



Securities Law Compliance and Disclosure Policy

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Melissa Moore
FINANCE DIRECTOR | CITY OF PFLUGERVILLE

SECURITIES LAW COMPLIANCE AND DISCLOSURE POLICY

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**ARTICLE I
PURPOSE AND SCOPE**

SECTION 1.01 DEFINITIONS.

The words and terms used in this Model Securities Law Compliance and Disclosure Policy (this "Policy") have the meanings specified in Article II hereof, unless the context clearly otherwise requires. Except where the context otherwise requires, words importing the singular number shall include the plural number, and *vice versa*.

SECTION 1.02 PURPOSE OF POLICY.

(a) Continuing Disclosure Undertaking Requirement. Under Rule 15c2-12, underwriters of Municipal Securities may not purchase or sell Municipal Securities unless the underwriters have reasonably determined that the issuer of the Municipal Securities or its designated agent has undertaken in a written agreement to provide continuing disclosure of certain financial information and operating data, and to file notices of certain events designated in Rule 15c2-12. The Issuer is required under its Continuing Disclosure Undertakings to provide disclosures of certain financial information and operating data and notice of certain events to the MSRB on EMMA to facilitate informed secondary market trading. This Policy is adopted by the Issuer to assist in its compliance with federal and state securities laws and regulations, including, specifically, Rule 15c2-12. This Policy is established to ensure that the Issuer maintains adequate policies and procedures for gathering, analyzing and disclosing all information that is required to be provided to, or that may be reasonably expected to reach investors or trading markets, which relates to the issuance of the Issuer's Debt Obligations. Such information consists of the content of the Issuer's Offering Documents, continuing disclosure reports, event notices and other statements reasonably expected to reach the public markets.

(b) Recommendation of Written Procedures. The Issuer recognizes that the SEC recommends adopting disclosure policies and amending existing disclosure policies from time to time to address the process for evaluating the disclosure process including disclosures for certain Event Notices. Written policies and procedures adopted by the Issuer will serve to streamline the process of disclosing required information. The Disclosure Officer, and other officers selected by the Issuer, if any, may establish additional written procedures from time to time to ensure that any Offering Documents (i) fully and accurately present the Issuer's financial condition and operations and (ii) do not omit any Material information regarding the Issuer.

SECTION 1.03 SCOPE OF POLICY.

This Policy applies to all Debt Obligations of the Issuer that are currently outstanding and all future bonds, notes, leases or derivative instruments to be executed by the Issuer. If the provisions of this Policy conflict with a respective Continuing Disclosure Undertaking, the terms of such Continuing Disclosure Undertaking will control.

ARTICLE II DEFINITIONS

SECTION 2.01 DEFINED TERMS.

"Annual Report" means the Issuer's audited financial statements (or unaudited financial statements if permitted by the Continuing Disclosure Undertaking) and certain other financial information and operating data required to be filed annually with the MSRB.

"Business Day" means any day except any Saturday or Sunday, any day which is a federal legal holiday in the United States, or any day on which banking institutions are authorized or required by law to close.

"Code" means the Internal Revenue Code of 1986, as amended.

"Compliance Date" means October 20, 2020, being the date of the first Continuing Disclosure Undertaking executed after February 27, 2019 in connection with the issuance of Municipal Securities or Debt Obligations that are subject to Rule 15c2-12.

"Continuing Disclosure Undertaking" means a continuing disclosure agreement, continuing disclosure undertaking, continuing disclosure instructions or other written certification and agreements of the Issuer setting out covenants for satisfying the Issuer's requirements for providing information to the MSRB in an electronic format pursuant to and in accordance with Rule 15c2-12.

"Debt Obligation" means each contract of the Issuer that has sufficient characteristics of debt so that it is included in the Issuer's financial statements as a long-term liability of the Issuer, including, but not limited to bonds, notes, leases and similar instruments used by the Issuer for borrowing purposes.

"Disclosure Officer(s)" means the Issuer's Chief Financial Officer or, if the position of Chief Financial Officer is vacant, the person(s) filling the responsibilities of the Chief Financial Officer for the Issuer.

