

RESOLUTION ADOPTING A DEBT POLICY

WHEREAS, The Board of County Commissioners of Hamilton County, Ohio maintains the lawful authority in accordance with the O.R.C. to establish, adopt, revise and modify policies, procedures and other rules of debt management under the Board's jurisdiction; and

WHEREAS, the County Administrator has recommended to the Board a debt policy; and

WHEREAS, the debt policy has been forwarded to the County's bond counsel, the County Auditor, the County Treasurer and various investment bankers for comments; and

WHEREAS, the proposed debt policy has been discussed at staff and modifications have been made based on these discussions.

NOW, THEREFORE, BE IT RESOLVED by the Board of County Commissioners of Hamilton County, Ohio that the debt policy attached to this resolution be adopted; and

BE IT FURTHER RESOLVED that the Clerk of this Board be and hereby is authorized and directed to certify copies of this resolution to the County Administrator, the County Auditor, the County Treasurer, the Director of Administrative Services, and John Fischer from Peck, Shaffer & Williams, the County's bond counsel.

ADOPTED at a regularly adjourned meeting of the Board of County Commissioners of Hamilton County, Ohio this 22nd day of February, 1995.

Mr. Bedinghaus, AYE

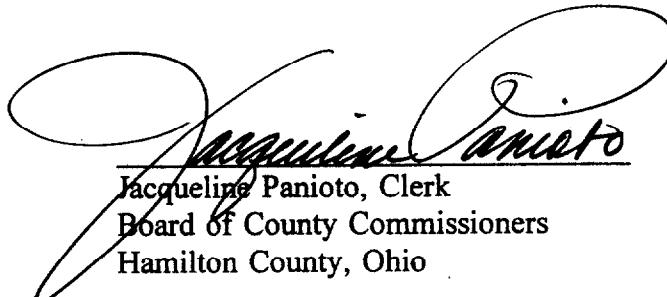
Mr. Dowlin, AYE

Mr. Guckenberger, AYE

CERTIFICATE OF CLERK

IT IS HEREBY CERTIFIED that the foregoing is a true and correct transcript of a resolution adopted by the Board of County Commissioners in session the 22nd day of February, 1995.

IN WITNESS WHEREOF, I have hereunto set my hand and affixed the official seal of the Office of County Commissioners of Hamilton County, Ohio this 22nd day of February, 1995.


Jacqueline Panioto, Clerk
Board of County Commissioners
Hamilton County, Ohio

HAMILTON COUNTY DEBT POLICY

This process is intended to be used for the purpose of making recommendations to the Board regarding the issuance of debt. It is understood that the Board of County Commissioners makes the final decision.

1. Hamilton County will not use long-term debt to finance current operations.
2. The economic benefits of purchase vs. lease purchase vs. straight lease will be reviewed at the time of acquisition for routine purchases. These installments, if used, will not exceed five years in duration.
3. Hamilton County will use long term debt to finance capital improvement projects that cannot be financed from current revenue sources or which logically should be paid for by multiple generations of taxpayers.
4. The total unvoted general obligation debt service of the Hamilton County general fund will not exceed 10 percent of the total general fund operating budget. Debt for all other restricted funds will be issued after a case by case determination that debt service can be paid from the restricted fund without general fund supplementation.
5. Hamilton County will not incur unvoted net debt or total net debt exceeding the limitations in Section 133.07 of the Ohio Revised Code, a copy of which is attached.
6. Debt for obligations having a duration of five years or less may be funded through the use of short term notes if the County Administrator and Director of Administrative Services advise that (A) the projected interest rates relative to the costs associated with bonded debt issuance are to the advantage of the County, and (B) such analysis is made at each renewal.
7. Construction projects having debt obligations of more than five years may, on the advice of the County Administrator and the Director of Administrative Services, be funded through short term notes during construction to be followed by longer term bonding when the project is completed. The County Administrator and the Director of Administrative Services will use the Delphos Bond Index, the condition of the bond yield curve, and the advice of investment counselors in determining appropriate debt issuance in each instance.
8. Projects not involving construction having debt obligations of more than five years will be funded through bonding at the time of

acquisition.

9. Notes to be issued in an amount of \$250,000 in principal or less may be purchased through an informal bid process involving all municipal underwriters having an office in Hamilton County listed in the "Bond Buyers Municipal Marketplace." If, in the opinion of the Director of Administrative Services, it is determined that market or other conditions dictate that the informal process is not appropriate, a formal process may be used.

10. Notes to be issued in an amount greater than \$250,000 in principal shall be purchased through a formal competitive bid process involving all firms.

11. All General Obligation Bonds will be issued with all maturities and interest rates subject to a formal competitive bid process unless the Board of County Commissioners directs otherwise.

12. Absent compelling arguments on a case by case basis, all General Obligation Bonds will be issued with a call feature with the exception of special assessment bonds. Exceptions must be approved by the Board of County Commissioners.

13. Revenue Bonds may be issued through a negotiated sale after consideration of the following factors as enumerated in the California Debt Advisory Commission Issue Brief No. 1 dated September, 1992:

A. Issuer characteristics

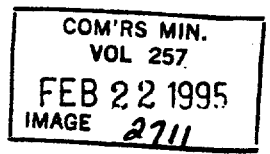
1. Market familiarity
2. Credit strength
3. Policy goals

B. Financing characteristics

1. Type of debt instrument
2. Issue size
3. Complexity of the issue
4. Market conditions
5. Story bonds

and if (a) the underwriter(s) have been chosen through a competitive process within the preceding five years, (b) no significant changes in the market place have taken place which would likely result in significantly improved performance by alternative underwriter(s), and (c) this policy does not conflict with other policies which may be mandated by law or adopted by the Commissioners.

14. Revenue Bonds underwriting services will be solicited from all major and local investment banking firms. All firms expressing an interest in providing the service will be allowed to participate in the process individually or as part of a group. Firms will be allowed to submit multiple proposals individually or as a part of one or more groups. Individual bids, multiple bid proposals, and any combination of these beneficial to the county will be evaluated by the County Administrator, the Director of Administrative Services, and the affected department based on criteria attached,



and recommended to the Board for approval.

15. Investment of capital funds will be done by the Hamilton County Treasurer in a manner consistent with the Uniform Depository Act, Section 135 of the Ohio Revised Code, subject to review by the County's Investment Advisory Committee established by Section 135.341 of the Ohio Revised Code.

