



## Debt Management Policy

In Accordance With

NRS 350.013

June 30, 2011

## **BOARD OF DIRECTORS**

Mike Carrigan, Chairman

David Aiazzi, Vice Chairman

John Breternitz

Bob Cashell Sr.

Michael Cate

Robert Larkin

Geno Martini

## **AUTHORITY ADMINISTRATION**

Mark W. Foree, P.E.

John A. Erwin

Scott J. Estes

Kim Mazeres

Jeffrey Tissier, C.P.A.

General Manager

Director, Natural Resources Planning & Management

Director, Systems Planning & Engineering

Director, Customer Relations

Chief Financial Officer

## 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.

**SPECIAL OBLIGATION BONDS AND LOANS  
SUPPORTED BY NET REVENUES  
Truckee Meadows Water Authority, Nevada  
June 30, 2011**

	Issuance Date	Original Amount	Amount Outstanding
TMWA Water Revenue (Tax Exempt) Bonds, Series 2001A	06/11/2001	\$448,810,000	\$20,235,000
TMWA Water Revenue Bonds, Series 2005A	12/01/2005	40,000,000	37,180,000
Drinking Water SRF Loan, Series 2005	11/22/2006	4,669,565	3,772,931
TMWA Water Revenue Refunding Bonds, Series 2006	06/06/2006	150,745,000	149,815,000
Water Revenue Commercial Paper Notes, Series 2006A & Series 2006B	08/10/2006	160,000,000	79,400,000
TMWA Water Revenue Refunding Bonds, Series 2007	01/18/2007	218,975,000	216,605,000
DWSRF American Recovery and Reinvestment Act loan, Series 2009	08/14/2009	2,309,945	1,850,000
TMWA Water Revenue Refunding Bonds, Series 2010	02/17/2010	28,240,000	28,240,000
Drinking Water SRF Loan, Series 2010	02/11/2010	8,500,000	8,500,000 <sup>1/</sup>
<b>Total</b>			<b>\$545,597,931</b>

<sup>1/</sup> At June 30, 2011, \$3,921,904 had been drawn against the \$8,500,000 authorized. The Authority will continue to draw down against the authorization until the maximum authorization is reached or the project is completed.

### 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.

[Remainder of page intentionally left blank]

### 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. On June 28, 2011, TMWA issued \$11,400,000 tax exempt commercial paper in order to redeem the remaining outstanding Series 2001A bonds. The bonds are callable on July 1, 2011. The Authority does not anticipate the sale of any additional bonds during Fiscal Year 2011-12. These bonds and loans are supported by Net Revenues.

**NET REVENUE SUPPORTED DEBT**  
**Currently Outstanding Bonds and Loans**  
**Truckee Meadows Water Authority, Nevada**  
**June 30, 2011**

Currently Outstanding Combined Series 2005A, Series 2006, Series 2007, Series 2010, the 2005 DWSRF Loan and the Series 2009 DWSRF ARRA Loan			
Fiscal Year Ending June 30,	Principal	Interest	Total
2012	\$10,665,698	\$20,410,006	\$31,075,704
2013	1,927,730	19,793,318	21,721,048
2014	10,379,989	19,505,940	29,885,929
2015	12,492,483	18,954,496	31,446,979
2016	11,590,219	18,373,328	29,963,548
2017	13,093,206	17,777,697	30,870,904
2018	14,396,452	17,144,296	31,540,748
2019	15,039,964	16,496,558	31,536,523
2020	15,708,751	15,819,065	31,527,816
2021	16,407,823	15,127,008	31,534,832
2022	17,102,189	14,420,352	31,522,541
2023	17,836,857	13,682,640	31,519,498
2024	18,591,839	12,913,733	31,505,573
2025	19,392,143	12,109,998	31,502,141
2026	19,873,387	11,271,306	31,144,693
2027	20,728,387	10,381,062	31,109,449
2028	21,668,387	9,428,700	31,097,087
2029	22,633,387	8,433,168	31,066,555
2030	23,596,693	7,392,656	30,989,349
2031	24,600,000	6,304,768	30,904,768
2032	26,575,000	5,117,568	31,692,568
2033	27,845,000	3,822,568	31,667,568
2034	29,170,000	2,446,381	31,616,381
2035	30,595,000	986,893	31,581,893
2036	2,340,000	181,250	2,521,250
2037	<u>2,455,000</u>	<u>61,375</u>	<u>2,516,375</u>
	<u>\$446,705,592</u>	<u>\$298,356,140</u>	<u>\$745,061,732</u>

Excludes debt service for the Water Revenue Commercial Paper Notes, Series 2006A and 2006B and the DWSRF Loan, Series 2020.

