School Reform Commission

Policy 623: DEBT POLICY

BACKGROUND

Debt management policies are written guidelines that affect the amount and type of debt issued by a state or local government, the issuance process, and the management of a debt portfolio. The goal of the debt management policy is to improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and can be expected to meet its obligations in a timely manner.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidance for a government to manage its debt program in line with its current and reasonably projected future resources.

INTRODUCTION

The School Reform Commission recognizes that the foundation of a well-managed debt program is a comprehensive debt management policy. In its debt management policy, the School District of Philadelphia intends to set forth appropriate ways to structure its debt issuance, prudent uses for different types of debt financings, and guidelines for the conduct of bond sales.

The Chief Business Officer has overall responsibility for debt issuance. Day-to-day debt management and all debt service payments are the responsibility of the Executive Director of Special Finance. The Office of Special Finance and the Office of General Counsel coordinate their activities to ensure that all debt is in compliance with all applicable federal and state laws and resolutions of the governing body.

I. GOALS AND OBJECTIVES

This policy is intended to ensure that financings undertaken by The School District of Philadelphia ("School District" or "SDP") satisfy prudent standards and allow the School District to efficiently utilize its financial resources and maintain fiscal stability while meeting its long-term capital needs. The adoption of clear and comprehensive debt management policies is intended to enhance the internal financial management of the School District.

This policy will assist the School District in advancing the following goals:

- Build public confidence in and better public understanding of the School District's debt issuance policies and practices;
- Achieve the lowest cost of capital;
- Ensure high credit quality;
- Assure access to the capital markets;

- Preserve financial flexibility and maintain appropriate resources and funding capacity for present and future capital needs;
- Manage interest rate risk exposure to:
  - promote the appropriate diversification within the debt portfolio to balance risk and liquidity; and
  - promote and maintain an acceptable balance between interest rate risk and the long-term cost of capital; and
- Ensure that the School District secures highly qualified professional service firms to assist with debt issuance in an open and competitive process.

II. ISSUANCE OF DEBT

A. Legal Authority

All powers and duties of the School District of Philadelphia with respect to indebtedness and borrowing are authorized exclusively under the Local Unit Government Debt Act ("Debt Act"), 53 PACSA §§8001 et seq. and by resolutions of the SRC adopted pursuant to the Debt Act.

B. Use of Debt Proceeds

State law, primarily the Debt Act, authorizes the specific purposes for which debt may be issued. The proceeds from issuing debt are primarily used to fund capital projects. In certain unique circumstances, the School District has issued debt to eliminate an unforeseen deficit, to fund pension termination payments, and to fund aged workers' compensation claims. A preliminary authorizing resolution will be required for financings other than Capital Improvement Program financings that are proposed in the adopted Capital Budget for that fiscal year. A recommendation by the Chief Business Officer and CEO/Superintendent outlining the purpose, objective and proposed benefit to be achieved by the School District shall be presented to the SRC before consideration of any preliminary authorizing resolution. In the case of a short-term borrowing, like a tax and revenue anticipation note, or in an emergency, approval of a recommendation made by the Chief Business Officer and the Superintendent may be given by the SRC Chairperson with a recommendation from Management until an authorizing resolution can be adopted.

Under §8002, the Debt Act defines the use of the term "Projects" and lists 12 specific components including:

- Items of construction, acquisition, extraordinary maintenance or repair which have been undertaken by a local government unit;
- Preliminary studies, surveying, planning, testing or design work for any undertaking described above;
- Lands or rights in land to be acquired;
- Furnishings, machinery, apparatus or equipment normally classified as capital items, but these items must have a useful life of five years or more if financed separately and not as a part of a construction or acquisition project.

The costs of the projects are clearly defined under § 8007 of the Debt Act and given below.

The cost of a project includes the amount of all payments to contractors or for the acquisition of a project or for lands, easements, rights and other appurtenances deemed necessary for the project, fees of architects, engineers, appraisers, consultants, financial advisors and attorneys incurred in connection with the project financing costs, costs of necessary printing and advertising, costs of preliminary feasibility studies and tests, cost estimates and interest on money borrowed to finance the project, if capitalized, to the date of completion of construction and, if deemed necessary, for one year thereafter, amounts to be placed in reserve funds, if any, a reasonable initial working capital for operating the project and a proper allowance for contingencies and any amount which constitutes, under generally accepted accounting principles, a cost of, and which has been determined by an independent actuary or other expert to be required for the purposes of, a reserve or a contribution toward a combined reserve, pool or other arrangement for losses or liabilities covered by a self-insurance arrangement established by one or more local government units.

