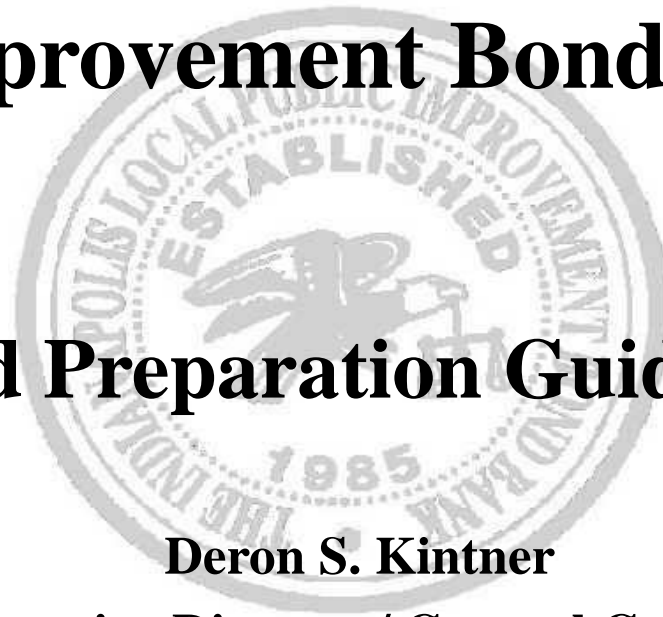


The Indianapolis Local Public Improvement Bond Bank

Bond Preparation Guidelines



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Bond Preparation Guidelines

Purpose: The purpose of this document is to outline project and related financing guidelines for the Indianapolis Local Public Improvement Bond Bank, which is the debt-issuing entity and capital-financing arm of the City of Indianapolis and all other qualified entities (QEs). While these guidelines are not exhaustive, they are a collection of the industry's best practices as put forth by Government Financial Officers Association (GFOA), Municipal Securities Rulemaking Board (MSRB), National Federation of Municipal Analysts (NFMA), Securities Industry and Financial Markets Association (SIFMA) and other market-related organizations. These practices will lead to a more cost-effective bond issuance process that is consistent with the Bond Bank and the QE's goals. A glossary of key municipal bond-related terms is included in Appendix B at the end.

Key Steps for Capital Financing

Getting Started and the Approval Process



Bond Transaction: Structuring & Documentation



Credit Enhancers and Analysts: Credit Presentation



Market Bonds: Sales and Marketing



Sale of Bonds: Pricing & Closing



Provide Ongoing Service: Disclosure and Investor Communication

Getting Started and the Approval Process

The Bond Bank acts as a conduit issuer for all the QEs. To achieve this, the Bond Bank collaborates with the QEs to:

- Identify key project issues, QE fact-finding and potential sources of capital
 - Set goals
 - Assign responsibilities and tasks
 - Clarify roles
- Help QEs select a working group: financial advisor, bond counsel, underwriter and trustee
- Hold organizational meetings with the working group to lay out a financing plan
- Determine financing schedule based on when funds are needed and market conditions

Structuring and Documentation

As the issuer, to ensure the most favorable financing structure and cost of capital, the Bond Bank is involved in the following steps:

- Identify prospective revenue stream(s) and outline flow of funds
- Model cash flows, factoring in mechanics and timing of receipts
- Determine financing structure and final repayment time frame to match up with prospective revenue stream and useful life of the planned project(s)
- Consider fixed vs. variable-rate source of capital; if variable, consider appropriate hedging goals
- Examine investment strategies for bond proceeds
- Develop bond and disclosure documents and conduct working group meetings and calls to review bond-related documents

Credit Ratings Presentation

A rating provides an independent credit assessment of the proposed bonds: the likelihood of full and timely principal and interest payments to bondholders. A credit enhancement such as bond insurance, might be advantageous.

