SALES TAX SECURITIZATION CORPORATION
DEBT MANAGEMENT POLICY

PURPOSE

Pursuant to Section 3.09(b) of the Sales Tax Securitization Corporation Authorizing Resolution, the President developed this Debt Management Policy (the "Debt Policy") to establish guidelines for the issuance of bonds and other forms of indebtedness by the Sales Tax Securitization Corporation (the "Corporation"). Changes in the capital markets as well as other unforeseen circumstances may create situations not covered by this Debt Policy that may require deviations to achieve the Corporation's policy goals. In these cases, such policy deviations may be appropriate provided specific authorization from the President.

SCOPE AND AUTHORITY

This Debt Policy provides guidelines on the issuance and management of all Corporation debt and any new financing types related to existing Corporation debt. This Debt Policy will be periodically reviewed as market conditions warrant. The President has the day-to-day responsibility and authority for structuring, implementing, and managing the Corporation's debt program in accordance with authorization by the Board of Directors of the Corporation (the "Board").

DEBT MANAGEMENT PROCESS – Debt Tax Status

I. **Tax-Exempt**: The Corporation, along with its bond counsel, evaluates projects requiring funding to assess their ability to be supported by tax-exempt bonds. The Corporation will make every effort to ensure compliance with all tax regulations to ensure the Corporation's tax-exempt bonds maintain tax-exempt status. The Corporation has post-issuance compliance procedures to ensure compliance with all federal tax laws and regulations.

II. **Taxable**: Given their lower cost of funding, tax-exempt bonds are the preferred source of financing, to the extent permitted by federal tax law and regulations. However, the Corporation may use taxable bonds for various purposes. Before using taxable bonds, the Corporation will carefully evaluate the costs and benefits of such tax structure.

DEBT MANAGEMENT PROCESS – Type of Debt

I. **Appropriate Use of Fixed-Rate Long-Term Debt**: Long-term debt may be used to finance essential capital facilities, projects and certain equipment where it is appropriate to spread the cost over future years. For projects where it is not appropriate to spread costs over future years (e.g., some equipment), long-term debt financing will generally be avoided.

II. **Appropriate Use of Variable Rate Long-Term Debt:** Long-term debt may be issued in either fixed or variable modes. The Corporation will only issue variable rate debt in accordance with the requirements under Chapter 2-165 of the Municipal Code of Chicago (the "Municipal Code"), if applicable. The Corporation will determine the appropriate amount of variable rate bond exposure based on the unique financial strength of any bond type.

III. **Appropriate Use of Short-Term Debt:** Short-term debt may be issued as either fixed or variable rate securities in accordance with the requirements under Chapter 2-165 of the Municipal Code, if applicable. The Corporation may use short-term, variable interest rate debt, including commercial paper, lines of credit and tender notes, subject to applicable ordinances of the City of Chicago (the "City").

IV. **Use of Derivative Products**: The Corporation will not use derivative products on any financing.

DEBT MANAGEMENT PROCESS – Debt Capacity

I. **Debt Affordability**: The Corporation will aim to restrict its annual debt service coverage to be at least 10% greater than the additional bonds coverage factor requirement in the respective financing resolution adopted by the Board.

DEBT MANAGEMENT PROCESS – Method of Sale

The Corporation will use one of three methods for the sale of debt: competitive, negotiated and private placement. The Corporation will use the method it deems most effective to market, price and place its bonds. The Corporation will consider other worthy public policy goals such as previous credit commitments and the encouragement of greater participation in the underwriting syndicate by minority, woman-owned and disabled veteran enterprises (“M/W/DVE”) firms in its method of sale decision while evaluating bond financing cost.

DEBT MANAGEMENT PROCESS – Purpose of Financing

I. **Refunding Bonds**: The Corporation will use long-term bonds to refinance existing bonds of the City or the Corporation as a means of providing interest cost savings (economic refunding) or budget flexibility (non-economic refunding). A present value analysis must be prepared that identifies the economic effects of any refunding. The Corporation will aim for a minimum present value savings on an advance refunding candidate of at least 3% of the refunded debt. Currently callable candidates must have minimum present value savings of 0.25%. The Corporation also will evaluate the level of negative arbitrage in the escrow in making the refunding decision. The President has discretion in making the final determination to include individual refunding candidates that are below the target in order to achieve financial objectives.

II. **New Money Financing**: The Corporation may use long-term bonds to provide financing for new money needs (e.g., funding for capital projects, equipment, etc.) of the City.

DEBT MANAGEMENT PROCESS – Credit Enhancement

I. **Credit Enhancement**: Subject to the policy guidance below, the Corporation will consider using credit enhancement (bond insurance and bank facilities) to strengthen its creditworthiness.

A. <u>Bond insurance</u>. Bond insurance will be used on fixed rate debt when it provides an economic benefit to a particular bond maturity or entire issue. As a means of mitigating future counterparty and interest rate risks, the Corporation will avoid using bond insurance on variable rate securities.

i. *Benefit analysis*. Insurance will be considered when the premium cost is less than the present value of the projected interest savings or if such insurance enhances capital market access and/or facilitates liquidity in the secondary market for the securities.

ii. *Provider selection*. The Corporation or its municipal advisor will take into account insurer trading levels, future insurer capacity and pricing when soliciting bond insurance, or in the case of a competitive sale, facilitating the prequalification of bonds by insurance providers. The Corporation will purchase bond insurance when deemed advantageous and the terms and conditions governing the guarantee are satisfactory.