Debt issued for capital purposes must meet the following criteria:

1) Projects selected for debt financing must be supported by an achievable financial plan that includes servicing the debt and meeting any new or increased operating costs;
2) Projects funded with long-term debt can only be issued if the capital projects are included in the current fiscal year capital budget or are authorized and included in the School District of Philadelphia's six-year Capital Improvement Program ("CIP") which is required by the Education Supplement to the Home Rule Charter; and
3) Projects selected for debt financing must support the SDP's strategic and mission-critical initiatives.

C. Debt Limits

In addition to statutory limitations imposed by the Debt Act, the School District should have guidelines in place to maintain a balance between debt service costs and all other educational expenditures. These guidelines, including specifically the debt burden limitation, are to be reviewed annually during the budget process to determine applicability and appropriateness. The statutory limitations the School District is subject to are as follows:

1) The non-electoral debt ceiling is based on 100% of the School District's borrowing base* for general obligation bonds and 200% of its borrowing base for lease rental debt.
2) As of February 2, 2009, the School District's non-electoral and lease rental borrowing capacity is $2.5 billion. This limit can be exceeded by placing debt offerings on the ballot in the general elections.

The School District will monitor its debt levels by determining the ratio of debt service costs to operating revenues (exclusive of categorical funds)**.** This ratio is often cited by rating agencies in their reports and analyses.[1] **The District's goal will be to limit debt service costs to no more than 12% of operating revenues.**

[1] Fitch Ratings says "single purpose units such as school districts may have ratios as high as 15% and still be considered average." Standard & Poor's indicates that debt service as a percentage of expenditures is low if below 8%, and considered moderate in the range of 8-15%. Moody's indicates that "debt service as a percent of operating expenditures can vary, and frequently ranges from 5-15%."
*See glossary for definition.

D. Debt Structuring Practices

1) Term. The term of the debt must match the expected useful life of the projects or purpose of the program being financed. In general, the Debt Act will not allow a term in excess of 40 years (See Debt Act §8142).

2) Structure. School District debt can be structured using discount, par or premium coupons or any combination thereof within any applicable limitations. The School District should utilize the coupon structure that produces the lowest True Interest Cost (TIC) taking into consideration the call option value of any callable maturities. When comparing yields associated with callable premium bonds and callable discount bonds of the same maturity, the yield-to-maturity should be evaluated in addition the yield-to-call date. Long-term fixed rate debt obligations should generally be callable in ten years. This provides flexibility to refund bonds if interest rates decline. An analysis should be performed to determine the economic benefit of utilizing call provisions shorter than ten years.

3) Maturities. Bonds or notes may be serial bonds or notes or term bonds or notes or any combination thereof as described in §8142(b) of the Debt Act. The use of capital appreciation bonds or zero-coupon bonds should be avoided unless they are necessary for practical bond structuring reasons or they produce lowest TIC compared to other structures.

4) Level Debt. Section 8142(b)(1, 2) of the Debt Act establishes requirements for local governmental units, including the School District, to structure their debt in serial maturities or sinking fund installments for each bond issue that achieve, as nearly as practicable, level debt service within an issue or overall level debt service within a particular classification of debt. For purposes of this requirement, general obligation and lease-rental debt are treated as a single classification.

5) Bond Insurance. Bond insurance is a form of credit enhancement that guarantees the payment of principal and interest on the bonds; thereby providing a higher credit rating and thus a lower borrowing cost. The School District may purchase bond insurance for the entire issue or for specific maturities. When bond insurance is purchased the present value of the estimated debt service savings from insurance should be greater than the insurance premium.

6) Capitalized Interest. Capitalized interest increases the amount of debt to be issued and therefore, should be avoided unless essential from a credit standpoint, as in the case of lease-purchase obligations.

7) Types of Debt.

The main types of general obligation debt:

a. Fixed Rate Debt. Over 70% of the School District's current debt outstanding is fixed rate debt. When fixed rate debt is issued, the interest payments are known for the life of the issue, unless refunded. When the School District issues fixed rate debt it covenants to make daily deposits of local tax

revenues collected on behalf of the School District by the Department of Revenue of the City to each sinking fund established for each of its outstanding fixed rate general obligation bond issues.

b. Variable Rate Debt. Variable rate debt can be used for several purposes, including achieving a lower cost of borrowing by accepting a degree of interest rate risk, offsetting the risks associated with variable rate short-term assets, or for short-term financing needs. Another advantage of variable rate debt is that it can be redeemed on short notice without penalty, thereby increasing the financing flexibility.