If a rating request is submitted:

- Develop a detailed strategy for highlighting key strengths and addressing any possible areas of concern
- Prepare and present the QE's credit to the rating agencies or potential credit enhancers
- Negotiate appropriate documents with selected liquidity or letter of credit provider , if issuing variable rate bonds
- Coordinate with the rating analysts and their schedules; the rating process can take several weeks

Sales & Marketing

- The managing underwriter takes the lead to identify and target buyers
- Investor outreach is important: the managing underwriter distributes information and bond presentation material to investors, including teleconferences and webinars
- Tailor bond payment structure to meet specific investor's demands or to take advantage of various market conditions
- Advise the QEs regarding bond sale timing , vis-à-vis economic indicators and market events and distribution of preliminary official statement

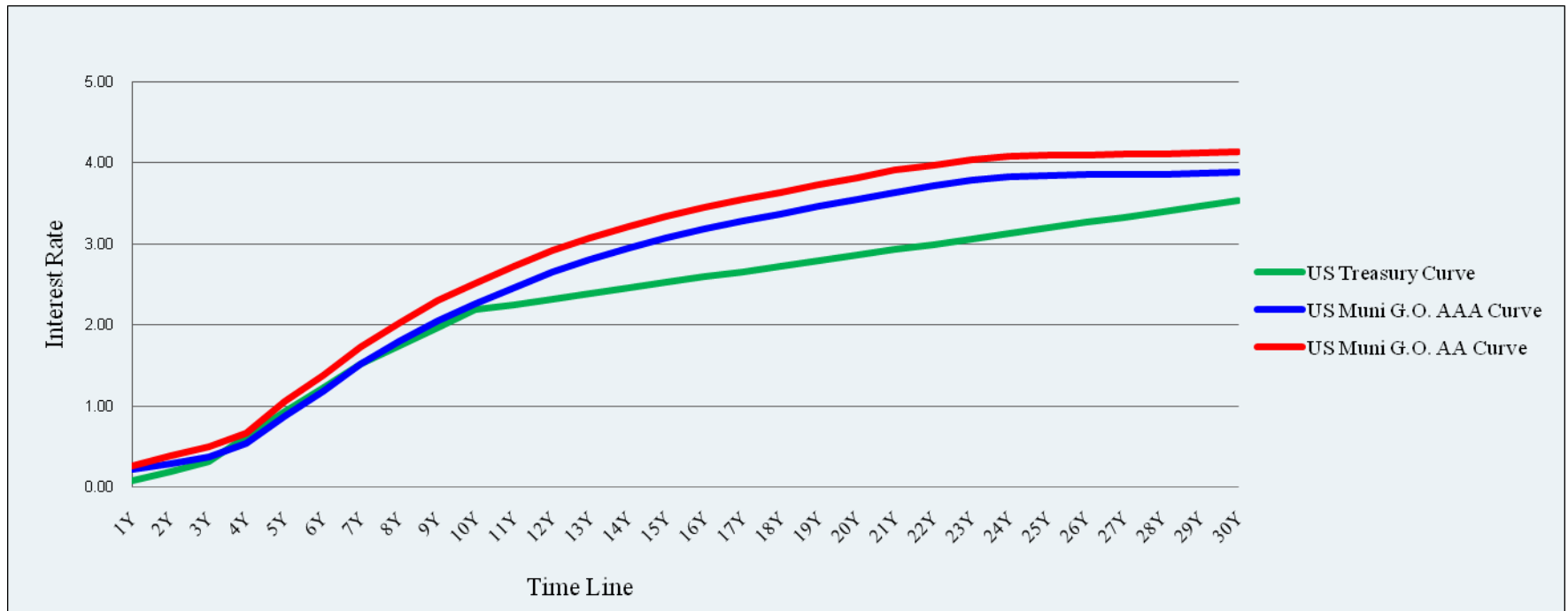
Pricing & Closing

- Hold pre-pricing discussions to update the QEs on market conditions
- Conduct a pricing call with the QE; underwriter runs an order period and prices the bond
- Present preliminary pricing to the Bond Bank for approval and communicate final pricing to the QEs
- Execute final documents to close the transaction
- Receive bond proceeds in trustee accounts
- Conduct post-sale analysis for the QEs and file all regulatory documentation