16. All bonds, as prescribed by Ohio law, will be financed for a period not to exceed the expected useful life of the project.

17. No bonds will be issued which provide for balloon principal payments at the end of the term of issuance except that level debt service as defined in ORC 133.21 is permissible.

18. No bonds will be issued involving variable-rate debt.

19. Hamilton County will maintain good communications with bond rating agencies about its financial condition and will follow a policy of full disclosure on every financial report and bond prospectus.

20. For each issue of debt, Hamilton County will consult bond counsel.

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city automatically transfers a portion of a rural school district to a city school district, considered: 1927 OAG p.2516.

25. (1927) When the tax commission is requested to consent to the submission to popular vote of the question of a bond issue by a school district, in an amount which will make the net indebtedness after the issuance of such bonds exceed four percent of the total value of all property in said school district as listed and assessed for taxation, said commission should consider the facts and should then determine, in the exercise of a reasonable discretion, whether or not it will consent or refuse to consent to permit the question of the issuance of the bonds to be submitted to the electors: 1927 OAG p.1950.

[§§ 133.06.1, 133.06.2]

§§ 133.061, 133.062 Repealed, 143 v H 230, § 2 [129 v 442; 133 v H 450]. Eff 10-30-89.

These sections concerned refunding revenue bonds, and off-street parking bond exemption.

§ 133.07 Net indebtedness of county.

(A) A county shall not incur, without a vote of the electors, either of the following:

(1) Net indebtedness for all purposes that exceeds an amount equal to one per cent of its tax valuation;

(2) Net indebtedness for the purpose of paying the county's share of the cost of the construction, improvement, maintenance, or repair of state highways that exceeds an amount equal to one-half of one per cent of its tax valuation.

(B) A county shall not incur total net indebtedness that exceeds an amount equal to one of the following limitations that applies to the county:

(1) A county with a valuation not exceeding one hundred million dollars, three per cent of that tax valuation;

(2) A county with a tax valuation exceeding one hundred million dollars but not exceeding three hundred million dollars, three million dollars plus one and one-half per cent of that tax valuation in excess of one hundred million dollars;

(3) A county with a tax valuation exceeding three hundred million dollars, six million dollars plus two and one-half per cent of that tax valuation in excess of three hundred million dollars.

(C) In calculating the net indebtedness of a county, none of the following securities shall be considered:

(1) Securities described in section 307.201 [307.20.1] of the Revised Code;

(2) Self-supporting securities issued for any purposes, including, but not limited to, any of the following general purposes:

(a) Water systems or facilities;

(b) Sanitary sewerage systems or facilities, or surface and storm water drainage and sewerage systems or facilities, or a combination of those systems or facilities;

(c) County or joint county scrap tire collection,

storage, monocell, monofill, or recovery facilities, or any combination of those facilities;

(d) Off-street parking lots, facilities, or buildings, or on-street parking facilities, or any combination of off-street and on-street parking facilities;

(e) Facilities for the care or treatment of the sick or infirm, and for housing the persons providing that care or treatment and their families;

(f) Recreational, sports, convention, auditorium, museum, trade show, and other public attraction facilities;

(g) Facilities for natural resources exploration, development, recovery, use, and sale;

(h) Correctional and detention facilities and related rehabilitation facilities.

(3) Securities issued for the purpose of purchasing, constructing, improving, or extending water or sanitary or surface and storm water sewerage systems or facilities, or a combination of those systems or facilities, to the extent that an agreement entered into with another subdivision requires the other subdivision to pay to the county amounts equivalent to debt charges on the securities;

(4) Voted general obligation securities issued for the purpose of permanent improvements for sanitary sewerage or water systems or facilities to the extent that the total principal amount of voted securities outstanding for the purpose does not exceed an amount equal to two per cent of the county's tax valuation;

(5) Securities issued for permanent improvements to house agencies, departments, boards, or commissions of the county or of any municipal corporation located, in whole or in part, in the county, to the extent that the revenues, other than revenues from unvoted county property taxes, derived from leases or other agreements between the county and those agencies, departments, boards, commissions, or municipal corporations relating to the use of the permanent improvements are sufficient to cover the cost of all operating expenses of the permanent improvements paid by the county and debt charges on the securities;

(6) Securities issued pursuant to section 133.08 of the Revised Code;

(7) Securities issued for the purpose of acquiring or constructing roads, highways, bridges, or viaducts, for the purpose of acquiring or making other highway permanent improvements, or for the purpose of procuring and maintaining computer systems for the office of the clerk of any county-operated municipal court, for the office of the clerk of the court of common pleas, or for the office of the clerk of the probate, juvenile, or domestic relations division of the court of common pleas to the extent that the legislation authorizing the issuance of the securities includes a covenant to appropriate from moneys distributed to the county pursuant to division (B) of section 2101.162 [2101.16.2], 2151.541 [2151.54.1], 2153.081 [2153.08.1], 2301.031 [2301.03.1], or 2303.201 [2303.20.1] or Chapter

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[6.2], 2151.541
1), 2301.031
] or Chapter

4501., 4503., 4504., or 5735. of the Revised Code a sufficient amount to cover debt charges on and financing costs relating to the securities as they become due;

(8) Securities issued for the purpose of acquiring, constructing, improving, and equipping a county, multicounty, or multicounty-municipal jail, workhouse, juvenile detention facility, or correctional facility;

(9) Securities issued for the acquisition, construction, equipping, or repair of any permanent improvement or any class or group of permanent improvements enumerated in a resolution adopted pursuant to division (D) of section 5739.026 [5739.02.6] of the Revised Code to the extent that the legislation authorizing the issuance of the securities includes a covenant to appropriate from moneys received from the taxes authorized under section 5739.023 [5739.02.3] and division (A)(5) of section 5739.026 [5739.02.6] of the Revised Code an amount sufficient to pay debt charges on the securities and those moneys shall be pledged for that purpose;

(10) Securities issued for county or joint county solid waste or hazardous waste collection, transfer, or disposal facilities, or resource recovery and solid or hazardous waste recycling facilities, or any combination of those facilities;

(11) Securities issued for the acquisition, construction, and equipping of a port authority educational and cultural facility under section 307.671 [307.67.1] of the Revised Code;

(12) Securities issued for the acquisition, construction, equipping, and improving of a municipal educational and cultural facility under division (B)(1) of section 307.672 [307.67.2] of the Revised Code;

(13) Securities issued for energy conservation measures under section 307.041 [307.04.1] of the Revised Code.