SOURCE: Truckee Meadows Water Authority

## **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. Temporary bonds

Bonding should 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** - A method of providing for payment of debt service on a bond until the first call date or designated call date from available funds. Advance refundings are done by issuing a new bond or using available funds and investing the proceeds in an escrow account in a portfolio of U.S. government securities structured to provide enough cash flow to pay debt service on the refunded bonds.

**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 a reserve or debt service fund.

Present Value Savings - Present value of gross savings discounted at the refunding bond yield to the closing date plus accrued interest less any contribution from a reserve or 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. Present value savings are at least 3% of the par amount of the refunding bonds.
2. The bonds to be refunded have restrictive or outdated covenants.
3. Restructuring debt is deemed to be desirable.

TMWA may pursue a refunding not meeting the above criteria if:

1. Present value savings exceed the costs of issuing the bonds.
2. Current savings are acceptable when compared to savings that could be achieved by waiting for more favorable interest rates and/or call premiums.

### **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 necessary to extend the term beyond 30 years, such as asset life, market efficiencies, and the like.

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). TMWA will attempt to qualify its bond issues for insurance with bond insurance companies rated AAA by Moody's Investors Service and Standard & Poor's Corporation.

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 at least equal to or 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 the excess of applicable revenues to provide a ready reserve to meet current debt service payments should moneys not be available from current revenues.

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. The reserve for special obligation bonds should approximate one year of principal and interest or such other lesser amount as determined adequate by the General Manager.

#### 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 issue is awarded to the underwriters.

Selection of an underwriter will be determined based upon criteria contained in NRS 350.185. TMWA reserves the right to consider other criteria that might be deemed pertinent.

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 publish a notice of request for proposals in *The Bond Buyer* or some other publication, which ensures that reasonable number of underwriters is notified, if required by state statute.
2. The Board will approve the notice of the request for proposals, if required by state statute. 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 will 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. TMWA may choose to negotiate the sale of the bonds to the selected underwriter for a period not to exceed six years from the date of the selection of the underwriter. TMWA will publish a notice of request for proposals from underwriters at the end of each six-year period or sooner if TMWA deems it necessary to have a negotiated sale.
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. Bonding should 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 has 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. 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).

- C. The General Manager shall consider refunding outstanding bonds if one or more of the following conditions exist:
  - i. present value savings are at least 3%, with certain exceptions, of the par amount of the refunding bonds;
  - ii. the bonds to be refunded have restrictive or outdated covenants; or
  - iii. restructuring debt is deemed to be desirable.
- D. The General Manager shall consider purchasing bond insurance when the present value of the estimated debt service savings from insurance is equal to or greater than the insurance premium.
- E. Nevada law generally requires competitive sales of bonds. When a negotiated sale is permitted by law, it will be considered by the General Manager only under the conditions set forth herein.
- F. The General Manager shall establish a list of pre-qualified underwriters when a negotiated sale is anticipated.
- G. 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 approved 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 District 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 District 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 District 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: Jeffrey P. Tissier, CPA  
Title: Chief Financial Officer  
Address: Truckee Meadows Water Authority  
P.O. Box 30013  
Reno, NV 89520-3013  
Telephone: (775) 834-8048.

# Appendices

**APPENDIX A****Truckee Meadows Water Authority, Nevada  
INTEREST RATE SWAP POLICY  
June 30, 2011****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.

<b>Counterparty Credit Exposure Recommended Limits</b>			
<b>Credit Ratings</b>	<b>Maximum Collateralized Exposure</b>	<b>Maximum Uncollateralized Exposure</b>	<b>Maximum Net Termination Exposure</b>
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**

---

<b>Revenue Bonds Sample Schedule</b>	
<b>Number of Weeks From Start</b>	<b>Event</b>
0	Board adopts Sale Resolution
3	Due Diligence Meeting
5	Board adopts Bond Resolution
10	Bond Sale
13	Bond Closing