Municipal Bond Market Pricing

- The U.S. Treasury curve is the benchmark for the bond market
- The goal of municipal borrowers is to be as close to the Treasury curve as possible, to minimize the spread, which results in a lower interest rate
- A bond issue's security and creditworthiness influence the spread relative to the U.S. Treasury curve

Municipal Curve Benchmarks



Tax-exempt Versus Taxable Bonds

- Tax-exempt bonds price off of the Municipal Market Data (MMD) curve, which is a daily aggregate of bond pricings from national trading desks and investors. The spread between the taxable curve and tax-exempt is the net benefit to the issuer
- Historically, tax-exempt rates have been 72% -76% of the Treasury rates. The reason is the tax-exempt benefit granted under federal tax code to state and local governments
- The following page illustrates the historical relationship of 30-year bond maturities for tax-exempt MMD rates and taxable U.S. Treasury rates

Tax-exempt Versus Taxable Bonds

Historical Curves: 30-YR MMD (Tax-exempt) Versus 30-YR U.S. Treasury (Taxable) Curve



Type of Bonds: Tax-exempt

Tax-exempt Bonds – State and municipal governments can issue bonds, the interest on which is exempt from federal income tax and, in certain cases, state and local income taxes. Use of bond proceeds must comply with federal tax code to qualify bonds for tax-exempt status.

Advantages

- Lower cost of capital due to lower interest rate
- Easy to match life of the asset to that of the liability

Disadvantages

- Higher upfront costs of issuance due to time and documentation required to comply with federal requirements

Type of Bonds: Taxable

Taxable Bonds – State and municipalities can issue bonds on a taxable basis.

Advantages

- Less upfront costs due to less time and documentation process
- May be most advantageous as a short-term source of capital
- Use of bond proceeds is more flexible, when compared to compliance with use of tax-exempt bonds

Disadvantages

- Higher interest rates relative to tax-exempt bonds

General Obligation Bonds

General Obligation Bonds – Full faith and credit bonds, secured by the full taxing power of the QE rather than a pledged revenue source.

- Full faith and credit usually offers the strongest credit quality and, therefore, the best rating
- Lowest interest and overall cost of issuance due to strong credit pledge
- When compared to revenue bonds, general obligation bond interest rates are likely to be 5-15 basis points lower – or perhaps even more, depending on the pledged revenue and bondholder's security
- Our general obligation bonds typically price 40 basis points above the MMD

Moral Obligation Bonds

Moral Obligation Bonds – A type of revenue bond backed by the City’s moral obligation, which represents the commitment of the City-County Council to consider replenishing the debt service reserve fund in the event of a reserve fund draw or a shortfall in the pledged revenues.

- At the end of each year, the City Controller will present before the City-County Council the consideration to provide an additional appropriation of funds to the Bond Bank for deposit into the corresponding issuance of Bond Bank reserve fund in the event of a shortfall in the pledged revenues
- The moral pledge provides credit enhancement to the bond and improves its marketability
- When compared to a general obligation, full faith and credit security, the moral obligation bond interest rate is likely to be 5-10 basis points higher
- Our moral obligation bonds typically price 50-60 basis points above the MMD compared to 45-50 basis points for G.O bonds

