are responsible for administration of TMWA's financial policies. The TMWA Board of Directors (the "Board") is responsible for the approval of any form of TMWA borrowing and the details associated therewith.

The General Manager will coordinate the size of issuance, debt structuring, repayment sources and determination of mix and method of sale, with the approval of the Board.

Types of Debt

Special Obligation Bonds

TMWA may issue as special obligations any of the following types of securities:

1. Notes
2. Interim debentures
3. Bonds
4. Commercial Paper
5. Variable Rate Demand Obligations

Debt will be used to finance or refinance only those capital improvements and long-term assets, or other costs directly associated with financing a project, which have been determined to be beneficial to a significant proportion of the citizens in the service territory and for which repayment sources have been identified.

Refundings – A refunding is generally the issuance of bonds the proceeds of which are used to redeem an outstanding issue. Key definitions are described as follows:

Advance Refunding – The proceeds of a new bond issue are used to refund a bond more than 90 days prior to the call date. Advance refundings are done by issuing a new bond and investing the proceeds in an escrow account consisting of a portfolio of U.S. government securities structured to provide enough cash flow to pay debt service on the refunded bonds until the call date, at which time all of the refunded bonds will be redeemed.

Current Refunding - The proceeds of a new bond issue are used to pay off an outstanding bond issue within 90 days or less.

Gross Savings - Difference between debt service on refunding bonds and refunded bonds less any contribution from TMWA's available funds, including any contributions from the debt service fund.

Present Value Savings - Present value of gross savings, typically discounted at the refunding bond arbitrage yield to the closing date plus accrued interest less any contribution from TMWA's available funds or contributions from the debt service fund.

Prior to beginning a refunding bond issue TMWA will review an estimate of the savings achievable from the refunding. TMWA may also review a pro forma schedule estimating the savings assuming that the refunding is done at various points in the future.

TMWA will generally consider refunding outstanding bonds if one or more of the following conditions exist:

1. For advance refundings, present value savings are at least 5% of the par amount of the refunded or refunding bonds (whichever is greater) when initially presented to the Board and escrow efficiency is at least 60%.
2. Escrow Efficiency is defined as net present value savings divided by the sum of the net present value savings and negative arbitrage in the escrow.
3. For current refundings, present value savings are at least 3% of the par amount of the refunded or refunding bonds (whichever is greater) when initially presented to the Board.
4. The bonds to be refunded have restrictive or outdated covenants.
5. Restructuring debt is deemed to be desirable.

TMWA may refund maturities that do not meet the above criteria if net present value savings on a given maturity are greater than the cost of issuance, and the period between the call date and the maturity date of the bond is less than 3 years.

Debt Structuring

Maturity Structures - The term of TMWA debt issues should not extend beyond the useful life of the project or equipment financed. The repayment of principal on special obligation bonds should generally not extend beyond 30 years unless there are compelling factors which make it desirable to extend the term beyond 30 years, such as asset life, market efficiencies, cash flow considerations, etc.

Debt issued by TMWA should generally be structured to provide for level aggregate debt service or to preserve debt capacity for expected additional bond issues. Ascending debt service should generally be avoided. Deferring the repayment of principal for reasons other than to manage the Authority's aggregate debt service should be avoided except in select instances where it may be beneficial as determined by the Authority.

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. When the cost of the insurance is less than the benefit (in terms of lower yields on the issuer's bonds), the higher credit rating afforded by the insurance would result in a lower net borrowing cost for an issuer.

Bond insurance can be purchased directly by TMWA prior to the bond sale (direct purchase) or at

the underwriter's option and expense (bidder's option). Insurance will only be utilized in the case where the premium is less than the savings achieved through lower interest rates resulting from the insurance.

The decision to purchase insurance directly versus at the bidder's option is based, among other things, on:

- volatile markets,
- current investor demand for insured bonds of different maturities,
- level of insurance premiums, and
- security and covenant terms required by the insurer.