"EMMA" means the Electronic Municipal Market Access system, the prescribed electronic format for disclosures established and maintained by the MSRB, which can be accessed at www.emma.msrb.org.

"Event 15" means the event set forth in Section 5.02(a) of this Policy.

"Event 16" means the event set forth in Section 5.03(a) of this Policy.

"Event Notices" means all event notices required by Rule 15c2-12.

"Financial Obligation" means: (i) a Debt Obligation; (ii) a derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or

planned Debt Obligation; or (iii) a guarantee of (i) or (ii). The term Financial Obligation shall not include Municipal Securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12.

"GASB" means the Governmental Accounting Standards Board.

"IRS" means the Internal Revenue Service.

"Issuer" means the City of Pflugerville.

"Material" has the meaning given in Section 3.02(f) of this Policy.

"MSRB" means the Municipal Securities Rulemaking Board, or any successor repository designated as such by the SEC in accordance with Rule 15c2-12(b)(5) promulgated by the SEC under the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Municipal Securities" means securities which are direct obligations of, or obligations guaranteed as to principal or interest by, a State or any political subdivision thereof, or any agency or instrumentality of a State or any political subdivision thereof, or any municipal corporate instrumentality of one or more States and any other Municipal Securities described by Section 3(a)(29) of the Securities Exchange Act of 1934, as the same may be amended from time to time.

"Obligated Person" means any person, including an issuer of Municipal Securities, who is either generally or through an enterprise, fund, or account of such person committed by contract or other arrangement to support payment of all or part of the obligations on the Municipal Securities to be sold in the Offering (other than providers of municipal bond insurance, letters of credit, or other liquidity facilities); furthermore, for purposes of this Policy, the Issuer is an Obligated Person.

"Offering" means a primary offering of Municipal Securities with an aggregate principal amount of \$1,000,000 or more.

"Offering Document" means any preliminary or final official statement, private placement memorandum or limited offering memorandum, or other similar instrument prepared in connection with the sale, issuance and delivery of an Offering.

"Rule 15c2-12" means SEC Rule 15c2-12, governing the obligations of dealers regarding Municipal Securities under the Securities Exchange Act of 1934, as amended from time to time, which is available at <https://www.gpo.gov/fdsys/pkg/CFR-2013-title17-vol3/pdf/CFR-2013-title17-vol3-sec240-15c2-12.pdf>.

"SEC" means the United States Securities and Exchange Commission.

"SEC Municipal Markets Report" means the Report on the Municipal Securities Market of the SEC, dated July 31, 2012, available at <https://www.sec.gov/news/studies/2012/munireport073112.pdf>.

"Terms Affecting Security Holders" means a Material agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Issuer that affects security holders.

"U.S. Bankruptcy Code" means Title 9 of the United States Code, as amended from time to time, and any successor to or replacement of such Title and any other applicable federal bankruptcy, insolvency or similar law.

ARTICLE III DISCLOSURE OFFICER; RECORD RETENTION; TRAINING

SECTION 3.01 DISCLOSURE OFFICER.

The Issuer shall appoint a Disclosure Officer who shall be responsible for implementing this Policy. The Disclosure Officer will work with other employees and officials of the Issuer to assist in implementing this Policy. The Disclosure Officer will consult with bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and other outside consultants to the extent necessary to carry out the purpose of this Policy. The Disclosure Officer will report to the Issuer's governing body as provided in Section 6.01 herein, regarding implementation of this Policy and any recommended changes or amendments to this Policy.

SECTION 3.02 DUTIES OF DISCLOSURE OFFICER.

(a) General Duties. The Disclosure Officer shall be primarily responsible for ensuring and determining the Issuer's compliance with this Policy and federal and state securities laws and regulations applicable to the Issuer, including specifically Rule 15c2-12, and including identifying and remedying any non-compliance with this Policy and such laws and regulations.