(D) In calculating the net indebtedness of a county, no obligation incurred under division (E) of section 339.06 of the Revised Code shall be considered.

HISTORY: GC § 2293-16; 112 v 364; Bureau of Code Revision, RC § 133.05, 10-1-53; 125 v 218 (EFF 6-26-53); 125 v 43 (EFF 10-2-53); 128 v 819 (EFF 9-17-59); 131 v 73 (EFF 9-20-65); 132 v 5475 (EFF 6-11-68); 133 v S 153 (EFF 10-22-69); 133 v H 450 (EFF 11-25-69); 134 v S 166 (EFF 11-19-71); 140 v S 33 (EFF 5-11-83); 141 v H 472 (EFF 6-6-86); 141 v H 4 (EFF 9-24-86); 141 v H 428 (EFF 12-23-86); 142 v H 161 (EFF 9-10-87); 142 v H 455 (EFF 7-20-87); 142 v H 274 (EFF 7-20-87); 142 v H 708 (EFF 4-19-88); 142 v H 592 (EFF 6-24-88); RC § 133.07, 143 v H 230 (EFF 10-30-89); 144 v H 207 (EFF 9-17-91); 144 v H 405 (EFF 1-1-93); 144 v S 359 (EFF 12-22-92); 144 v S 124 (EFF 4-16-93); 145 v H 207 (EFF 6-30-93); 145 v S 165 (EFF 10-29-93); 145 v H 300. EFF 7-1-94.

Former RC § 133.07 renumbered RC § 133.09 in 143 v H 230.

See provisions, § 5 of HB 207 (145 v -) following RC § 133.05.

The provisions of § 3 of HB 300 (145 v -) read as follows:

Section 3. Section 133.07 of the Revised Code is presented in this act as a composite of the section as amended by both Am. Sub. H.B. 207 and Am. Sub. S.B. 165 at the 120th General Assembly, with the new language of neither of the acts shown in capital letters. * * * This is in recognition of the principle stated in division (B) of section 1.52 of the Revised Code that such amendments are to be harmonized where not substantively irreconcilable and constitutes a legislative finding that such is the resulting version in effect prior to the effective date of this act.

Cross-References to Related Sections

Anticipation bonds or notes not to be considered in ascertaining limitations of net indebtedness, RC § 339.14.
Board of county hospital trustees may issue revenue bonds, RC § 339.03.

Bonds and notes issued to establish political subdivision self-insurance program for health care benefits not considered in calculating net indebtedness, RC § 9.83.3.

Capitalized interest may be included in the principal amount of securities, RC § 133.16.

County revenue securities, RC § 133.08.

Debt limitation not applicable to lease of correctional facilities, RC § 307.02.2.

Direct debt limit defined, RC § 5705.51.

Subdivisions may issue bonds to participate in federal aid, RC § 139.02.

Ohio Constitution

Limitation on tax rate; exemptions, OConst art XII, § 2.

Research Aids

Net indebtedness of counties:

O-Jur3d: Count, Twp & Mun § 7

Am-Jur2d: Mun Corp §§ 580, 598-600

C.J.S.: Counties § 224

West Key No. Reference

Counties 150

ALR

Actual levy or permissible maximum levy of taxes as determining limit of indebtedness of municipality under statute or constitutional provision limiting indebtedness with reference to income or revenue. 122 ALR 330.

Inclusion of tax-exempt property in determining value of taxable property for debt limit purposes. 30 ALR2d 903.

Presumptions and burden of proof as to violation of or compliance with public debt limitation. 16 ALR2d 515.

CASE NOTES AND OAC

[DECISIONS CONSTRUING FORMER ANALOGOUS RC § 133.05]

1. (1975) Where voters were asked to approve bonds in the amount stated for the purpose stated, with the understanding that these bonds would be paid for by taxes outside the ten-mill limitation, they did not prohibit the county from issuing additional bonds for such purpose to be paid from taxes within the ten-mill limitations: State ex rel. Corrigan v. Voinovich, 41 OS2d 157, 324 NE2d 285.

2. (1968) A board of county commissioners is authorized by law to issue bonds for the construction of a county courthouse larger than that required to meet the present

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and/or future needs of the county and with the express intention of leasing the surplus space to a municipal corporation located within the county: OAG No.68-152.

[DECISIONS UNDER FORMER
ANALOGOUS SECTIONS]

1. (1958) Although the term "improvement" as defined in RC § 133.01 is sufficiently broad to include personalty having an estimated life or usefulness of five years or more, the use of this term in this section in the expression "improvement . . . of any one county building" is in such context as to signify the accomplishment of an addition or betterment to the real estate, and does not encompass the mere installation of equipment housed and used in a building without being permanently affixed to the realty: 1958 OAG No.2880.

2. (1954) The commissioners of a county have authority under RC § 307.02 to make needed repairs to the courthouse, and if the cost thereof is to be paid from an issue of bonds, the amount of bonds that may be issued without a vote of the electors, is limited by former RC § 133.05 to twenty thousand dollars within a period of five years. But if the cost of such repairs is to be paid out of available funds without the issuance of bonds, the law places no limit upon the amount that may be so expended: 1954 OAG No.3876.

3. (1951) The acquisition and installation in a county court house of equipment, including a two-way radio system, a photostat machine, a blue-print machine and a tax billing machine, all with an estimated life or usefulness of five years or more, constitute an "improvement" within the meaning of this section, and a bond issue for such purpose is subject to the limitations therein provided: 1951 OAG No.247.

4. (1945) The uniform bond act makes no provision for the declaration of an emergency for the purpose of enabling county commissioners to issue unvoted county jail improvement bonds in excess of the limitations on bonded indebtedness prescribed by this section: 1945 OAG No.595.

5. (1945) Bonds may be issued by county commissioners within the limitation prescribed by this section, for the purpose of remodeling the county jail, without submitting the question of their issuance to the electors, provided they can be issued within the net indebtedness limitations prescribed by the first paragraph of this section and be serviced within the aggregate ten-mill limitation; but bonds may not be issued in excess of the limitations of this section without the approval of the electors: 1945 OAG No.595.

6. (1942) Outstanding bonds issued by the county commissioners for the purpose of improving and repairing the county courthouse building should not be counted and included in making up the twenty thousand dollars of unvoted bonds which the commissioners may issue for the purpose of purchasing another county building: 1942 OAG No.5184.