When deciding whether to issue variable rate debt, historic averages of cash balances should be evaluated to confirm that the financial flexibility is available if interest rates rise.

The maximum targeted amount of unhedged variable rate debt as a percentage of total debt for the School District should not exceed 20%.

When the School District issues variable rate debt it generally covenants to make monthly deposits into sinking funds established for these bonds on the fifteenth day prior to each interest payment date (the first business day of each month being each interest payment date) in amounts sufficient to pay the interest becoming due on such interest payment date.

The sinking funds established for the School District's variable rate bonds are not entitled to and do not receive daily deposits of local tax revenues.

c. Qualified Zone Academy Bonds. Qualified Zone Academy Bonds (or "QZABs") are general obligation bonds. The Commonwealth receives an allocation from the Federal government each year of the amount of QZABs permitted to be issued within the Commonwealth which it, in turn, grants to school districts pursuant to an application process. QZABs may be purchased only by qualified financial institutions and provide the qualified purchaser with a federal tax credit under the Internal Revenue Code of 1986, as amended.

d. Lease Rental Debt. The School District has issued lease rental debt through the issuance of bonds by the Pennsylvania State Public School Building Authority (the "Authority"). When issuing this type of debt a Sublease Agreement securing payment for the bonds is required. This sublease is an instrument evidencing such lease rental debt (the "sublease agreement"). The School District also enters into an Intercept Agreement with the Treasurer of the Commonwealth ("State Treasurer"), acknowledged by the Commonwealth's Department of Education and the Bond Trustee, in order to provide for Base Rental Payments due under the Sublease Agreement to be made directly by the State Treasurer to the Trustee from Commonwealth appropriations due to the School District.

The main types of short-term debt:

a. Tax and Revenue Anticipation Notes. The School District routinely issues tax and revenue anticipation notes pursuant to the Debt Act to relieve temporary cyclical cash flow deficiencies. Such tax and revenue anticipation notes are required under the Debt Act to be paid in the fiscal year in which they were issued and are not considered "debt" for purposes of determining the School District's debt limits and borrowing capacity. The School District has issued tax and revenue anticipation notes in 21 of the last 24 fiscal years.

   The School District has the right to issue tax and revenue anticipation notes that are secured by a pledge of taxes and other revenues up to a statutory limit not to exceed 85% of the sum of taxes levied for the current fiscal year and revenues pledged for the payment of the notes, all as estimated and certified by the Chief Business Officer of the School District in accordance with the Debt Act.

b. Bond Anticipation Notes. The School District may issue Bond Anticipation Notes (BANs) in expectation of General Obligation Bonds when cash is required to initiate or continue the capital project or when entry into long-term markets does not appear appropriate on a given date, but there is a clear potential for improvement within 12 months.

III. INTEREST RATE MANAGEMENT AGREEMENTS (DERIVATIVES)

A. Authority

The School District is authorized, under amendments to the Debt Act to enter into "qualified interest rate management agreements," which term is defined as agreements determined in the judgment of the School District to be designed to manage interest rate risk or interest costs of the School District on any debt which the School District is authorized to incur under the Debt Act. Such qualified interest rate management agreements may include swaps, interest rate caps, collars, corridors, ceiling and floor agreements, forward agreements, float agreements and other similar financing arrangements. The School District is required by the Debt Act to adopt an interest rate management plan ("Plan") prior to entering into such agreements.

B. Use of Derivatives

The School District will only utilize derivatives if it is determined that the proposed transaction has been designed to manage interest rate risk or interest cost to the School District on debt that the School District is authorized to incur, and will achieve one or more of the following objectives:

1) Optimize the capital structure, including the schedule of debt service payments and/or fixed verses variable rate allocations;
2) Achieve appropriate asset/liability match;
3) Reduce risk, including:

- o Interest rate risk;
- o Tax risk; or
- o Liquidity renewal risk;

4) Provide the District with greater financial flexibility;
5) Generate interest rate savings;
6) Enhance investment yields;
7) Manage exposure to changing markets in advance of anticipated bond issuances (through the use of anticipatory hedging instruments).

