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<tr><td colspan="2">CITY OF APPLETON
POLICY</td><td colspan="2">TITLE:
DEBT POLICY</td></tr>
<tr><td>ISSUE DATE:
Day of Council Adoption</td><td>LAST UPDATE:
8/17/93
5/17/00
7/28/14</td><td>SECTION:</td><td>FILE NAME:
H:\LISAWP\DEBTPOLICY.WPD</td></tr>
<tr><td colspan="3">POLICY SOURCE:
Finance Department</td><td>TOTAL PAGES:
4</td></tr>
<tr><td>Reviewed by Attorney's Office
Date: 5/3/00, 8/1/14</td><td colspan="2">Finance Committee
Approval Date: 5/10/00</td><td>Council Approval
Date: 5/17/00</td></tr>
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Purpose: Issue debt and manage our portfolio to ensure that the City maintains a sound debt position and that its credit quality is protected. Recognize that access to capital markets over the long term is dependent upon the City's unwavering commitment to full and timely repayment of debt.

Additionally, the policy sets forth specific procedures designed to monitor post-issuance compliance of tax-exempt obligations or tax-advantaged obligations issued with applicable provisions of the Internal Revenue Code of 1986, as amended (the "Code"), and regulations promulgated thereunder ("Treasury Regulations"). The City recognizes that compliance with applicable provisions of the Code and Treasury Regulations is an on-going process, necessary during the entire term of the Obligations, and is an integral component of the City's debt management. Accordingly, the analysis of those facts and implementation of the Policy will require on-going monitoring and consultation with bond counsel, advisors, and accountants.

Policy: The City may issue bonds and notes for purposes of financing its capital improvements program or to refund existing debt. The capital improvements program includes projects to acquire, plan, design, construct, improve and equip all or any part of its facilities or systems, promote economic development or to secure quality of life issues.

The City will strive to maintain a balanced relationship for financing its capital improvements through pay as you go financing for street reconstruction and equipment purchases.

The City will maintain practices and procedures designed to ensure compliance with the requirements that must be satisfied subsequent to the issuance of debt in order that the interest on such Obligations continue to be eligible to be excluded from gross income for federal income tax purposes or that the Obligations continue to receive tax-advantaged treatment.

Debt Limitations:

Section 67.03 of Wisconsin Statutes requires that general obligation debt outstanding not exceed 5% of the equalized valuation of the taxable property within the City. Revenue bonds and notes are not considered debt for purposes of determining compliance with constitutional debt limitations. The City intends to keep outstanding general obligation debt within 40% of the limit prescribed by law and at levels consistent with its credit objectives and long-term financial plan.

Types of Debt and Structural Features:

The City has statutory authority to finance capital improvements through the issuance of debt instruments, including:

- General Obligation Bonds and Promissory Notes
- Bond Anticipation Notes
- Revenue Bonds
- State of Wisconsin Capital Financing Programs
- Leases and Land Contracts

The City shall issue General Obligation Notes (maximum ten year maturity) for general capital improvements and Revenue Bonds (maximum twenty year maturity) for Water, Wastewater and Stormwater utility capital financing unless staff demonstrates other authorized debt instruments provide a financial advantage. The Finance Director will consider the useful life of the project assets being financed and the long-range financial and credit objectives when determining the final maturity structure of the debt. *The City intends to repay tax supported debt within seven years and* will issue debt on a fixed rate basis.

Capital lease financing shall be considered only if verifiable operating savings when properly discounted outweigh the lease financing costs. Written justification detailing the explanation of factors considered including a cash flow analysis reviewed by the Finance Director will be submitted to the Finance Committee for consideration and approval before any lease is entered into.

The City may also issue debt on behalf of for-profit or non-profit corporations when doing so would promote economic development or secure quality of life issues. Prior to issuing such debt, the corporation shall provide substantive proof acceptable to the City that no budget appropriation shall be required to pay the debt. The City shall not issue debt on behalf of a non-profit corporation if doing so would prevent the City from issuing "bank qualified" debt for its own purposes without compensation from the non-profit corporations to cover the additional debt service cost.

Credit Objectives:

The City will seek to maintain or improve its current credit rating with Moody's: General (Aa1), Wastewater ~~(Aa)~~ **(Aa2)**, Water ~~(A1)~~ **(Aa2)**, and Stormwater ~~(A2)~~ **(Aa2)**. The City will strive to maintain good relations with the rating agency and keep them informed of significant developments that could affect the City's credit rating.

In order to achieve its credit rating objective, the City recognizes the need to integrate the debt policy with its five year capital improvement program and long-range financial plan. The following objectives will be used to maintain debt service requirements at an affordable level and enhance the credit quality of the City:

- Levy for debt service no greater than 20% of the total tax levy with an effort to maintain the levy at a proportionate even level for tax rate stabilization.
- Responsible defeasance of general debt or reduction of current year borrowing package in accordance with the General Fund Balance Policy.
- Flexibility to fund future expenditures necessary to provide essential City services and economic viability.