When insurance is purchased directly by TMWA, the present value of the estimated debt service savings from insurance should be greater than the insurance premium. The insurer 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).

Reserve fund and coverage policy - A debt service reserve fund is created from the proceeds of a bond issue and/or other available funds to provide a ready reserve to meet debt service payments should moneys not be available from current revenues. TMWA will fund a debt service reserve fund pledged to the payment of outstanding debt consistent with the authorizing resolution and as required to ensure the most effective pricing of the bonds. To the extent that bonds can be issued without a debt service reserve, TMWA will evaluate the benefit of such a structure, and may issue bonds without funding a debt service reserve.

Coverage is the ratio of pledged revenues to related debt service for a given year. For each bond issue the General Manager shall determine the appropriate reserve fund and coverage requirements, if any.

Interest Rate Limitation

Under NRS 350.2011, the maximum rate of interest must not exceed by more than three percent for special obligations, the Index of Revenue Bonds, which was most recently published before TMWA adopts a bond resolution.

Method of Sale

There are two ways bonds can be sold: competitive or negotiated sale. Competitive and negotiated sales provide for one or more pricings, depending upon market conditions or other factors. Either method can provide for changing issue size, maturity amounts, term bond features, etc. The timing of competitive and negotiated sales is generally related to the requirements of the Nevada Open Meeting Law.

With a competitive sale, any interested underwriter is invited to submit a proposal to purchase an issue of bonds. Pursuant to NRS Chapter 350, if a municipality is required to sell the bonds it issues by competitive bid, it must cause an invitation for competitive bids, or notice thereof, to be

published before the date of the sale in the daily or weekly version of *The Bond Buyer*. The bonds are then awarded to the underwriter presenting the best bid according to stipulated criteria set forth in the notice of sale. The best bid is usually determined based on the lowest overall interest rate.

Negotiated Sale - A negotiated sale is a sale of securities through an exclusive arrangement between the issuer and an underwriter or underwriting syndicate. At the end of successful negotiations, the bond issue is awarded (sold) to the underwriters.

Selection of an underwriter will be determined based upon criteria contained in NRS 350.185. TMWA also reserves the right to consider additional criteria that relate to TMWA's business objectives.

Procedure for the Request for Proposal for Underwriting Services – If a negotiated sale is deemed appropriate and permitted pursuant to State statute, TMWA will follow the procedures in NRS 350.175, and as set forth below.

Underwriter Selection for Negotiated Sale

1. TMWA will issue a request for proposals either on its own or on its behalf through TMWA's Independent Registered Municipal Advisor to a qualified pool of underwriters.
2. The book-running senior manager and other members of the underwriting syndicate will be designated by the General Manager, and ratified by the Board. It is TMWA's intent, once a team is established, to provide equal opportunity for the position of book-running senior manager. The General Manager may rotate the book-running senior manager on a deal by deal basis (i.e., when more than one issue is being sold for the same project having different dated dates), to provide equal opportunity to all members of the syndicate.
3. The underwriting team should be balanced with firms having institutional, retail, and regional sales strengths. TMWA is committed to equal opportunity for qualified minority and/or woman owned firms to be included on the underwriting team.
4. The selected underwriter(s) may be used for negotiated transactions for a period of up to five years. TMWA may issue a Request for Proposals more frequently and as needed to ensure efficient execution of transactions and to reflect market changes over time.
5. TMWA's selection of an underwriter will take into consideration the criteria listed in NRS 350.185.
6. The General Manager shall certify that the procedure for selecting a proposal for the negotiated sale pursuant to NRS 350.175 was conducted in an open and fair manner.