The use of a particular derivative product ***is not permitted*** if:

1) The rationale for using the derivative is based on speculation regarding the future direction or level of interest rates.
2) The fair market value of the transaction cannot be readily and reliably determined at all times by the School District or its agents
3) The transaction structure and terms will result in a lack of liquidity and the inability to timely terminate the transaction at market.
4) The transaction is inconsistent with the overall intent of the Plan or the requirements of the Debt Act.

It is the policy of the School District to limit its total exposure to derivatives to no more than 45% of its total outstanding debt.

C. Measuring, Evaluating, and Managing Derivative Risk

The Debt Act requires that, prior to entering a qualified interest rate management agreement, the School District must adopt the Plan, which must be prepared or reviewed by an independent financial advisor, and includes:

1) Schedules of all outstanding debt of the School District and all outstanding qualified interest rate management agreements, including outstanding debt service and estimated and maximum periodic scheduled payments of all outstanding qualified interest rate management agreements;

2) A schedule of all consulting, advisory, brokerage or similar fees paid or payable by the School District in connection with the qualified interest rate management agreement and of all such fees and finder's fees, if any, paid or payable by any other party in connection with qualified interest rate management agreements;

3) Analyses of the interest rate risk, basis risk, termination risk, credit risk, market-access risk, and other risks of entering into such agreements and of the net payments due for all debt outstanding and for all qualified interest rate management agreements; and

4) The School District's plan to monitor interest rate risk, basis risk, termination risk, credit risk, market-access risk, and other risks. Monitoring requires valuation of the market or termination value of all outstanding qualified interest rate management agreements.

The Plan further provides that the School District will seek to maximize the benefits and minimize the risks of derivative instruments by actively managing its derivative program. This will entail frequent monitoring of market conditions, by both the School District and its Independent Financial Advisor, for emergent opportunities and risks related to existing qualified interest rate management agreements. Active management shall include:

- Early termination;
- Shortening or lengthening the term;
- Sale or purchase of options; or
- Utilization of basis swaps.

D. Monitoring

The Plan requires monitoring reports that include, among other things, a valuation of all outstanding qualified interest rate management agreements, to be delivered by the Chief Business Officer to the School Reform Commission at least quarterly. These reports must include the following:

1) A description of all outstanding qualified interest rate management agreements, including bond series, type of derivative, rates paid and received by the School District, total notional amount, forward start dates, average life of each swap agreement, remaining term of each derivative, and option terms;

2) Description of all material changes to qualified interest rate management agreements or new qualified interest rate management agreements entered into by the School District since the last report;

3) Market value including termination exposure of each of the School District's qualified interest rate management agreements;

4) The credit rating of each counterparty and credit enhancer, if any, insuring qualified interest rate management agreement payments;

5) Information concerning any default by a counterparty, including, but not limited to, the financing impact, if any, to the School District;

6) If applicable, information concerning any default by the School District to any counterparty

7) Summary of qualified interest rate management agreements that were terminated or that have expired and the financial impact there from since the last report;

8) For a qualified interest rate management agreement entered into to generate debt service savings, calculation on an annual basis of the actual debt requirements compared to the projected debt service on the swap transaction at the original time of execution. The calculation shall include a determination of the cumulative actual savings, (or, if applicable, additional payments made by the School District) compared to the projected or expected savings at the time the swap was executed; and

9) The status of any collateral related to any swap transaction including, the type and amount of collateral, the market value of that collateral and the identity of the custodian. Collateral is posted by the counterparty, not the School District.

E. Methods for Procuring and Selecting Derivative Products

The School District solicits and procures interest rate management agreements by a competitive bid process whenever feasible. The School District will determine which parties are allowed to participate in a competitive transaction but these parties must conform to the minimum credit standards adopted by the School District in the Plan.

Notwithstanding the above, the School District may procure interest rate management agreements by negotiation if it has determined that due to the size or complexity of a particular interest rate management plan, competitive bidding is undesirable, impracticable or impossible and a negotiated transaction will result in the most favorable pricing. The School District should use a qualified independent financial advisory firm to assist in the negotiations of derivatives, including pricing, and to conduct competitive bidding.

Regardless of the method of procurement, as required by the Debt Act the School District will obtain an opinion from an independent financial advisory firm that the terms and conditions of the IRMA are fair and reasonable to the School District and reflect the fair market value of the agreement as of the effective date.

IV. DEBT ISSUANCE PRACTICES

A. Method of Sale

There are three primary methods of issuing debt obligations: competitive sale, negotiated sale and invited sale.