7. (1942) The twenty-thousand dollar limitation has no application to the purchase price of a building to be paid from funds other than the proceeds of a bond and note issue put out under the provisions of the uniform bond act, and "net indebtedness" refers solely to indebtedness created by the issuance and delivery of bonds and notes under that act: 1942 OAG No.5184.

8. (1931) County bonds which have been issued in anticipation of the collection of county taxes, special assessments and township taxes, should be considered in computing the net indebtedness provided in this section, only to the extent that such bonds are issued in anticipation of the collection of county taxes: 1931 OAG No.3496.

9. (1929) Bonds for construction of district hospital may be issued by the county commissioners without vote of electors, within the limitations of this section: 1929 OAG p.405.

§ 133.08 County revenue securities.

(A) In addition to any power to issue securities under other provisions of the Revised Code for the purposes, a county may issue revenue securities as authorized in this section.

(B) A county may issue revenue securities to fund or refund revenue securities previously issued, or for any purposes for which it could issue self-supporting securities and, without limitation, any of the following general purposes:

(1) For one or more established sewer districts, any of the purposes provided in divisions (C)(2)(a) and (b) of section 133.07 of the Revised Code;

(2) Hospital facilities as defined in division (E) of section 140.01 of the Revised Code;

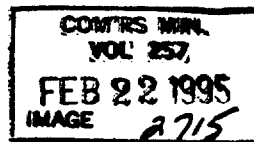
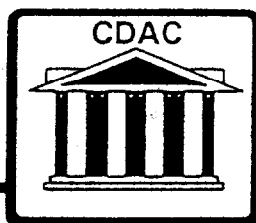
(3) Facilities described in division (C)(10) of section 133.07 of the Revised Code;

(4) Off-street parking facilities pursuant to section 307.02 of the Revised Code.

(C) The county shall establish rates or charges for the use, availability, or rental of the facilities to which the financing relates, being the improvement, enterprise, system, project, or categories of improvements or the operation or function that the facilities serve, which rates or charges shall be designed to provide revenues to the county sufficient to pay the costs of all current expenses of the facilities payable by the county and to pay the debt charges on the securities and to establish and maintain any contractually required special funds relating to the securities or the facilities.

(D) Revenue securities issued under this section shall not be general obligations of the county. Revenue securities issued under this section shall be secured only by a pledge of and lien upon the revenues of the county, derived from its ownership or operation of the facilities, including those rates or charges or rents and any interest subsidies or debt charges, grants, or other payments by federal or state agencies available therefor, and the covenants of the county to maintain sufficient rentals, rates, and charges to produce revenues sufficient to pay all current expenses of the facilities payable by the county and to pay the debt charges on the securities and to establish and maintain any contractually required special funds relating to the securities or the facilities, and, if the securities are anticipatory securities, to issue the revenue securities in anticipation of the issuance of which the revenue securities are issued. Revenue securities may also be secured by a pledge of and lien on the proceeds of any securities issued to fund or refund those revenue securities.

(E) The county officers authorized by the county taxing authority shall execute the necessary documents, including but not limited to trust agreements



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D.J.K.

SEPTEMBER 1992

COMPETITIVE VERSUS NEGOTIATED SALE OF DEBT

Deciding whether to go negotiated or competitive is the most important decision an issuer can make.

The Bond Buyer, April 8, 1991

INTRODUCTION

While one may quibble with the notion that the decision to sell debt through the negotiated or competitive process is "the most important decision an issuer can make," this issue clearly represents one of the most controversial topics in public finance today. The controversy extends back to the mid-1970s, when more and more issuers began to select the negotiated method as the preferred way of selling bonds. This shift has been attributed to several factors, including the increasing utilization of revenue bonds instead of general obligation bonds; the volatile interest rate environment of the late 1970s and early 1980s; and the emergence of innovative financing options and products. The last factor is particularly relevant to California, where the restrictions imposed by Proposition 13 in 1978 led to the development of new financing techniques.

Most bond industry professionals would agree that neither the competitive sale nor the negotiated method of sale is ideal for *all* bond issues. The appropriate method of sale should be determined on a case-by-case basis after evaluating a number of factors related to the proposed financing, the issuer, and the bond market. The challenge for public issuers, then, is to properly identify how the relevant decision factors apply to their proposed bond issues. This *Issue Brief* on the two principal methods of selling public debt is designed to help issuers conduct such a systematic evaluation of their proposed bond issues. It is intended to provide general guidelines for public issuers, particularly those who are infrequent participants in the bond market.

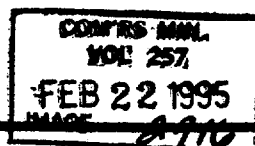
COMPETITIVE UNDERWRITING

Competitive underwriting is the method of bond sale in which the issuer sells its bonds to the underwriter offering the lowest bid meeting the terms of the sale. In a competitive underwriting, the issuer, typically with a financial advisor or investment banker, conducts all the origination tasks necessary for the bond offering. These tasks include structuring the maturity schedule, preparing the official statement, verifying legal documents, obtaining a rating, securing credit enhancement, and timing the sale. The issuer then advertises the sale of the bonds in advance of the specified sale date through a Notice of Sale (NOS). The NOS contains relevant information on the proposed issue and the criteria by which the bonds will be awarded. At the specified date, time, and venue, the issuer opens all bids and awards the right to purchase the bonds to the underwriter with the best bid based on the criteria specified in the NOS.

Advantages

Competitive environment. The issuer's ultimate goal in a financing is to protect the public's interest by obtaining the lowest possible interest cost. Consequently, the most compelling argument in favor of a competitive sale is that the competition among underwriters provides the incentive for keeping the effective interest cost as low as possible. Under the competitive bid process, market forces determine the price.

Historically lower spreads. While the gross underwriting spreads (management fee, ex-



penses, underwriting fee, and takedown) between competitive and negotiated bond sales have been narrowing over the past decade, competitive underwriting is still generally viewed as the best means of reducing underwriting costs. While one may argue that equating spreads is an *apples versus oranges* comparison and that any advantage in spread should be weighed against other costs of the financing, data since 1982 indicate that competitive issues hold an edge in terms of lower underwriter fees paid on general obligation and revenue bond issues.

Open process. The other positive feature of competitive sale is that the issuer generally avoids allegations of unfairness or impropriety in the selection of the underwriter because the bonds are sold through a public auction.