Method of Sale

The City will issue general obligation debt through a competitive bidding process with the exception of Council authorized negotiated sales or State of Wisconsin Capital Financing Programs. Bids will be awarded on a true interest cost (TIC), providing other bidding requirements are satisfied. In the instances in which staff believes competitive bidding produced unsatisfactory bids, the Council may authorize staff to negotiate the sale of the securities.

Negotiated sales of general obligation debt will be considered in circumstances when the complexity of the issue requires specialized expertise (such as advanced refunding to restructure debt service), when time to complete a sale is critical or when a negotiated sale would result in substantial cost savings. Negotiated sales of debt will also be considered for revenue bonds, bond anticipation notes, leases and land contracts when the complexity of the project, revenue source for debt service, or security for the debt makes it likely that a negotiated sale would result in a financial advantage to the City.

Debt sold directly to the State of Wisconsin will be used when the City undertakes capital projects to maintain permit compliance, pollution control, or stormwater control or other issues that are eligible to receive below market rate loans.

Refundings

Periodic reviews of outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding.

In general, advance refundings for economic savings will be undertaken when net present value savings of at least 2% of the refunded debt can be achieved. Current refundings that produce net present value savings of less than 2% savings may be considered when there is a compelling public policy or long-range financing policy objective.

Disclosure

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional investors, other units of government, and the general public to share clear, comprehensible, and accurate financial information.

~~The Finance Department will provide continuing disclosure in compliance with continuing disclosure certifications made at the time of each debt issuance.~~

Financial Advisor and Bond Counsel

Selection criteria and selection of bond counsel and a financial advisor will undergo periodic review.

Post-Issuance Compliance

The following policies relate to procedures and systems for monitoring post-issuance compliance generally.

The Finance Director will:

A. Be responsible for monitoring post-issuance compliance issues.

B. Coordinate procedures for record retention and review of such records.

C. Maintain all documents and other records relating to Obligations issued and comply with applicable Internal Revenue Service ("IRS") requirements, such as those contained in Revenue Procedure 97-22.

D. Be aware of options for voluntary corrections for failure to comply with post-issuance compliance requirements (such as remedial actions under Section 1.141-12 of the Regulations and the Treasury's Tax-Exempt Bonds Voluntary Closing Agreement Program) and take such corrective action when necessary and appropriate.

E. Will review post-issuance compliance procedures and systems on a periodic basis, but not less than annually.

Issuance of Obligations - Documents and Records

With respect to each issue of Obligations, the Finance Director will:

A. Obtain and store a closing binder and/or CD or other electronic copy of the relevant and customary transaction documents (the "Transcript").

B. Confirm that bond counsel has filed the applicable information report (e.g., Form 8038, Form 8038-G, Form 8038-CP) for such issue with the IRS on a timely basis.

C. Coordinate receipt and retention of relevant books and records with respect to the investment and expenditure of the proceeds of such Obligations.

Arbitrage

The following policies relate to the monitoring and calculating of arbitrage and compliance with specific arbitrage rules and regulations.

The Finance Director will:

A. Confirm that a certification of the initial offering prices of the Obligations with such supporting data, if any, required by bond counsel, is included in the Transcript.

B. Confirm that a computation of the yield on such issue from the

City's financial advisor or bond counsel (or an outside arbitrage rebate specialist) is contained in the Transcript.

C. Maintain a system for tracking investment earnings on the proceeds of the Obligations.

D. Coordinate the tracking of expenditures, including the expenditure of any investment earnings. If the project(s) to be financed with the proceeds of the Obligations will be funded with multiple sources of funds, confirm that the City has adopted an accounting methodology that maintains each source of financing separately and monitors the actual expenditure of proceeds of the Obligations.

E. Maintain a procedure for the allocation of proceeds of the issue and investment earnings to expenditures, including the reimbursement of pre-issuance expenditures. This procedure shall include an examination of the expenditures made with proceeds of the Obligations within 18 months after each project financed by the Obligations is placed in service and, if necessary, a reallocation of expenditures in accordance with Section 1.148-6(d) of the Treasury Regulations.

F. Monitor compliance with the applicable "temporary period" (as defined in the Code and Treasury Regulations) exceptions for the expenditure of proceeds of the issue, and provide for yield restriction on the investment of such proceeds if such exceptions are not satisfied.

G. Ensure that investments acquired with proceeds of such issue are purchased at fair market value. In determining whether an investment is purchased at fair market value, any applicable Treasury Regulation safe harbor may be used.

H. Avoid formal or informal creation of funds reasonably expected to be used to pay debt service on such issue without determining in advance whether such funds must be invested at a restricted yield.

I. Consult with bond counsel prior to engaging in any post-issuance credit enhancement transactions or investments in guaranteed investment contracts.

J. Identify situations in which compliance with applicable yield restrictions depends upon later investments and monitor implementation of any such restrictions.

K. Monitor compliance with six-month, 18-month or 2-year spending exceptions to the rebate requirement, as applicable.

L. Procure a timely computation of any rebate liability and, if

rebate is due, to file a Form 8038-T and to arrange for payment of such rebate liability.