(b) Review of Relevant Documents. The Disclosure Officer will review the following documents, obligations, and disclosure and reporting requirements of the Issuer in connection with the issuance of Municipal Securities to comply with Article IV and V of this Policy and in the ordinary course of business of the Issuer:

- i. Offering Documents;
- ii. Audited and unaudited financial statements, including notes to such statements;
- iii. Changes to accounting standards promulgated by GASB and other applicable accounting standards and rules;
- iv. Adopted annual budgets and amendments thereto;
- v. Continuing Disclosure Undertakings; and

- vi. Other relevant documents that reflect the Issuer's financial position and operating data.

The Disclosure Officer shall take reasonable steps to ensure that all Offering Documents are timely provided to the Issuer's governing body to ensure meaningful review and approval thereof. In addition, the Disclosure Officer shall take reasonable steps to ensure that for purposes of securities law compliance the Issuer's governing body is generally aware of the other documents listed above and of the significance of those documents to the Issuer's disclosure obligations.

(c) Solicitation of Relevant Information. In the performance of its duties under this Policy, the Disclosure Officer shall be responsible for soliciting any relevant information from other employees, officials or departments within the internal organization of the Issuer, including public statements made by officials of the Issuer that the Disclosure Officer reasonably believes will reach investors or trading markets generally. The Disclosure Officer is additionally responsible for obtaining any documentation prepared by an outside source that may be necessary to assist the Disclosure Officer in carrying out this Policy. The Disclosure Officer shall undertake a thorough review of the form and content of each of the Issuer's annual filings, and any Event Notice filings, as required pursuant to Article IV and V hereof.

(d) Public Statements Regarding Financial Information. Whenever an officer or employee of the Issuer makes statements or releases information relating to its finances and other operations of the Issuer to the public that is reasonably expected to reach investors and the trading markets (including, without limitation, all Event Notices, statements in a comprehensive annual financial report, and other financial reports and statements of the Issuer), the Disclosure Officer shall be responsible for ensuring that such statements and Material information are complete, true, and accurate in all material aspects and available to all investors. The Disclosure Officer will work with other officers of the Issuer to ensure that all public statements and information released by the Issuer are accurate and are not misleading in all Material aspects.

(e) Issuance of Debt Obligations. Whenever the Issuer prepares or participates in the preparation of an Offering Document, the Disclosure Officer, in addition to any other officers selected by the Issuer, shall be responsible for making all certifications that may be required to the effect that such Offering Document does not contain any untrue statement of Material fact or omit to state any Material fact necessary to make the information contained in such documents, in the light of the circumstances under which it was provided, not misleading.

Such determination by the Disclosure Officer shall only be made after coordination with the Issuer's attorney or other administrative officer having ultimate responsibility with respect to the Issuer's operations, risks and litigation, to ensure that any current, pending or threatened losses, investigations or litigation, and any settlement or court orders that are Material to the Issuer are properly identified.

(f) Determination of Material Information. The Issuer understands that determining materiality requires a complete review of facts and circumstances (which may include a review of outstanding Debt Obligations) and in some instances may require the Disclosure Officer to discuss matters with other officers or consultants of the Issuer. Furthermore, each determination of

materiality made by the Disclosure Officer shall be made on a case-by-case basis. For purposes of this Policy, information is "Material" if there is a substantial likelihood that the disclosure of that information would be viewed by a reasonable investor as having significantly altered the total mix of information made available in making an informed investment decision.¹

SECTION 3.03 RECORD RETENTION.

The Disclosure Officer will maintain or cause to be maintained all records relating to annual disclosure filings including the financial information and operating data to be included in the Annual Report for a period of three (3) years after retirement of the related Debt Obligations. The Disclosure Officer will additionally maintain or cause to be maintained all records relating to Event Notices required to be filed with the MSRB under the Continuing Disclosure Undertaking. Such records shall be maintained in either paper or electronic format, or in both formats.

SECTION 3.04 TRAINING.