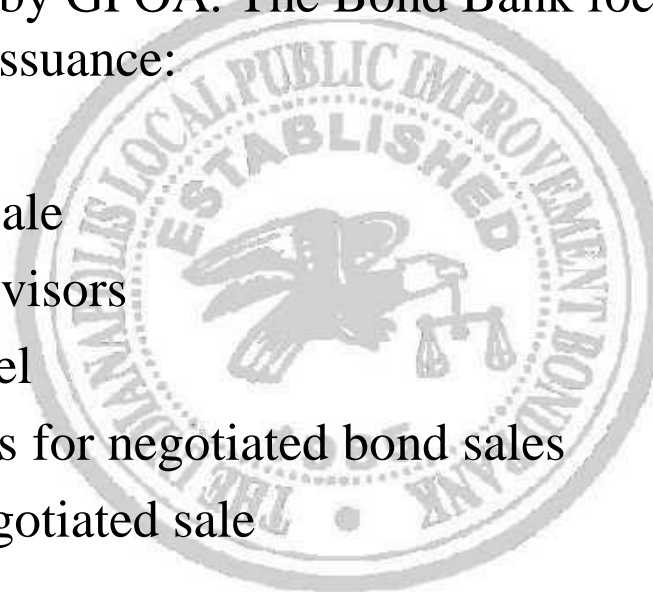
Disclosure and Investor Communication

- For the weeks following pricing date, the Bond Bank obtain ongoing trading data and analysis
- The Bond Bank assists in continuous financial updates to rating agencies and/or credit enhancers
- The Bond Bank keeps QEs abreast of the latest market developments, present market opportunities and products tailored to the QEs, such as refunding for savings
- The Bond Bank stays current on opportunities and practices for disclosure and investor communications
- The Bond Bank follows best practices for disclosure and investor communications, as recommended by industry organizations, such as NFMA, MSRB, GFOA, SIFMA and others

Selecting Team of Professionals and Method of Sale

Benchmarks: As a guide, the Bond Bank follows closely the selected best practices recommended by GFOA. The Bond Bank focuses on these pertinent five categories of bond issuance:

- Selecting method of sale
- Selecting financial advisors
- Selecting bond counsel
- Selecting underwriters for negotiated bond sales
- Pricing bonds in a negotiated sale



Selecting Method of Sale

The Bond Bank selects a method of sale that is suitable to the QE's needs, while making sure it remains cost-effective and consistent with state and local laws. Generally, there are two methods of sale: competitive and negotiated sale. Although both are widely used, the best method of sale depends on the bond structure, security, size of issuance and credit ratings. Ultimately, the Bond Bank selects the method that is most cost-effective and fits well with the QE's goals.

When selecting a method of sale, the Bond Bank considers the following:

- The credit ratings of the qualified entity
- The type of security being pledged
- The structure and features of the bonds being considered
- The inclusion of MBEs/WBEs and other disadvantaged business groups

Selecting Financial Advisors

The Bond Bank ensures a team of competent and experienced financial advisors. The Bond Bank selects financial advisors on the basis of merit using a competitive process. This allows the selection of the most competent and cost-effective financial advisory firm for each QE. Inclusiveness of MBE/WBE and veteran-owned businesses should be accommodated.

In general, the Bond Bank considers the following factors:

- Relevant experience of the individuals and the firm
- Familiarity with local, economic, legal and other issues
- Credibility of the firm with regulatory agencies
- Advising fee

Selecting Bond Counsel

The Bond Bank ensures the selection of competent and experienced bond counsel. The Bond Bank selects bond counsel on the basis of merit using a competitive process. This allows the selection of the most competent and cost-effective bond counsel firm for each QE. Inclusiveness of MBE/WBE and veteran-owned businesses should be accommodated.

In general, the Bond Bank considers the following factors:

- Relevant experience of the individuals and the law firm
- Familiarity with local, economic, legal and other issues
- Credibility of the firm with regulatory agencies
- Bond counsel fees

Selecting Underwriters for Negotiated Bond Sales

The Bond Bank ensures the best underwriting firm is selected. Since most of our bonds are sold through a negotiated sale, we select underwriters that best suit the method of sale. The goal is to obtain the highest possible price for the bonds, resulting in the lowest interest cost to the QE.

In general, the Bond Bank considers the following factors:

- Firm's analytic capability
- Relevant experience of the individuals and the underwriting firm
- Underwriting firm's distribution capabilities and access to current market data for up-to-date market conditions
- Firm's access to retail and institutional investors
- Familiarity with local, economic, legal and other issues

For more details on selecting underwriters, see Appendix A

Pricing Bonds in a Negotiated Sale

The Bond Bank strives to obtain the highest possible price for the QEs, resulting in the lowest interest cost. The pricing is done to target the QE's financial condition. To achieve the desired results, the Bond Bank engages the selected underwriting firm.