In a competitive sale, underwriters submit sealed bids and the underwriter or underwriting syndicate that submits the lowest True Interest Cost (TIC) is awarded the bonds. The School District establishes the bid specifications, which shall encourage the inclusion of qualified minority and women owned firms in the bidding syndicate. Therefore, the issuer does not have influence over the choice of the underwriting syndicate.

In a negotiated sale and invited sale, the underwriter or underwriting syndicate is selected by the School District. Also the interest rates and underwriter's fee are negotiated prior to the sale based upon market conditions.

When the market has interest rate stability, flexibility in the timing of the sale is not critical. However, the timing of the sale is critical when there is a volatile market. If this is the case, then a negotiated sale may be more appropriate.

An invited sale may be used for an issue that is best placed with a limited group of investors. QZABs are sold at invited sale because only certain financial institutions can buy them..

In both a negotiated sale and an invited sale, the financial advisor will issue a written report to the SRC supporting the method of sale. The Debt Act requires that the SRC make a finding that such a method of sale is in the best financial interest of the School District.

It shall be the policy of the School District to issue debt through competitive sale wherever feasible. When a negotiated sale would provide significant benefits to the SDP that would not be achieved through a competitive sale, the SDP may elect to sell debt obligations through an invited or negotiated sale. A negotiated sale may be appropriate if extensive pre-marketing to investors is advantageous. When bonds are unique or have a "story" associated with them, the pre-marketing process is essential. In recent years the School District's bonds have been characterized frequently as "story" bonds because the SDP is financially distressed.

For negotiated sales, the School District should seek to include qualified minority and women-owned firms on the underwriting team.

B. Refundings

Refunding opportunities should be monitored on an on-going basis to evaluate potential savings. A present value analysis should be prepared to analyze the potential savings and all costs of the refinancing should be taken into account. The present value analysis should be calculated on the transaction as a whole and on a maturity-by-maturity basis. To proceed with the refinancing, the present value savings should be at least three percent (3%) of the principal amount of the refunded debt incorporating all costs of issuance. For each maturity being refunded, the present value savings should be at least one percent (1%). If variable rate bonds are being used with an associated swap, the present value savings should be at least five percent (5%) of the principal amount of the refunded debt to account for the additional interest rate and credit risk associated with these transactions.

C. **Selection and Use of Professional Service Providers**

1) Bond Counsel and Financial Advisor

The School District will issue a Request for Qualifications (RFQ) for bond counsel and financial advisor at a minimum once every two years. The selection criteria included in the RFQ may include, but are not limited to:

- The firm's ability and experience in managing complex transactions,;
- Prior knowledge, experience and level of performance with the School District;

- Prior knowledge, experience and level of performance providing similar services to comparable clients;
- The quality and experience of the personnel that will be assigned to the School District engagement;
- In the case of bond counsel, knowledge and experience in tax matters, particularly federal tax matters and securities law;
- Ability of the firm and assigned personnel to evaluate legal issues, prepare documents and complete other tasks of a bond transaction in a timely manner;
- Demonstration of the firm's knowledge of governmental, economic, legal or other issues that may affect the proposed financing;
- In the case of financial advisors, analytical capability of the firm and assigned individuals and the availability of ongoing training and educational services that could be provided to the issuer.

School District management will disclose to the School Reform Commission the criteria utilized to evaluate respondents to the Request for Qualifications, the members of the evaluation team, the scoring mechanism utilized to evaluate the responses, the results of the evaluation, and the firms selected to provide services to the District. These evaluations will be kept on file and available for the SRC's review.

These evaluations will provide the School District with a pool of highly qualified firms. As part of this process, the School District will maintain a list of qualified minority or women-owned firms from the respondents to the Request for Qualifications that meet M/W/BE specifications as well as the other criteria described above.

2) Other Bond and Note Professionals

The School District will competitively procure services from underwriters, remarketing agents, LOC providers, and counterparties through Requests for Proposals (RFP) on an issue-by-issue basis except for emergency situations or in instances where a negotiated approach may be necessary to procure financial products that are proprietary or that have been customized to meet the needs of the School District. The selection criteria will include, but are not limited to:

- The firm's relevant underwriting experience;
- Prior knowledge, experience and level of performance with the School District;
- The quality and experience of the investment banking and the marketing and sales teams that will be assigned to the School District engagement.