The Disclosure Officer shall have at least a general familiarity with the content of Rule 15c2-12 and the SEC Municipal Markets Report, and in furtherance thereof receive appropriate training regarding the Issuer's disclosure obligations in accordance with federal securities laws, state regulations and Rule 15c2-12. When appropriate, the Disclosure Officer and/or other Issuer employees and officials under the direction of the Disclosure Officer will attend training programs offered by the SEC or other industry professionals regarding disclosure policies and procedures developed in the context of Rule 15c2-12 that are relevant to the Issuer. Each person acting in the capacity of a Disclosure Officer shall receive such training as may be necessary for the person to perform competently the duties and responsibilities of Disclosure Officer to ensure the Issuer's compliance with the provisions of this Policy.

ARTICLE IV ANNUAL DISCLOSURE FILINGS

SECTION 4.01 ANNUAL DISCLOSURE FILINGS.

The Disclosure Officer shall annually review each Continuing Disclosure Undertaking to determine: (i) the appropriate financial information and operating data required to be included in the Annual Report; and (ii) the filing deadline for such Annual Report or a part thereof. The Disclosure Officer should review the Issuer's documents, Debt Obligations, and disclosure and reporting requirements described in Sections 3.01 and 3.02 of this Policy in determining the appropriate financial information and operating data to be included in the Annual Report. As indicated in Section 3.02 of this Policy, the Disclosure Officer's review necessarily includes review of other documents relating to the financial and operating status of the Issuer to ensure that all required information is appropriately incorporated into the Annual Report. The Disclosure Officer shall be required to provide only the financial information, operating data, financial statements and notices which the Issuer has expressly agreed to provide pursuant to a respective Continuing

¹ The general materiality standard used by the United States Supreme Court. *See TSC Industries, Inc. v. Northway, Inc.*, 426 U.S. 438, 449 (1976).

Disclosure Undertaking, but, in consultation with appropriate accountants, municipal advisors, financial advisors and other outside consultants of the Issuer, may submit other appropriate information to EMMA that will impact the Issuer's financial condition and/or existing security holders in a manner deemed Material by the Disclosure Officer. Additionally, the Disclosure Officer shall notify the MSRB in an electronic format as prescribed by the MSRB, in a timely manner, of any failure by the Issuer to provide financial information or operating data in accordance with the Continuing Disclosure Undertaking.

ARTICLE V DISCLOSURE FILINGS FOR EVENT NOTICES

SECTION 5.01 DISCLOSURE FILINGS FOR EVENT NOTICES 1-14.

The Disclosure Officer shall determine whether an event included below has occurred with respect to the Issuer. If the Disclosure Officer determines that notice of the following events should be provided to the MSRB pursuant to a Continuing Disclosure Undertaking, the Disclosure Officer will cause the appropriate notice to be filed with the MSRB on EMMA, in a timely manner, not in excess of ten (10) Business Days after the occurrence of the event:

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults, if material;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;
- (6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- (7) Modifications to rights of security holders, if material;
- (8) Bond calls, if material, and tender offers;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the securities, if material;
- (11) Rating changes;
- (12) Bankruptcy, insolvency, receivership or similar event of the obligated person;
- (13) The consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and
- (14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

For the purposes of the event identified as item (12) in this Section 5.01, the event is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent or similar officer for an obligated person in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the obligated person, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the obligated person.

The Disclosure Officer may seek the advice of other employees and officials of the Issuer, as well as the advice of the consultants and counsel to the Issuer, as to whether one of the above described events has occurred and whether an Event Notice shall be filed with the MSRB consistent with Rule 15c2-12.

SECTION 5.02 EVENT 15: INCURRENCE OF A MATERIAL FINANCIAL OBLIGATION OR TERMS AFFECTING SECURITY HOLDERS.

(a) Event 15. Beginning on the Compliance Date and continuing thereafter, in addition to the fourteen events described in Section 5.01 and Event 16 described in Section 5.03, the Disclosure Officer shall determine whether an Event 15 has occurred with respect to the Issuer. If the Disclosure Officer determines that an Event 15 has occurred, the Disclosure Officer shall file, or cause to be filed, notice of such Event 15 with the MSRB through EMMA in a timely manner, not in excess of ten (10) Business Days after the date of incurrence. Beginning on the Compliance Date, Rule 15c2-12 establishes that an Event 15 is as follows:

- (15) Incurrence of a Financial Obligation of the Obligated Person, if Material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the Obligated Person, any of which affect security holders, if Material.