In the course of pricing, the Bond Bank takes the following actions to ensure that all QEs get the best bond pricing:

- Selecting competent working groups
- Communicate specific financing goals to the working groups
- Analyze current market data to make sure the entity is getting the best possible price
- Evaluate all bond structural features and overall cost of issuance

Refunding

The purpose of a refunding is to generate debt service savings; restructure debt service payments; incorporate bond indenture changes or amendments; and/or free-up existing funds held under the indenture.

Before a refunding, the Bond Bank considers the following:

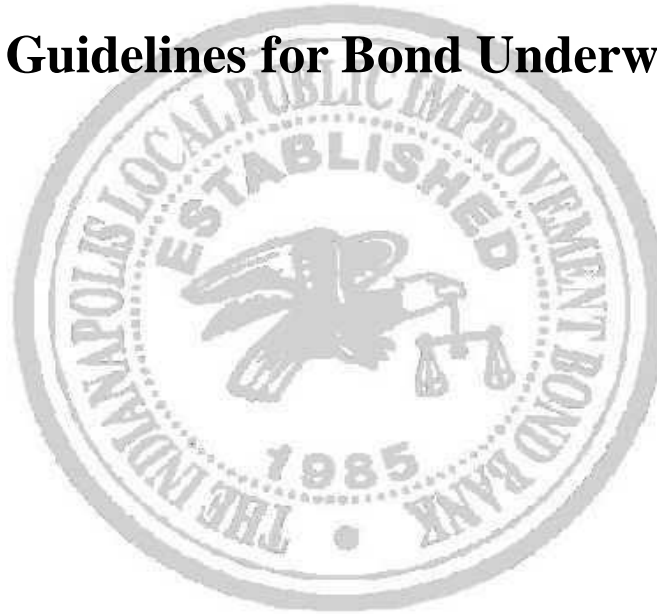
- Target present value savings of 3% to 5% on a net basis
- Optimize partial refunding by identifying selected maturities, the refunding of which would generate sufficient savings to achieve the selected target level
- Careful analysis of the risks associated with the option

Factors that Increase Savings with a Refunding

- The greater the spread between the old interest rates and the new interest rates, ideally at least 125 to 150 basis points
- The closer the refunded bonds' call date is to the delivery date of the refunding bonds, allowing the outstanding bonds to be redeemed as soon as possible
- The greater the interest rate earned on deposit of refunding proceeds until the call date when those proceeds will be applied to refund the outstanding bonds
- The greater the number of years between the call date and the final maturity of the refunded bonds
- The smaller the call premium, if any, of the refunded bonds