Summary of Debt Issuance Policies

- A. Bond proceeds will be used to finance or refinance only those capital improvements and long-term assets, or other costs directly associated with financing of a project,

- which have been determined to be beneficial to a significant proportion of the citizens in the service territory, and for which repayment sources have been identified.
- B. TMWA may issue fixed or variable rate debt, including Commercial Paper as appropriate to fund construction activities.
 - C. Debt shall not be issued to fund operating and maintenance expenses.
 - D. Certificates of participation/other leases should be used only when appropriate (i.e., when no other adequate means of financing is available under State law).
 - E. The General Manager shall consider refunding outstanding bonds if one or more of the following conditions exist:
 - i. for advance refundings, present value savings are estimated to be at least 5% of the par amount of the refunded or refunding bonds (whichever is greater) and escrow efficiency if at least 60%;
 - ii. for current refunding, present value savings are at least 3% of the par amount of refunded or refunding bonds (whichever is greater);
 - iii. the bonds to be refunded have restrictive or outdated covenants; or
 - iv. restructuring debt is deemed to be desirable.
 - F. The General Manager shall consider purchasing bond insurance when the present value of the estimated debt service savings from insurance is greater than the insurance premium.
 - G. Nevada law generally requires competitive sales of bonds. When a negotiated sale is determined to be the preferred method of sale, and as permitted by law, it will be considered by the General Manager under the conditions set forth herein.
 - H. The General Manager shall establish a list of pre-qualified underwriters when a negotiated sale is anticipated.
 - I. For negotiated sales, TMWA is committed to equal opportunity for qualified minority and/or woman owned firms to be included in the underwriting team, and equal opportunity will be provided to all members of the team, including minority and/or woman-owned firms to hold the position of book-running senior manager. The book-running senior manager and other members of the underwriting syndicate will be recommended by the General Manager and ratified by the Board.

Operation Costs and Revenue Sources in Capital Improvement Plan

Response to NRS 350.013 1 (c)

(7) A discussion of its operational costs and revenue sources for the ensuing 5 fiscal years, associated with each project included in its plan for capital improvement submitted pursuant to paragraph (d), if those costs and revenues are expected to affect the property tax rate.

TMWA's Capital Improvements Program (the CIP") is a five-year plan for maintaining existing infrastructure and building new facilities to meet demands from growth. It is used to link TMWA's physical development planning with fiscal planning.

TMWA's CIP includes major projects requiring the expenditure of public funds, over and above annual operating expenses, for the purchase, construction, or replacement of the physical assets of

TMWA. Major capital projects are normally non-recurring (e.g., new buildings, investment in new technology, etc.).

The CIP program identifies project costs associated with the planning/design/engineering, land acquisition, and construction of new facilities and/or major remodels and maintenance projects. The CIP project submittal process also requests and evaluates information relating to any ongoing operation/maintenance costs associated with projects. (These expenses are not included in the total project cost.).

Some CIP projects reduce operations and maintenance costs. Many infrastructure maintenance projects will reduce long-term operations and maintenance costs through preventative measures that extend the useful life of TMWA's infrastructure. Certain projects in the technology/equipment categories may also reduce operating and maintenance costs by automating functions or by reducing energy costs and maintenance contracts on obsolete equipment.

Project evaluation by TMWA Staff includes consideration of the operations and maintenance impacts of the project. Priority is awarded to projects that reduce operating impacts on TMWA's operating budget.

New facilities can have a direct and long-lasting impact on TMWA's operating budget. New facilities call for additional operating and maintenance costs including, but not limited to, staff, computers and other equipment, utilities, and other maintenance costs. Increased expenditures must be anticipated for not only the direct costs associated with the new facility, but for any additional indirect costs that will be incurred, including administrative support, carrier services, etc. TMWA does not levy a tax rate, therefore, operations costs associated with any project in the CIP will be supported within existing revenue resources.

Ongoing Disclosure of Authority Financial Information Policy Statement

In November 1994, the Securities and Exchange Commission (the "SEC") amended Rule 15c2-12 (the "Rule") to prohibit any broker, dealer, or municipal securities dealer from acting as an underwriter in a primary offering of municipal securities unless the issuer promises in writing to provide certain ongoing information (unless the offering satisfies certain exemptions).