The Issuer recognizes that, unlike the events listed in Section 5.01 above, the stated purpose of the SEC in adding Event 15 to Rule 15c2-12 is to provide the secondary market with information regarding all debt, debt-like or debt-related Financial Obligations or Terms Affecting Security Holders incurred by the Issuer. The incurrence of Financial Obligations may occur outside the issuance of Municipal Securities and therefore engagement by the Disclosure Officer with counsel and other consultants experienced in compliance issues related to Rule 15c2-12 may be necessary to determine whether it is necessary to file an Event Notice for Event 15 with the MSRB through EMMA.

(b) Financial Obligations and Terms Affecting Security Holders Subject to Disclosure. The Disclosure Officer shall first determine whether a contract or obligation incurred by the Issuer is a Financial Obligation or Terms Affecting Security Holders subject to disclosure under Event 15. When assessing whether a particular contract or obligation is a Financial Obligation or Terms Affecting Security Holders subject to disclosure as such terms are used in Event 15, the Disclosure

Officer should consider the facts and circumstances surrounding the Issuer's incurrence of each type of contract and obligation, as well as the factors set forth below:

- i. Whether the contract or obligation could affect, or contains provisions or triggers that may impair, the Issuer's liquidity, overall creditworthiness or an existing security holders' rights;
- ii. Whether the contract or obligation is a private placement of debt with a financial institution, letter of credit, standby line of credit, or a similar "credit agreement" that relates to a Debt Obligation;
- iii. Whether the contract or obligation is an ordinary financial and operating liability incurred in the Issuer's normal course of business;
- iv. Whether the contract or obligation contains acceleration provisions or restrictive debt service covenants that could affect the rights of existing security holders;
- v. Whether the contract or obligation is a short or long-term Debt Obligation of the Issuer under the terms of an indenture, loan agreement, capital lease, or other similar contract such as a line of credit;
- vi. Whether the contract or obligation is an operating lease, or a capital lease which operates as a vehicle for borrowing money (e.g. a lease-purchase agreement). For purposes of this Disclosure Policy, factors relevant to determining whether a lease is a vehicle for borrowing money (i.e., a Financial Obligation) are included in **Exhibit A** attached hereto;
- vii. Whether the contract or obligation represents competing debt with the Issuer's prior Debt Obligations that may affect the rights of the existing security holders;
- viii. Whether the contract or obligation is a derivative instrument entered into in connection with a pledge as security or source of payment for an existing or planned Debt Obligation, which may include any swap, security-based swap, futures contract, forward contract, option, a combination of the foregoing or any similar instrument;
- ix. Whether the contract or obligation is a derivative instrument designed to mitigate investment risk; or
- x. Whether the contract or obligation is a guarantee provided by the Issuer as a guarantor for the benefit of a third party.

The Disclosure Officer will consult with bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and

other outside consultants to the extent necessary in making a determination as to whether a contract or obligation incurred by the Issuer is a Financial Obligation or Terms Affecting Security Holders subject to the disclosure requirements of Event 15.

(c) Determination of Material Event 15. If the Disclosure Officer determines that the Issuer has incurred a Financial Obligation or Terms Affecting Security Holders subject to Event 15, the Disclosure Officer shall proceed to determine whether such Financial Obligation or Terms Affecting Security Holders are Material. The same practice used by the Issuer for determining whether a particular piece of information is Material in connection with preparing a disclosure document for an Offering set forth in Section 3.02(f) should be used for purposes of Event 15.