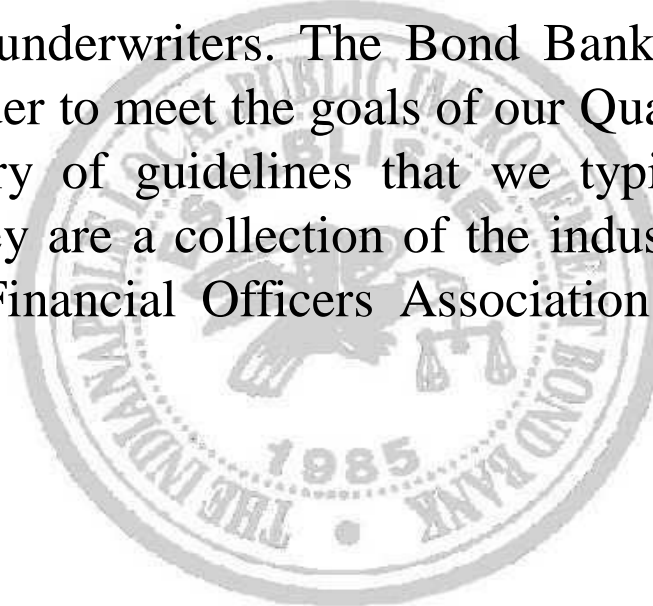
Appendix A

Bond Bank Guidelines for Bond Underwriter Selection



Introduction

The Bond Bank established this document as a guide to effectively and efficiently select bond underwriters. The Bond Bank strives to select the best underwriting firm in order to meet the goals of our Qualified Entities (QEs). This document is a summary of guidelines that we typically follow in selecting underwriting firms. They are a collection of the industry's best practices as put forth by Government Financial Officers Association (GFOA) and other large municipal issuers.



Objectives:

- To achieve consistency in the Bond Bank's procedures and provide equal opportunities for all underwriters
- To be prudent in our financing procedures so as to maintain the City's Aaa/AAA/AAA ratings from the three major rating agencies
- To ensure that all known measures are taken into account to manage debt appropriately by balancing the useful life of financed assets to that of the debt
- To provide unbiased management knowledge, sales distribution and to ensure the most realistic bond terms and interest costs
- To help the Bond Bank ensure the highest ethical standards in all its transactions and among its selected professionals
- To promote locally-owned enterprises, as well as minority-owned, women-owned and veteran-owned enterprises
- Above all, to provide all of our QEs with the lowest borrowing cost possible, while maintaining their fiscal flexibility

Policy

The Bond Bank selects bond underwriters based on their merits, corporate responsibility and capacity to achieve our QEs' financial objectives. The Bond Bank is committed to the principle of equal opportunity in all its transactions, but may favor WBEs/MBEs/VBEs with outstanding merits. Therefore, the Bond Bank does not discriminate against individuals on the basis of race, color, sex, sexual orientation, gender identity, religion, disability, age, genetic information, veteran status, ancestry, national, or ethnic origin in its transactions.

The Bond Bank's policy on long-term debt management is congruent with the Mayor's Office policy that the debt obligations be issued and administered in such a manner that ensures and sustains long-term financial integrity of the City and all other QEs.

Scope of Services and Expectations of Senior Bond Underwriter

The Bond Bank expects the senior bond underwriters to provide a varying range of services, which include, but are not limited to, the following:

- a) Structure, market and sell the debt obligation to achieve the QE's financial objectives
- b) Assist the Bond Bank and its selected professionals in drafting all required documents to authorize, market and sell the bonds.
- c) Provide analyses, market conditions and updates to advise the Bond Bank on developing trends and impact on present and future debt obligation transactions
- d) Prepare, in consultation with the Bond Bank staff, credit rating materials and monitor timing of sale and the pricing of bonds
- e) Manage an underwriting syndicate selected by the Bond Bank and prepare a post-sale pricing analysis as requested by the Bond Bank

Scope of Services and Expectations of Co-Managing Bond Underwriter

The Bond Bank expects the co-managing bond underwriters to provide a varying range of services which include, but are not limited to, the following:

- a) Assist senior-managing bond underwriters in providing requested information and monitoring of market conditions
- b) Participate in the structuring, marketing and sale of the debt obligation as well as complementing and developing financing alternatives
- c) Assist the senior-managing bond underwriter in all aspects of the transaction to meet the Bond Bank's expectations

Underwriter and Co-Bond underwriter Selection Guidelines

To achieve our QEs' financial objectives, the Bond Bank considers the following factors when selecting underwriting firms:

I. Firm's distribution capabilities and access to retail and institutional investors

In order to widely market the bonds, the Bond Bank expects its underwriters to have a reliable past distribution capacity. This can be shown by the firm's access to a pool of retail and institutional investors.