B. <u>Bank Facilities (Letters of Credit and other Credit Support)</u>. The Corporation may employ two types of letters of credit (“LOCs”), direct-pay LOC and stand-by LOC, on its variable rate debt. The Corporation will evaluate its credit support options using four criteria: price, type, maturity term and counterparty.

i. *Price.* The Corporation will select the credit support provider that offers the lowest price recognizing other considerations related to type, term and counterparties described below.

ii. *Type.* In order to minimize future liquidity challenges, the Corporation's preference is to select types of products that are most liquid and have stable track records in trading performance in various market conditions.

iii. *Maturity term.* The Corporation will make reasonable efforts to diversify the maturity term of its credit support to provide renegotiation flexibility in the future when such credit supports expire.

iv. *Counterparty*. The Corporation and its municipal advisor will evaluate credit support provider proposals. The Corporation will evaluate credit providers based on their credit ratings and trading values. The Corporation prefers to enter into letters of credit with financial institutions that have credit ratings equal to or higher than the credit of the underlying debt. In order to mitigate its counterparty risk, the Corporation will look for opportunities to diversify its credit support providers.

II. **Unenhanced Bonds**: The Corporation or its municipal advisor will conduct a cost-benefit analysis to determine whether to use credit enhancement. If the analysis of the entire bond issue as well as individual maturities demonstrates that it is not cost effective to use an enhancement, the Corporation may choose to issue the bonds unenhanced.

DEBT MANAGEMENT PROCESS – Debt Service Structural Features

I. **Debt Service Structure**: The final maturity of a bond issue will generally be limited to the lesser of the average useful life of the assets financed or 40 years.

II. **Lien Levels**: Senior and junior liens for each revenue source will be utilized in a manner that will maximize the most critical constraint - typically either cost, capacity or structure (e.g., junior lien debt vis-à-vis senior lien debt often allows variable rate debt and/or lower debt service coverage levels) - thus allowing for the most beneficial use of the revenue source securing the bonds.

III. **Capitalized Interest**: The Corporation will utilize capitalized interest on new money financings subject to federal law. Capitalized interest is not allowable for advance refunding bond issues.

IV. **Discount and Premium Bonds**: The Corporation's decision to use discount and deep discount bonds is largely dependent on market conditions. The amount of discount will be structured to minimize the negative impact of discounting on the Corporation's ability to subsequently refund bonds for interest savings. The Corporation also will evaluate the impact of premium bonds that can be redeemed prior to maturity. The Corporation will consider the greater potential for future refunding savings when contemplating the issuance of redeemable premium bonds.

V. **Debt Service Reserve Fund**: A cash-funded debt service reserve fund ("DSRF") will be invested pursuant to investment of proceeds guidelines of the respective authorizing ordinance or indenture. Interest earnings will be generally used to offset debt service payments. As an alternative to a cash-funded DSRF, a surety policy will be used if it is beneficial to the credit rating or pricing of the bonds. The President will evaluate and document the DSRF funding decision. Factors to be considered in this evaluation include: arbitrage yield restrictions, current interest rates, availability and cost of a surety policy, foregone interest and capital gains from a cash-funded DSRF, the relative size of the reserve requirement compared to the prior reserve requirement (refunding issues only), and opportunities for the use of the funds withdrawn from the DSRF including additional capital projects or investment opportunities.

VI. **Call Provisions**: The Corporation recognizes the importance of enhancing future financial flexibility by retaining its ability to cost efficiently redeem bonds before their final maturity. In general, Corporation securities will include a call feature within the long-term debt issuance structure which allows the Corporation to call the bonds at par (100%) or par plus an early redemption premium after 10 years or earlier. If determined to be financially advantageous, the Corporation may issue non-callable bonds for maturities longer than 10 years.[1] On a case by case basis, the Corporation will evaluate the use of selling make-whole callable bonds. Prior to the use of any non-call provision, the Corporation will compare the option-adjusted yields on the bonds with and without a non-call provision to determine which is most financially beneficial.

INVESTMENT OF BOND PROCEEDS

The President or other authorized officer of the Corporation will direct investment of bond proceeds in accordance with the respective financing resolution adopted by the Board.

BOND RATING AGENCY STRATEGY

The Corporation's use of rating agencies is determined on a deal-by-deal, credit-by-credit basis. The Corporation retains discretion to determine the number and the specific rating agency firms (if any) to use on any specific financing.

CONTINUING DISCLOSURE

The Corporation complies with Rule 15c 2-12 of the Securities and Exchange Commission by filing annual reports on EMMA that provide certain financial information and operating data relevant to investors in Corporation bonds. The Corporation ensures all other continuing disclosure activities are performed in accordance with the Corporation's continuing disclosure undertakings.

[1] In certain financings, the use of non-call features will be strongly discouraged due to challenges associated with the voluntary closing agreement process (i.e., VCAP) related to potential future privatization opportunities.