M. Arrange for timely computation and payment of "yield reduction payments" (as such term is defined in the Code and Treasury Regulations), if applicable.

Private Activity Concerns

The following polices relate to the monitoring and tracking of private uses and private payments with respect to facilities financed with the Obligations.

The Finance Director will:

A. Maintain records determining and tracking facilities financed with specific Obligations and the amount of proceeds spent on each facility.

B. Maintain records, which should be consistent with those used for arbitrage purposes, to allocate the proceeds of an issue and investment earnings to expenditures, including the reimbursement of pre-issuance expenditures.

C. Maintain records allocating to a project financed with Obligations any funds from other sources that will be used for otherwise non-qualifying costs.

D. Monitor private use of financed facilities to ensure compliance with applicable limitations on such use. Examples of potential private use include:

1. **Sale of the facilities, including sale of capacity rights;**

2. **Lease or sub-lease of the facilities (including leases, easements or use arrangements for areas outside the four walls, e.g., hosting of cell phone towers) or leasehold improvement contracts;**

3. **Management contracts (in which the Issuer authorizes a third party to operate a facility, e.g., cafeteria) and research contracts;**

4. **Preference arrangements (in which the Issuer permits a third party preference, such as parking in a public parking lot);**

5. **Joint-ventures, limited liability companies or partnership arrangements;**

6. **Output contracts or other contracts for use of utility facilities (including contracts with large utility users);**

7. Development agreements which provide for guaranteed payments or property values from a developer;

8. Grants or loans made to private entities, including special assessment agreements; and

9. Naming rights arrangements.

Monitoring of private use should include the following:

1. Procedures to review the amount of existing private use on a periodic basis; and

2. Procedures for identifying in advance any new sale, lease or license, management contract, sponsored research arrangement, output or utility contract, development agreement or other arrangement involving private use of financed facilities and for obtaining copies of any sale agreement, lease, license, management contract, research arrangement or other arrangement for review by bond counsel.

If the Finance Director identifies private use of facilities financed with tax-exempt or tax-advantaged debt, the Finance Director will consult with bond counsel to determine whether private use will adversely affect the tax status of the issue and if so, what remedial action is appropriate. The Finance Director should retain all documents related to any of the above potential private uses.

Qualified Tax-Exempt Obligations

If the City issues "qualified tax-exempt obligations" in any year, the Finance Director shall monitor all tax-exempt financings (including lease purchase arrangements and other similar financing arrangements and conduit financings on behalf of 501(c)(3) organizations) to assure that the $10,000,000 "small issuer" limit is not exceeded.

Record Retention

The following polices relate to retention of records relating to the Obligations issued.

The Finance Director will:

A. Coordinate with staff regarding the records to be maintained to establish and ensure that an issue remains in compliance with applicable federal tax requirements for the life of such issue.

B. Coordinate with staff to comply with provisions imposing specific recordkeeping requirements and cause compliance with such provisions, where applicable.

C. Coordinate with staff to generally maintain the following:

1. The Transcript relating to the transaction (including any arbitrage or other tax certificate and the bond counsel opinion);

2. Documentation evidencing expenditure of proceeds of the issue;

3. Documentation regarding the types of facilities financed with the proceeds of an issue, including, but not limited to, whether such facilities are land, buildings or equipment, economic life calculations and information regarding depreciation.

4. Documentation evidencing use of financed property by public and private entities (e.g., copies of leases, management contracts, utility user agreements, developer agreements and research agreements);

5. Documentation evidencing all sources of payment or security for the issue; and

6. Documentation pertaining to any investment of proceeds of the issue (including the purchase and sale of securities, SLGs subscriptions, yield calculations for each class of investments, actual investment income received by the investment of proceeds, guaranteed investment contracts, and rebate calculations).

D. Coordinate the retention of all records in a manner that ensures their complete access to the IRS.

E. Keep all material records for so long as the issue is outstanding (including any refunding), plus seven years.

Continuing Disclosure

Under the provisions of SEC Rule 15c2-12 (the "Rule"), underwriters are required to obtain an agreement for ongoing disclosure in connection with the public offering of securities in a principal amount in excess of $1,000,000. Unless the City is exempt from compliance with the Rule as a result of certain permitted exemptions, the Transcript for each issue of Obligations will include an undertaking by the City to comply with the Rule. The Finance Director will monitor compliance with its undertakings, which may include the requirement for an annual filing of operating and financial information and will include a requirement to file notices of listed "material events."

Conduit Bond Financings

In conduit bond financings, such as industrial revenue bonds, the City is not in a position to directly monitor compliance with arbitrage requirements and qualified use requirements because information concerning and control of those activities lies with the private borrower. The City's policy in connection with conduit financings is to require that the bond documents in such financings impose on the borrower (and trustee or other applicable party) responsibility to monitor compliance with qualified use rules and arbitrage and other federal tax requirements and to take necessary action if remediation of nonqualified bonds is required.