The Authority will comply with SEC Rule 15c2-12 (the "Rule") by providing the secondary market disclosure required in any case in which the Rule applies to the Authority as an obligated person as defined in the Rule ("Obligated Person").

Chief Financial Officer Information

Response to NRS 350.013 1 (e)

A statement containing the name, title, mailing address and telephone number of the chief financial officer of the municipality.

The TMWA financial reporting responsibilities are performed by the Chief Financial Officer.

Name: Michele Sullivan, CPA
Title: Chief Financial Officer / Treasurer

Address: Truckee Meadows Water Authority
P.O. Box 30013
Reno, NV 89520-3013

Telephone: (775) 834-8284

Email: msullivan@tmwa.com

Appendices

APPENDIX A**Truckee Meadows Water Authority, Nevada
INTEREST RATE SWAP POLICY
June 30, 2016****1. Introduction**

The purpose of this Interest Rate Swap Policy (the “Policy”) is to establish guidelines for the execution and management of the Truckee Meadows Water Authority’s (the “Authority”) use of interest rate swaps or similar products (“Swap Products”) and related transactions to meet the financial and management objectives as outlined herein.

This policy confirms the commitment of Authority management to adhere to sound financial and risk management practices.

2. Scope

The Authority recognizes that Swap Products can be appropriate financial management tools to achieve the Authority’s financial and management objectives. This Policy sets forth the manner in which the Authority shall enter into transactions involving Swap Products. The Authority shall integrate Swap Products into its overall debt and investment management programs in a prudent manner in accordance with the parameters set forth in this Policy.

This Policy applies to any interest rate swap; swap option or related transaction that the Authority may undertake.

3. Authorizations and Approvals; Compliance with Bond Documents and Covenants

The Authority shall obtain the approval of the Truckee Meadows Water Authority Board of Directors (the “Directors”) prior to entering into any interest rate swap, swap option or related transaction. The Authority, in consultation with its Bond Counsel, and financial advisors will determine whether a proposed swap agreement complies with State law and any other applicable law and any other applicable provisions of the Authority’s bond resolutions and agreements with respect to its outstanding debt. All swap transactions will be subject to an independent finding that the terms and conditions are fair and reasonable at the time of trade execution.

4. General Objectives

The Authority may execute an interest rate swap, swap option or related transaction to the extent the transaction can be reasonably expected to achieve one or more of the following objectives:

- Result in a lower net cost of borrowing with respect to the Authority’s debt, or achieve a higher net rate of return on the investment of Authority moneys.
- Reduce exposure to changes in interest rates either in connection with a particular debt financing or investment transaction or in the management of interest rate risk with respect to the Authority’s overall debt and investment portfolios.
- Enhance financing flexibility for future capital projects.

5. Prohibited Uses of Interest Rate Swaps and Related Instruments

The Authority shall not execute interest rate swaps agreements or related instruments under the following circumstances:

- When a swap or other financial instrument is used for speculative purposes, such as potential trading gains, rather than for managing and controlling interest rate risk in connection with Authority debt or investments;
- When a swap or other financial instrument creates extraordinary leverage or financial risk;
- When the Authority lacks sufficient liquidity to terminate the swap at current market rates; or
- When there is insufficient price “transparency” to permit the Authority and its financial advisors to reasonably value the instrument, as a result, for example, of the use of unusual structures or terms.