Disadvantages

Risk premium. Underwriters bidding on a competitive sale have no guarantee of being awarded the bonds. Thus, underwriters cannot be expected to conduct the same level of pre-sale marketing (canvassing prospective investors before the sale) as in a negotiated sale. To compensate for uncertainty about market demand, underwriters may include a hedge or a risk premium in their bids, which can show up either in the spread or the reoffering scale. The amount of the risk premium, however, should also be weighed against the total cost of the financing.

Limited timing and structural flexibility. An issuer's ability to make last-minute changes is limited by the competitive sale process. With regard to timing, competitive bidding entails a 15-day lag between the time documents are completed and the actual sale date, due to legal notice requirements. Hence, the issuer's ability to speed up the sale process, if necessary, is restricted. While a Notice of Sale can be structured to allow for postponement of a competitive sale and subsequent reoffering with a minimum of two days prior notice, the competitive sale process remains less flexible than its negotiated counterpart.

In addition, the competitive sale restricts the issuer's ability to adjust major structural features, such as final maturity and call provisions,

to match the demand realized in the actual sale process. Again, while a properly structured NOS can increase the flexibility of competitive sale by allowing for changes in the size of the issue (within certain parameters), principal maturity amounts, and the composition of serial versus term bonds, a negotiated sale still holds the advantage if flexibility in structuring is of paramount consideration.

Minimum issuer control over underwriter selection and bond distribution. In competitive underwriting, the bonds are sold to the underwriter submitting the best bid, based on the NOS criteria. The issuer exerts little influence over which underwriting firms actually purchase the bonds and how these bonds are ultimately distributed. For example, the issuer's ability to ensure that regional firms are included in the underwriting syndicate of a large issue, or that a portion of the bonds are sold to certain types of investors (e.g., retail or regional investors) is limited. In competitive sale, market forces determine the distribution of the bonds. This lack of control, however, should only be disadvantageous to the extent that the issuer is interested in influencing the composition of the underwriting team or the distribution of the bonds.

NEGOTIATED UNDERWRITING

In a negotiated sale, the terms of the purchase are subject to negotiation between the issuer and the underwriter. Whereas the issuer accepts or rejects the underwriter bids in a competitive sale, the issuer can and is expected to negotiate with the underwriter over the price of the bonds and the spread in a negotiated sale.

In a negotiated sale, underwriter selection is one of the first steps taken by the issuer. Because the issuer selects an underwriter without fully knowing the terms under which that underwriter is willing to purchase the bonds, the issuer's selection is based on other criteria, which generally include the underwriter's expertise, financial resources, compatibility, and experience. Once the underwriter is selected, both the underwriter and the issuer participate in the origination and the pricing of the issue. A financial advisor or another investment banking firm will often represent the issuer's interest in a negotiated sale.

Advantages

Assistance in originating the issue. While the underwriter's primary role in a negotiated sale is as the purchaser of the issue, the underwriter can also assist the issuer in performing origination tasks such as preparing the official statement, making presentations to rating agencies, and obtaining credit enhancement -- in essence, "one-stop shopping." Some issuers, however, prefer to engage a financial advisor or another investment banking firm for assistance in a negotiated sale. In a competitive sale, the issuer performs the origination tasks or pays for these services separately.

Effective pre-sale marketing. Because the underwriter in a negotiated offering is assured the right to purchase the bonds, the underwriter can conduct more effective pre-sale marketing than in a competitive sale. By developing information about market demand for the bonds, the underwriter can reduce inventory risk, presumably leading to a lower risk premium in the pricing. Pre-sale marketing is especially important for issuers who have not developed a reputation among investors or whose securities are not widely held among investors.

Timing and structural flexibility. Another advantage of negotiated underwriting is flexibility--the ability to sell the bonds at any time and to change the structure of the issue in response to changing conditions. Although the issuer may announce a negotiated sale date, this date is considered a target and can be changed if deemed necessary (because of a large supply of similar securities or unfavorable interest rate movements, for example). Similarly, negotiated underwriting allows the issuer the flexibility to adjust the structure of the issue up until the time of sale to meet either the issuer's or the investors' needs.

Influence over underwriter selection and bond distribution. In a negotiated sale, the issuer exercises more influence over underwriter selection and bond distribution. The choice of the underwriter in a negotiated sale is based on a variety of criteria which may target certain types of underwriting firms and establish distribution goals. Issuers trying to reach certain

market sectors may be able to negotiate with the underwriter to allocate the bonds accordingly. Again, this type of control should only be relevant to issuers wishing to include certain firms in the underwriting syndicate or wanting to make sure that certain types of customers receive a portion of the bonds.

Disadvantages

Lack of competition in the pricing. In a negotiated sale, the bond pricing is less subject to the rigors of competition, as the underwriter obtains the exclusive right to purchase the bonds in advance of the pricing. Unless the issuer is vigilant during the pricing, the interest rates may be structured to protect the profit margin of the underwriter, not to keep the issuer's borrowing costs as low as possible. Although some underwriters may exercise restraint in the pricing to protect their reputation and promote future business, issuers should take the responsibility to obtain market information on comparable transactions at the time of the pricing.

Elements of spread open to wide fluctuation. While underwriters in a negotiated sale can provide an array of financial services which are in addition to the actual underwriting of the bonds, issuers should not lose sight of the fact that these services come at a price. Insofar as the cost of these services will be paid for as part of the underwriting spread (versus a flat fee), some issuers may not be fully aware of the compensation that is being provided for such services, or whether they actually need all the services being provided. Thus, the chances for wide fluctuations in spread between comparable deals is greater in a negotiated environment. The negotiated sale process demands increased scrutiny on the part of the issuer to keep spreads reasonable.

Appearance of favoritism. Because underwriter selection is based on quantitative and qualitative factors, negotiated sales can be subject to allegations of impropriety. Issuers must be prepared to defend their underwriter selection criteria, as well as their ultimate cost of borrowing, to avoid the appearance of impropriety.

COMPETITIVE VERSUS NEGOTIATED: DECISION FACTORS

While it is impossible to develop a fail-safe formula to follow for making a decision on the appropriate method of sale, issuers can make informed decisions by conducting a systematic review of certain factors on a case-by-case basis. These factors can be classified under issuer characteristics, including *market familiarity*, *credit strength*, and *policy goals*; and financing characteristics, including *type of debt instrument*, *issue size*, *complexity of the issue*, *market conditions*, and *story bonds*.