The Disclosure Officer shall determine whether a Financial Obligation or Terms Affecting Security Holders are Material upon the incurrence of the Financial Obligation or the Terms Affecting Security Holders, taking into account all relevant facts and circumstances. Relevant facts and circumstances may include, but are not limited to:

- i. The principal amount of the Financial Obligation, including the aggregate par amount of a series of related Financial Obligations, and the method of setting or adjusting the interest rate thereof;
- ii. The Issuer's overall balance sheet and the size of its existing Debt Obligations;
- iii. The source of security pledged for repayment of the Financial Obligation and the rights associated with such pledge;
- iv. The length of time that the Financial Obligation is to remain outstanding; and
- v. Other appropriate terms of a Financial Obligation that will impact the Issuer's financial condition and/or existing security holders in a manner deemed Material by the Disclosure Officer.

The Disclosure Officer, in consultation with the governing body of the Issuer, bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and other outside consultants of the Issuer, to the extent necessary, shall no less often than annually set objective standards of materiality with respect to Debt Obligations incurred by the Issuer, which may include, but are not limited to, a monetary threshold that, in connection with other relevant facts and circumstances, is the basis for the determination of materiality for Financial Obligations or Terms Affecting Security Holders of the Issuer. With respect to lease agreements entered into by the Issuer, the Disclosure Officer shall implement the guidelines set forth in Exhibit A when assessing whether such lease agreements are Material Financial Obligations.

(d) Incurrence. A Financial Obligation and Terms Affecting Security Holders is considered to be incurred by the Issuer on the date that such Financial Obligation or Terms Affecting Security

Holder is enforceable against the Issuer. As a filing under Event 15 is required to be made in a timely manner, not in excess of ten (10) Business Days after date of incurrence, the Disclosure Officer shall begin the process of assessing whether a particular Financial Obligation or Terms Affecting Security Holders should be disclosed as far in advance of its incurrence as possible. Additionally, although not required, the Disclosure Officer may file a voluntary filing of all outstanding Material Financial Obligations incurred prior to the Compliance Date.

(e) Exemption of Municipal Securities as to Which a Final Official Statement Has Been Provided. The Disclosure Officer is not obligated to disclose, as a Financial Obligation or Terms Affecting Security Holders subject to Event 15, Municipal Securities as to which a final official statement has been provided to the MSRB consistent with Rule 15c2-12. The Disclosure Officer recognizes that this exclusion from the definition of "Financial Obligation" does not extend to Debt Obligations, contingent or otherwise, related to such Municipal Securities that may be disclosed or referenced in such final official statements.

(f) Exemption of Monetary Obligations Resulting From Legal Proceedings. The Disclosure Officer is not required to disclose monetary obligations resulting from a judicial, administrative, or arbitration proceeding as an Event Notice.

(g) Subjecting Debt Obligations to Annual Appropriation not Determinative. The Disclosure Officer understands that qualifying Debt Obligations or Financial Obligations such that payment is subject to annual appropriation may remove the "debt" designation for state constitutional or statutory purposes; however, this qualification alone will not be determinative as to whether the Issuer or Obligated Person has incurred a Material Financial Obligation; rather, when analyzing Debt Obligations and Financial Obligations that are subject to annual appropriation, the Disclosure Officer shall determine whether such Financial Obligation is Material, as described in Section 3.02(f), taking into account all relevant facts and circumstances as described in this Section 5.02.

(h) Form of Event 15 Event Notice. Upon review of the factors outlined above, if the Disclosure Officer affirmatively determines that a Debt Obligation incurred by the Issuer is a Financial Obligation or Terms Affecting Security Holders that are Material and not exempt under subsection (e) and (f) of this Section 5.02, and therefore subject to Event 15, the Disclosure Officer shall file or cause to be filed with the MSRB through EMMA a notice not in excess of ten (10) Business Days of the date of the incurrence of the Financial Obligations or Terms Affecting Security Holders. The Disclosure Officer shall include a description of the Material terms of the Financial Obligation or Terms Affecting Security Holders within the Event 15 Event Notice. Terms considered Material for Event 15 may include, but are not limited to:

- i. The date of incurrence;
- ii. Principal amount;
- iii. Maturity and amortization;
- iv. Interest rate, if fixed, or method of computation and any default rates, if variable;
or
- v. Other appropriate terms deemed material by the Disclosure Officer, the inclusion of which would help further the availability of information to assist investors in

making more informed investment decisions in connection with such incurrence of Financial Obligations or Terms Affecting Security Holders.