School District management will disclose to the School Reform Commission the criteria utilized to evaluate respondents to the Request for Qualifications, the members of the evaluation team, the scoring mechanism utilized to evaluate the responses, the results of the evaluation, and the firms selected to provide services

to the District. These evaluations will be kept on file and available for the SRC's review.

3) Fees

All fees incurred in undertaking a bond financing will be payable from bond proceeds. The fees will vary depending upon the complexity of the issuance. School District management will disclose to the Commission the fees being paid by the District to all professional service providers participating in School District financing transactions.

4) Anti-Discrimination Policy

The procurement of all professional services for debt issuance shall be in compliance with the Anti-Discrimination policy of the School District.

D. Ratings and Rating Agency Communications

The School District will maintain good communications with the credit rating agencies to inform them about the SDP's financial position and will timely provide the rating agencies with the Comprehensive Annual Financial Report (CAFR) and the Adopted Operating Budget.

The School District will make all reasonable efforts to maintain and improve its bond ratings. As of February 2009, Moody's, S & P, and Fitch Ratings have assigned ratings of "Aa3," "A+," and "A+," respectively to the School District based upon the intercept provisions of Section 633 of the Public School Code. Moody's has assigned an underlying rating, without regard to the intercept provisions of Section 633 of the Public School Code, of "Ba2" with a stable outlook for the School District's general obligation bonds. Fitch has assigned its underlying rating, without regard to the intercept provisions of Section 633 of the public School Code, of "BBB-" with a stable outlook for the School District's general obligation bonds. S & P does not provide an underlying credit rating without regard to the intercept provisions for the School District.

E. Debt Management Practices

1) Investment of Bond Proceeds

In the case of general obligation bonds, the School District is required to maintain the investment of bond proceeds in accordance with the Public School Code of 1949, as amended, (24 P.S. 6-621) and by SRC-3 of April 21, 2004, (attached) and pursuant to the School Investment Law which allows investments in:

- United States Treasury bills, short-term obligations of the United States Government or its agencies or instrumentalities, obligations of the United State of America or any of its agencies or instrumentalities backed by the full faith and credit of the United States of America ("Government Obligations"),
- Savings accounts and time deposits of financial institutions insured by the Federal Deposit Insurance Corporation (FDIC), and
- Shares of an investment company registered under the Investment Company Act of 1940.

Sinking funds held by the Fiscal Agent under the Fiscal Agent Agreement will be invested at the direction of the School District in accordance with its Investment Policy and the Debt Act.

2) Continuing Disclosure Agreement

In order to enable the underwriters of its bonds to comply with SEC Rule 15c2-12, the School District enters into a Continuing Disclosure Agreement with the Fiscal Agent for each bond issue to provide for the timely filing of annual financial information, and material event notifications.

A Continuing Disclosure Agreement will be executed for each bond issue.

3) Post Issuance Tax Compliance

The School District shall maintain a system of record keeping and reporting in order to comply with the requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations thereunder for the bonds which are subject to the Code. These requirements include monitoring of arbitrage rebate and yield restriction and reduction requirements. The School District seeks to minimize the cost of arbitrage rebate and yield restriction, while complying with the Code requirements. The School District will engage an independent rebate analyst to prepare the required arbitrage rebate reports and will disclose the results in the CAFR.

4) Swap Monitoring and Reporting

In compliance with the Plan, the School District will engage an outside consultant to provide quarterly reports on each of its swaps as outlined in Section III.D., above. In addition, the School District will report the fair market value of its outstanding swaps and its exposure to risk in the CAFR each year.

CONCLUSION

This School District's Debt Management Policy constitutes a dynamic and living document and as such will be subject to periodic review and/or amendment to comply with applicable law and to ensure that the District's financial and operational flexibility is maintained. Additionally, from time to time, circumstances may call for approval of an exception to one or more of the policy constraints established

herein. Amendments to this policy, and exceptions to policy, must be submitted through the Chief Business Officer and the CEO/Superintendent to the School Reform Commission, and will become effective only after approval by the School Reform Commission.

In the case of any conflict between applicable law and this policy, applicable law shall prevail.

RATIOS

Ratio	Limit
Debt Service Costs as a Percentage of Revenue	**12%**
Unhedged Variable Rate Debt as a Percentage of Total Debt	**20%**
Total Exposure to Derivatives to Total Outstanding Debt	**45%**

Addendum

- **Glossary of Terms**
- **Interest Rate Management Plan**
- **Local Government Unit Debt Act**
- **Sample Request for Qualifications for Professionals**