Issuer Characteristics

Market familiarity. Attracting sufficient investor and underwriter interest is critical to the success of any bond issue. The frequent issuer is at an advantage in terms of attracting market interest insofar as the market is already familiar with its credit quality. Although the trend is toward greater disclosure for all issuers, generally, the market does not require as much information from frequent issuers as it does from infrequent market participants. Consequently, the infrequent issuer should consider the extent to which pre-sale marketing--which may be more effective under the negotiated sale--is necessary for the success of its bond sale.

Credit strength. Everything else being equal, the higher the credit quality of the issue and the issuer, the less likely there will be a need for negotiation. Because of the steady demand for high quality municipal bonds, issuers with a strong credit position can fare well in competitive bidding. Consequently, issuers should consider the competitive sale for issues rated A and above. Weak issuers may not attract sufficient market interest to induce competition and, consequently, may benefit from the more effective education process offered by the negotiated sale.

Policy goals. As noted earlier, issuers will find that the competitive bid process does not provide them much influence over the composition of the underwriting syndicate or the distribution of bonds. Moreover, some have argued that the

competitive sale process screens out minority-owned, women-owned, or other small firms that do not have the resources to compete with more established underwriters.

In a negotiated sale, smaller firms will often have a better chance of being included in an underwriting syndicate, though there is no guarantee that smaller firms will be allocated bonds. To the extent that issuers believe that influencing the composition of the underwriting syndicate and the distribution of bonds are worthwhile policy objectives, they may be better served by the negotiated sale. When issuers choose negotiated sale for these reasons, however, they should clearly specify the rationale and criteria for the selection of underwriters and the allocation of bonds to avoid any appearance of impropriety.

Financing Characteristics

Type of debt instrument. The market responds to familiar or well-known debt instruments and, likewise, tends to be apprehensive about innovations. An issuer using a relatively new debt instrument may have to familiarize the market with the security features of the instrument. The negotiated sale is invariably more conducive to this education process. However, insofar as the market has the ability to rapidly absorb information regarding new debt instruments, "innovative" instruments can quickly become mainstream. Thus, as the market becomes more familiar with a particular debt instrument, the need to educate market participants on the nuances of the instrument will diminish. Everything else being equal, more familiar instruments will be better suited to competitive sale.

Issue size. The size of the bond issue influences both the level of investor interest and the market's ability to absorb the issue. The general rule is that if the issue is either too small or too large, the issuer should consider negotiating the sale. A very small issue will probably not attract any attention in the market without a concerted sales effort. A very large issue, on the other hand, may not easily be absorbed by the market. Therefore, effective pre-sale marketing activity--offered by the negotiated sale--becomes necessary.

Complexity of the issue. It is convention in the public finance industry that "plain vanilla" issues (i.e., those which are readily accepted and understood by underwriters and investors) lend themselves to the competitive bid process. Consequently, bonds which are structured to include features such as variable rates, put features, or interest rate swaps, may be more appropriate for negotiated sale.

Market conditions. During periods of interest rate stability, the need for flexibility in the timing of the sale is not particularly critical. Conversely, the timing of the sale is very critical in an unstable or volatile market, especially when there is a need to bring an issue to the market in a few days. In such cases, the flexibility inherent in a negotiated sale can be indispensable. For example, refunding issues which are motivated by the desire to capture the savings offered by lower interest rates, and which may be susceptible to even minor fluctuations in market rates, may be better served by the timing flexibility offered by the negotiated sale.

Story bonds. In some cases, an issue faces market difficulties because it is associated with unusual events or conditions. For instance, issues linked to a previous default, litigation, or other adverse circumstances may be difficult to place. By the same token, issues or structures which are not familiar to the market may require added explanation. These issues are sometimes referred to as "story bonds," because in order to develop sufficient market interest, the issuer has to "tell a story," or explain why the bonds are actually sound investments. Issuers of story bonds, such as Mello-Roos bonds, can benefit from the more effective pre-sale marketing opportunities offered by the negotiated sale. Nevertheless, bonds which may require an explanation, such as the bonds sold by the City of Los Angeles to finance a court-ordered judgment against the City, can be sold successfully in a competitive sale if the market is familiar with the issuer and the credit security is particularly strong.

ALTERNATIVE APPROACHES

Issuers who find that the traditional approaches outlined in earlier sections do not completely

meet their financing needs, may want to consider one or more of the alternative approaches described below.

Conducting competitive bidding within the legal framework of a negotiated sale. Issuers who prefer the competitive pricing environment offered by the competitive sale but, for one reason or another, can ill-afford the 15-day notice requirement, may want to consider an approach that offers both the flexibility of the negotiated sale and the competition in the pricing of the competitive sale. Under this approach, the issuer utilizes the legal framework of the negotiated sale, allowing the acceleration of the sale process. However, instead of negotiating the price and interest rate of the issue with just one underwriter, the issuer solicits bids from all interested underwriters and awards the right to purchase the bonds to the lowest bidder, thereby maintaining a competitive environment in the pricing. A disadvantage with this approach is that it does not provide the flexibility to make last-minute or unanticipated changes in the structure of the issue.

Infusing competition in the negotiated sale process. More often than not, competition among underwriters produces lower costs and higher levels of service. Thus, it is important that issuers who plan to use the negotiated sale consider employing a competitive process for the selection of their underwriter. The use of a request for qualifications (RFQ) or request for proposals (RFP) to solicit interest requires potential underwriters to compete against one another on the basis of cost and services offered.

There are at least two ways the issuer can infuse competition into the underwriter selection process. One way is to establish an underwriting pool, similar to the one developed by the State Treasurer's Office, from which underwriters for all negotiated issues will be chosen. The issuer should select pool underwriters based on responses to an RFQ in order to determine those who are qualified to take the issuer's bond offerings to the market. Another method is to issue an RFP requiring interested underwriters to outline their proposals for taking a specific bond offering to the market. Either way, issuers should consider the quality and level of service offered, not just costs, when selecting the underwriter.

"Unbundling" financial services. Issuers who do not need the full range of services offered by a financial advisor or investment banker, and who are concerned about costs, may want to consider "unbundling" financial advisory services--hiring a financial advisor or investment banker only for certain portions of the sale. For example, in a negotiated sale, the issuer can hire a financial advisor or another investment banking firm to assist in the bond pricing, but not in preparing the bond documents. By splitting the services in this way, the issuer can lower the costs of financial advisory services, while receiving needed assistance on a particular element of the bond sale process.