6. Permitted Financial Instruments

The Authority may utilize the following financial products, if then permitted by law, on either a current or forward basis, after identifying the objective(s) to be realized and assessing the attendant risks, if permitted by law:

- Interest rate swaps, including fixed, floating and/or basis swaps
- Interest rate caps, floors and collars
- Options, including on swaps, caps, floors and/or collars and/or cancellation or index-based features

7. Identification and Evaluation of Financial and Other Risks

Prior to execution of an interest rate swap, swap option or related transaction, the Authority and its financial advisors shall identify and evaluate the financial risks involved in the transaction, and summarize them, along with any measures that will be taken to mitigate those risks. The types of questions that should be evaluated in connection with the identification and evaluation of financial risks shall include:

- Market or Interest Rate Risk: Does the proposed transaction hedge or create exposure to fluctuations in interest rates?
- Tax Law Risk: Is the proposed transaction subject to rate adjustments, extraordinary payments, termination or other adverse consequences in the event of a future change in Federal income tax policy?

- **Termination Risk:** Under what circumstances might the proposed transaction be terminated (other than at the option of the Authority)? At what cost? Does the Authority have sufficient liquidity to cover this exposure?
- **Risk of Uncommitted Funding (“Put” risk):** Does the transaction require or anticipate a future financing(s) that is dependent upon third party participation? What commitments can be or have been secured for such participation?
- **Legal Authority:** Is there any uncertainty regarding the legal authority of any party to participate in the transaction?
- **Counterparty Credit Risk:** What is the credit-worthiness of the counterparty? What provisions have been made to mitigate exposure to adverse changes in the counterparty credit standing?
- **Ratings Risk:** Is the proposed transaction consistent with the Authority’s current credit ratings or its desired future ratings and with related rating agency policies?
- **Basis Risk:** Do the anticipated payments that the Authority would make or receive match the payments that it seeks to hedge?
- **Tax Exemption on Authority Debt:** Does the transaction comply with all Federal tax law requirements with respect to the Authority’s outstanding tax-exempt bonds?
- **Accounting Risk:** Does the proposed transaction create any accounting issues that could have a material detrimental effect on the Authority’s financial statements? Would the proposed transaction have any material effect on the Authority’s rate covenant calculation or compliance? How are any such effects addressed?
- **Administrative Risk:** Can the proposed transaction be readily administered and monitored by the Authority’s finance team consistent with the policies outlined in the Authority’s Interest Rate Swap Policy?
- **Subsequent Business Conditions:** Does the proposed transaction or its benefits depend upon the continuation or realization of specific industry or business conditions?

8. Risk Limitations

The total notional amount and term of all Swap Transactions executed by the Authority shall not exceed the notional amount and term specified from time to time by the Authority’s Chief Financial Officer (the “CFO”). It is expected that the Authority’s total variable rate exposure, net of Swap Transactions which

have the economic effect of reducing variable rate exposure, will be established from time to time based upon an evaluation of all relevant factors, including investment allocations, risk tolerance, credit strength, and market conditions.

9. Form of Swap Agreements

Each interest rate swap executed by the Authority shall contain terms and conditions as set forth in the International Swap and Derivatives Association, Inc. (“ISDA”) Master Agreement, including the Schedule to the Master Agreement and a Credit Support Annex, as supplemented and amended in accordance with the recommendations of the Authority’s finance team. The swap agreements between the Authority and each qualified swap counterparty shall include payment, term, security, collateral, default, remedy, termination, and other terms, conditions and provisions as the Authority, in consultation with its financial advisors and Bond Counsel deems necessary or desirable.

10. Qualified Swap Counterparties

The Authority shall be authorized to enter into interest rate swap transactions only with qualified swap counterparties. At least one of the ratings of the Authority’s counterparties (or their guarantors) must be in the “AA” category, or at least Aa3/Aa- and no lower than A2 or A. In addition, each counterparty must have a demonstrated record of successfully executing swap transactions as well as creating and implementing innovative ideas in the swap market. Each counterparty (or guarantor) shall have a minimum capitalization of at least \$250 million.