II. Past performances and analytic capabilities

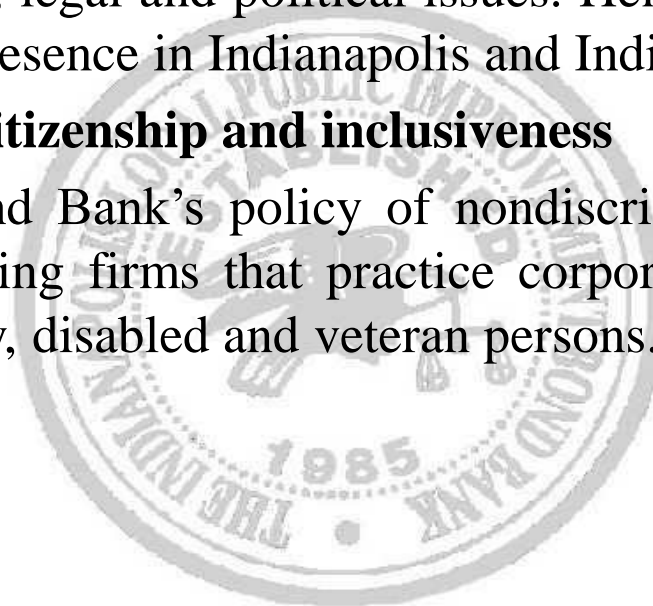
The firm should have access to current market data for up-to-date market conditions. From time to time, the Bond Bank transactions involve complex financing structures. The Bond Bank seeks to find an underwriting firm that can prove beforehand that it is capable of performing the analytical work required by such complex projects. This can be evidenced by past deals and the reputation built among other clients.

III. Firm's presence in Indianapolis and Indiana

The Bond Bank seeks underwriting firms that are familiar with local issues, including economic, legal and political issues. Hence, the Bond Bank favors firms with a local presence in Indianapolis and Indiana.

IV. Firm's corporate citizenship and inclusiveness

As it is in the Bond Bank's policy of nondiscrimination, the Bond Bank looks for underwriting firms that practice corporate responsibility and are inclusive to minority, disabled and veteran persons.



V. Firm's fees as compared to similar deals in the past

It is the Bond Bank's objective to afford all QEs the lowest possible cost of borrowing funds. To achieve this, the Bond Bank looks at its past deals and the market conditions in general and compares such data to what the competing underwriters are charging. Currently, our underwriters' fees average about 0.57% of the issuing amount.

VI. Formal enforcement actions against the dealer by relevant authorities

The Bond Bank checks to see if there are pending or enforced actions against the underwriting firm by the relevant authorities such as Securities Exchange Commission, Financial Industry Regulatory Authority, or other regulatory agencies.

This document incorporates major factors that the Bond Bank considers when selecting underwriting firms, but it is not exhaustive. If you have any questions concerning this document, please call us at 317-327-4220

Appendix B

Glossary of Key Municipal Market Terms



Glossary

Bond indenture- A deed or contract which may be in the form of a bond resolution and sets forth the legal obligations of the issuer.

Credit enhancers- Bond insurance and/or a letter of credit that raises the credit-rating of proposed bond and thereby lower its interest costs.

Call date- The specified date when the issuer can prepay its debt prior to the specified maturity.

Call premium- An amount paid in addition to the principal and interest payment to the bond holder when bonds are called for redemption.

Final maturity- The stated date on which all or a stated portion or the principal amount of a bond becomes due and payable.

Fixed rate- The rate of interest on a bond or note which remains at a predetermined rate for the entire term of the loan.

Hedging- Attempts to offset and/or minimize exposure to interest changes or fluctuations.

Glossary (continued)

Qualified Entity- An authorized public entity (state, political subdivision, agency, or authority) that issues securities in order to borrow money.

Refunding- The sale of a new issue, the proceeds of which are to be used to pay debt service on and defease or retire an outstanding issue.

Spread- The difference between two interest rates. This can also refer to the difference in price the issuer gets and the price the underwriter sells the bonds.

Tax-exempt bond- Municipal bonds for which interest payments are not subject to federal and sometimes state and local, income taxes.

Taxable bond- Municipal bonds for which interest payments are subject to federal, state and local income taxes.

Variable rate- The rate of interest on a bond or note which varies according to the market conditions on a periodic, re-setting basis. This is also known as “floating rate.”