RECOMMENDATIONS

The following recommendations are intended to assist issuers not only in choosing an appropriate method of sale, but also in reducing issuance costs.

Participate in all aspects of the bond issuance. Issuers should never forget that it is their responsibility to protect the public trust by selling their bond issues at the lowest possible interest cost. The members of the financing team are merely agents of the issuer. Therefore, issuers should take an active part in all the decisions related to the sale of their bonds: the selection of the underwriting method; the selection of the financing team; the marketing of the bonds; and the investment of the bond proceeds. While not all issuers are experts in municipal finance, they should not be shy about asking their financing team members critical questions.

Moreover, it is important that issuers who choose the negotiated sale do not relegate the responsibility to obtain the best pricing for the issue to the underwriter. Personal and trustworthy relationships, notwithstanding, the underwriter's fiduciary responsibility ultimately lies with its investors. And because the investors' and the issuer's interests are not necessarily complementary, the responsibility for looking out for the issuer's interests during the pricing should remain with the issuer.

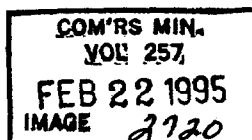
Assess the level of demand for the issue. Naturally, a competitive sale will not be successful if it does not produce real competition. While

as a technical matter, two bids are necessary to generate competition, three or more bids will generally ensure the issuer that the bid price of the bonds approximates the price of comparable securities being issued at the same time. (A notable exception is the State of California, which customarily receives only two bids on its general obligation bond sales and is still able to secure competitive prices for its bonds.) If the issuer determines that a competitive sale will generate only one bid, a negotiated sale may be preferable.

Focus on the total cost of the financing. The spread is but one component of the total cost of the financing. While it is an important cost factor, concentrating negotiations on the spread at the expense of the interest rate pricing can prove counterproductive to the issuer's goal of keeping the total financing cost as low as possible. Conversely, focusing on the interest rates without considering other costs of borrowing, such as underwriter spread and financial advisory fees, can be equally deceiving. The key is to consider the total cost of financing when evaluating a particular debt issue.

When in doubt, hire a financial advisor. Negotiated bond sales customarily require a greater deal of skill on the part of the issuer than competitive sales. In order to evaluate the financial terms offered by the underwriting syndicate, the issuer must be able to identify how the market is pricing similar transactions. An issuer lacking the expertise to undertake such an analysis negotiates from a position of weakness. In such cases, the issuer should consider hiring a financial advisor or another investment banking firm to assist in some or all aspects of the financing. Similarly, an issuer lacking the expertise to perform the origination tasks necessary to prepare an issue for competitive sale or to evaluate the bids once they are submitted, may also benefit from the services of a financial advisor or an investment banker.

Evaluate the method of sale for every issue. It is very important that issuers evaluate the method of sale for each bond issue. Issuers should avoid becoming too comfortable with a particular approach. Each time an issuer comes to market, it should be with the knowledge that the method of sale has been thoroughly evaluated.





CALIFORNIA DEBT ADVISORY COMMISSION

The California Debt Advisory Commission is the state's clearinghouse for public debt issuance information. The Commission was created by the California Legislature in 1981 to assist state and local government agencies with the monitoring, issuance, and management of public debt.

The California Debt Advisory Commission members include:

Kathleen Brown
California State Treasurer and Chair

Pete Wilson
Governor
or
Thomas W. Hayes
Director
Department of Finance

Gray Davis
State Controller

Robert G. Beverly
State Senator

Lucy Killea
State Senator

Jim Costa
State Assemblyman

Patrick J. Nolan
State Assemblyman

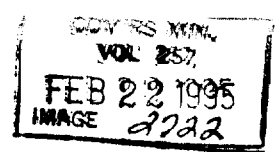
Donald W. Merz
Treasurer/Tax Collector
Sonoma County

Mary E. Turner
Treasurer
City of Anaheim

**Additional information concerning this report or the programs
of the California Debt Advisory Commission may be obtained
by contacting:**

Steve Juarez
Executive Director
California Debt Advisory Commission
(916) 653-3269

REQUEST FOR PROPOSALS



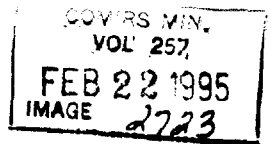
Hamilton County, Ohio is soliciting proposals from qualified investment banking firms for the Metropolitan Sewer District of Greater Cincinnati (MSD), to provide underwriting services for a proposed revenue bond issue of approximately \$35 - \$60 million. The anticipated scope of services is listed in Exhibit A.

MSD is a joint operation of Hamilton County, Ohio and the City of Cincinnati pursuant to an Agreement dated as of May 1, 1968. Under the Agreement the County is responsible for rates and charges, capital improvements and financing. The City of Cincinnati serves as the County's agent to manage and operate the sewer system which is essentially countywide.

Peck, Shaffer & Williams serves as bond counsel to MSD and also serves as special counsel to MSD.

If you are interested in serving as investment banker to MSD, please submit a proposal responsive to the following questions. Responses should be to the point and should be in order of the requests for information.

1. a. Please provide a brief history of each firm, both in and out of Hamilton County, Ohio, including the makeup of the professional staff as to female and minority representation, how many professionals in public finance, how many professionals in municipal finance and how many investment bankers.
b. Is each firm in compliance with the political contribution regulations, i.e. MRSB rule G-37?
c. Has your firm or any member of your firm been suspended or sanctioned by the SEC, NASD or any other regulatory authority of any state or its political subdivisions, within the last five years? Is your firm under investigation of same? If response is "yes", please detail in writing.
2. What is your knowledge of the marketplace for Ohio sewer system revenue bonds?
3. What is your experience in working with similar issuers in Ohio in the last five years as senior manager or co-senior manager and as a member of a selling group? Please list the issues and dollar amounts. Also include the post evaluation report comparing performance to similar issues.
4. Please list the individuals who would staff this engagement and their experience at your firm in sewer system finance.
5. Pricing see Exhibit B.
6. Describe your proposed marketing approach. Be sure to discuss how much is planned to be placed institutionally and how much retail.
7. How can you assist the County in the rating process and what is your knowledge of MSD? The 1993 revenue bond issue was insured. The outstanding uninsured MSD revenue bonds are rated "A1" by Moody's and "AA-" by Standard & Poor's. Please do not contact either agency regarding the County or MSD. Prepare a preliminary rating to be analyzed.
8. The County may wish to consider seeking bond insurance in the future. Please state your experience with bond insurers and any thoughts you have on the value of bond insurance.
9. What alternatives, innovations and intangibles would you bring to the process?