In order to diversify the Authority’s counterparty credit risk, and to limit the Authority’s credit exposure to any one counterparty, limits will be established for each counterparty based upon both the credit rating of the counterparty as well as the relative level of risk associated with each existing and proposed swap transaction. The guidelines below provide general termination exposure guidelines with respect to whether the Authority should enter into an additional transaction with an existing counterparty. The Authority may make exceptions to the guidelines at any time to the extent that the execution of a swap achieves one or more of the goals outlined in these guidelines or provides other benefits to the Authority. In general, the maximum Net Termination Exposure to any single Counterparty should be set so that it does not exceed a prudent level as measured against the gross revenues, available assets or other financial resources of the Authority.

Such guidelines will also not mandate or otherwise force automatic termination by the Authority or the counterparty. Maximum Net Termination Exposure is not intended to impose retroactively any terms and conditions on existing transactions. Such provisions will only act as guidelines in making a determination as to whether or not a proposed transaction should be executed given certain levels of existing and projected net termination exposure to a specific counterparty. Additionally, the guidelines below are not intended to require retroactively additional collateral posting for existing transactions. Collateral posting guidelines are described in the “Collateral” section above. The calculation of net termination exposure per counterparty will take into consideration multiple transactions, some of which may offset the overall exposure to the Authority.

Under this approach, the Authority will set limits on individual counterparty exposure based on existing as well as new or proposed transactions. The sum of the **current market value** and the **projected exposure** shall constitute the Maximum Net Termination Exposure. For outstanding transactions, current exposure will be based on the market value as of the last quarterly swap valuation report provided by the Financial Advisor. Projected exposure shall be calculated based on the swap's potential termination value taking into account possible adverse changes in interest rates as implied by historical or projected measures of potential rate changes applied over the remaining term of the swap.

For purposes of this calculation, the Authority shall include all existing and projected transactions of an individual counterparty and all transactions will be analyzed in aggregate such that the maximum exposure will be additive.

The exposure thresholds, which will be reviewed periodically by the Authority to ensure that they remain appropriate, will also be tied to credit ratings of the counterparties and whether or not collateral has been posted as shown in the table below. If a counterparty has more than one rating, the lowest rating will govern for purposes of the calculating the level of exposure. A summary table is provided below.

Counterparty Credit Exposure Recommended Limits			
Credit Ratings	Maximum Collateralized Exposure	Maximum Uncollateralized Exposure	Maximum Net Termination Exposure
Aaa/AAA	NA	\$100.0 million	\$100.0 million
Aa/AA Category	\$70.0 million	\$30.0 million	\$100.0 million
A/A Category	\$50.0 million	\$20.0 million	\$70.0 million
Below A3/A-	\$50.0 million	None	\$50.0 million

If the exposure limit is exceeded by counterparty, the Authority shall conduct a review of the exposure limit per counterparty. The Authority, in consultation with its Swap Counsel and Financial Advisor, shall explore remedial strategies to mitigate this exposure.

The Authority's swap exposure to any single counterparty will be limited to 25% of the counterparty's capitalization.

11. Procurement Process

The Authority may either negotiate or competitively bid interest rate swap transactions with qualified swap providers. The qualified swap providers will be selected by the Chief Financial Officer of the Authority and General Manager for consideration by the TMWA Board..

12. Termination Provisions and Authority Liquidity

Optional Termination: All interest rate swap transactions shall contain provisions granting the Authority the right to optionally terminate a swap agreement at any time over the term of the agreement. In general, exercising the right to optionally terminate an agreement produces a benefit to the Authority, either through receipt of a payment from a termination, or if a termination payment is made by the Authority, in connection with a corresponding benefit from a change in the related Authority debt or investment, as determined by the Authority. The CFO, as appropriate, in consultation with the Authority's finance team, shall determine if it is financially advantageous for the Authority to terminate a swap agreement.

Termination Events: A termination payment to or from the Authority may be required in the event of termination of a swap agreement due to a default by or a decrease in the credit rating of either the Authority or the counterparty. Prior to entering into the swap agreement or making any such termination payment, as appropriate, the CFO shall evaluate whether it would be financially advantageous for the Authority to enter into a replacement swap as a means of offsetting any such termination payment.