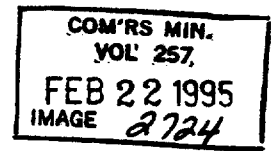


10. Document the adequacy of the firm's capitalization relative to this project.
11. Please provide references from your four most recent negotiated bond issues which you served as a manager.
12. Describe your locations and presence in Ohio.
13. Describe your location and presence in Hamilton County, Ohio.

Please keep your response concise and to the point. Booklets and other information may be submitted separately from your written response.

Joint submissions may be made by two or more underwriters; however, the County and MSD reserve the right to select some but not all members of a joint submission. The County reserves the right to reject any or all proposals. The County will not be liable for any costs incurred by the proposer in the preparation of a proposal.

Any questions regarding this proposal should be directed on to (name/address) in writing. Please do not contact other County or MSD officials in connection with your proposal. Your proposal should be returned to (name/address) by {give two weeks to prepare}. Please provide eight copies of your proposal for internal distribution within the County and MSD. The County Administrator, Director of Administrative Services and the affected department(s) will be the evaluators of the request for proposals. Point rating differentials, based on the selection criteria, that are deemed insignificant by the County Administrator, Director of Administrative Services, and the affected department(s) may be re-evaluated, placing additional value on past Hamilton County experience and other factors deemed significant to the particular issue being proposed.



SCOPE OF SERVICES

Services to be provided by the team of underwriters will include, but not be limited to, the following tasks:

- Preparing alternative financing options and debt structures that will be cost-effective to the County.
- Providing input on the value of, and source of, possible credit enhancement for the bonds.
- Preparing the Preliminary Official Statement and the Final Official Statement.
- Lead the discussion with credit rating agencies.
- Preparing and delivering a Pricing Book: to precede the sale by at least 3 days including a review of the prices and underwriting spreads for comparable issues recently sold, pricing ideas and a line-by-line detailed description of all expense items.
- Participating in pre-pricing discussion: proposed interest rates and re-offering yields must be provided before the sale.
- Pre-marketing the securities, and participating in any marketing or investor meetings that may be held.
- Pricing and marketing the securities, i.e. retail, institutional, geographic area, etc.
- Informing the County on the progress of the sale of the bonds, and on the purchasers of the bonds.
- Assisting in closing arrangements with bond counsel, the County, and others involved.
- Providing a post evaluation report on the issuance including among other things: sales and distribution, i.e. retail, institutional, geographical area, comparable placement comparisons, financing schedules.
- What additional services will you provide to the County in addition to those listed above.



PRICING

- A. Assuming a total issue at par of Series A, Revenue Bonds of \$50,000,000, with a maximum maturity of twenty-five years, with a rating of A1/AA- or better, list below the proposed fees and expenses:

PROPOSED UNDERWRITING COMPENSATION

\$ PER \$1000

Management Fee

Average Takedown

Underwriting Fee

Expenses

Gross Spread

- B. List expenses included in proposed underwriting compensation above. Indicate which of the following expenses would be included in your fee:

_____ Underwriter's out-of-pocket expenses

_____ OMAC fee

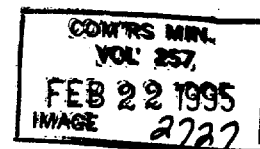
_____ Bond counsel approving opinions

_____ Blue sky survey

_____ Other (Please indicate specifically)

- C. List expenses related to this issue that are not included above and are to be paid separately by the District, noting that if not listed here they are to be a part of the above gross spread.

				Hamilton County, Ohio	Date		
				Bond RFP Evaluation			
<u>Required Qualifications</u>				<u>Met</u>	<u>Not Met</u>		
1. Compliance with MRSB Rule G-37							
2. References							
a. Not Being Sued							
b. Client Satisfaction							
c. Issue Goals and Objectives Met							
				<u>Maximum</u>	<u>#1</u>	<u>#2</u>	<u>#3</u>
1. Firm Characteristics In/Out Hamilton County							
a. Minority Professionals in Public Finance				2			
b. Professionals in Public Finance				3			
c. Professionals in Municipals				3			
d. Investment Bankers				3			
10. Net Capital of Firm				3			
12. Location in Ohio				3			
13. Location in Hamilton County				4			
2. Knowledge of Marketplace				3			
3. Experience in Ohio-Negotiations							
b. # Issues as Lead Mgr.				5			
c. # Issues as Mgr.				3			
d. # Sewer Issues as Lead Mgr.				5			
e. # Sewer Issues as Mgr.				3			
4. Years in Public Finance				3			
Subtotal				43	0	0	0
3. Sr. Mgr. Ohio Sewer Revenue							
Bonds Over 25million.							
a. 2 Points for Each Issue Over 25million				10			
b. Experience				5			
c. 2 Pts for Each Issue Priced on Market				10			
d. 5 Pts for MSD issue				5			
CoManager Ohio Sewer Revenue							
Bonds Over 25million							
a. 2 Points for Each Issue Over 25million				8			



b. Experience			4			
c. 2 Pts. for Each Issue Priced on Market			10			
d. 5 Pts for MSD issue			5			
Member of Selling Group Ohio						
Sewer Revenue Bonds						
a. Size of Issue			3			
b. Participation			3			
c. Amount Awarded			3			
Subtotal			66	0	0	0
6. Who Will be the Purchasers						
a. Institutional			5			
b. Retail			5			
c. Balance			5			
d. Understanding District Issues			10			
7. Rating Process						
a. Knowledge of District			10			
b. Discussion of Rating Factors			5			
c. Preliminary Rating			5			
8. Bond Insurance Discussion			3			
9. Innovative Strategies						
a. Discussion of Working With District			3			
b. Discussion of Innovations			5			
c. Knowledge of or Application to District			5			
d. Extraordinary One Time Suggestions *			10			
Subtotal			71	0	0	0
5. Pricing						
a. Management Fee			5			
b. Average Takedown			5			
c. Underwriting Fee			5			
d. Expenses by Underwriter			5			
e. Expenses by District			5			
Subtotal			25	0	0	0
Total Points			205	0	0	0
Deduction for Unresponsive Proposal						
Total Points Earned			205	0	0	0
* In most proposals this category will be "0"						