Any swap termination payment due from the Authority shall be made from available Authority monies. The CFO shall report any such termination payments to the Authority's Board of Directors.

Available Liquidity: The Authority shall consider the extent of its exposure to termination payment liability in connection with each swap transaction, and the availability of sufficient liquidity to make any such payments that may become due.

13. Term and Notional Amount of Swap Agreement

The Authority shall determine the appropriate term for an interest rate swap agreement on a case-by-case basis. The slope of the interest rate swap curve, the marginal change in swap rates from year to year along the swap curve, and the impact that the term of the swap has on the overall exposure of the Authority shall be considered in determining the appropriate term of any swap agreement. For any swap agreement entered into in connection with the issuance or carrying of bonds, the term of such swap agreement shall not extend beyond the final maturity date of such bonds.

14. Collateral Requirements

As part of any swap agreement, the Authority may require collateralization or other credit enhancement to secure any or all swap payment obligations of the counterparty. As appropriate, the Authority may require collateral or other credit enhancement to be posted by each swap counterparty under the following circumstances:

- Each counterparty shall be required to post collateral, in accordance with its (or its guarantor's) credit rating, equal to the positive net termination value of the swap agreement.
- Collateral shall consist of cash, U.S. Treasury securities and U.S. Agency securities.
- Collateral shall be deposited with a custodian, acting as agent for the Authority, or as mutually agreed upon between the Authority and each counterparty.
- The market value of the collateral shall be determined on at least a monthly basis.
- The Authority will determine reasonable threshold limits for the initial deposit and for increments of collateral posted thereafter.
- The CFO shall determine on a case-by-case basis whether other forms of credit enhancement are more beneficial to the Authority.

In connection with any collateralization requirements that may be imposed upon the Authority in connection with a swap agreement, the Authority may post collateral or it may seek to obtain swap insurance in lieu of posting collateral. The CFO shall recommend a preferred approach to the Authority on a case-by-case basis.

15. Reporting Requirements

The Authority's finance team will monitor any interest rate swaps that the Authority enters into on at least a monthly basis.

The Authority's CFO will provide a written report to the TMWA Board regarding the status of all interest rate swap agreements on at least a quarterly basis and shall include the following information:

- Highlights of all material changes to swap agreements or new swap agreements entered into by the Authority since the last report.
- Market value of each of the Authority's interest rate swap agreements.
- For each counterparty, the Authority shall provide the total notional amount position, the average life of each swap agreement, the available capacity to enter into a swap transaction, and the remaining term of each swap agreement.
- The credit rating of each swap counterparty and credit enhancer insuring swap payments, if any.
- Actual collateral posting by each swap counterparty, if any, under each swap agreement and in total by that swap counterparty.
- A summary of each swap agreement, including but not limited to the type of swap, the rates and dollar amounts paid by the Authority and received by the Authority, and other terms.
- Information concerning any default by a swap counterparty under a swap agreement with the Authority, and the results of the default, including but not limited to the financial impact to the Authority, if any.
- A summary of any planned swap transactions and the projected impact of such swap transactions on the Authority.
- A summary of any swap agreements that were terminated.

16. Swaps Accounting Treatment

The Authority shall comply with any applicable accounting standards for the treatment of swaps and related financial instruments. The Authority and the Authority's external auditors shall implement the appropriate accounting standards.

17. Periodic Review of Interest Rate Swap Policy

The CFO and the Authority's financial advisors shall review its swap policy on a periodic basis and recommend appropriate changes to the General Manager and TMWA Board.

APPENDIX B**Procedures for Debt Issuance/Timetables**

**Revenue Bonds
Sample Schedule**

Number of Weeks

From StartEvent

0	Board adopts Sale Resolution
3	Due Diligence Meeting
5	Board adopts Bond Resolution
10	Bond Sale
13	Bond Closing