The Disclosure Officer shall determine, based on the facts and circumstances, whether to submit to the MSRB a description of the Material terms of the Financial Obligation or the Terms Affecting Security Holders, or alternatively or in addition, submit related materials such as transaction documents prepared in connection with the Financial Obligation or the Terms Affecting Security Holders that set forth the material terms of the Financial Obligation or the Terms Affecting Security Holders. The Disclosure Officer shall not include, and shall take actions to redact, confidential information such as account numbers or other personally identifiable information (but not information relating to an interest rate or other pricing data). Should the Disclosure Officer determine that filing one or more of the transaction documents prepared in connection with the Financial Obligation or the Terms Affecting Security Holders is appropriate under this subsection, the Disclosure Officer may redact any confidential or personally identifiable information from the Event 15 Event Notice.

SECTION 5.03 EVENT 16: EVENTS UNDER THE TERMS OF A FINANCIAL OBLIGATION WHICH REFLECT FINANCIAL DIFFICULTIES.

(a) Event 16. Beginning on the Compliance Date and continuing thereafter, in addition to the fourteen events described in Section 5.01, and Event 15 described in Section 5.02, the Disclosure Officer shall determine whether an Event 16 has occurred with respect to the Issuer as follows:

- (16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the Obligated Person, any of which reflect financial difficulties.

If the Disclosure Officer determines that an Event 16 has occurred with respect to the Issuer, the Disclosure Officer will file or cause to be filed with the MSRB through EMMA a notice of Event 16, whether Material or not, provided the occurrence reflects financial difficulties of the Issuer. The Disclosure Officer shall file an Event 16 Event Notice even where the underlying Financial Obligation was incurred before the Compliance Date.

(b) Reflection of Financial Difficulty of Obligated Person. The Disclosure Officer shall disclose to the MSRB the occurrence of an event listed in Event 16 only if the Disclosure Officer, in consultation with the governing body of the Issuer, bond counsel, legal counsel to the Issuer (including designated disclosure counsel, if any), accountants, municipal advisors, financial advisors and other outside consultants to the Issuer, to the extent necessary, determines that the occurrence of the event reflects financial difficulties of the Issuer.

(c) Events Subject to Event 16 Filing. Subject to subsection (b) of this Section 5.03, the Disclosure Officer should disclose any occurrence in connection with the terms of a Financial Obligation that reflects financial difficulties of the Issuer. Such occurrences may include, but are not limited to the following types of events:

- i. Monetary defaults or events of non-appropriation where the Issuer has failed to pay principal, interest, or other funds due, or a non-payment related default where the Issuer has failed to comply with specified covenants;
- ii. An event of acceleration exercised by a trustee or counterparty as the result of an event of default or other applicable remedy provision;
- iii. A modification of terms that reflects financial difficulties of the Issuer;
- iv. A written or verbal waiver of an agreement provision that is a departure from what was agreed to under the original terms of such agreement; and
- v. Other events under the terms of a Financial Obligation that reflect financial difficulties of the Issuer and share similar characteristics with the specific types of events in Event 16.

(d) Form of Event 16 Event Notice. Upon review of the factors outlined above, if the Disclosure Officer affirmatively determines that, in connection with the terms of a Financial Obligation of the Issuer, the Issuer is experiencing financial difficulties pursuant to Event 16, the Disclosure Officer shall file or cause to be filed with the MSRB through EMMA an Event 16 notice filing within ten (10) Business Days of the date of such determination containing a description of the relevant terms of the Financial Obligation. Terms considered relevant to an Event 16 notice filing may include, but are not limited to:

- i. The provisions within the Financial Obligation giving rise to the occurrence under Event 16;
- ii. The nexus between the terms of such Financial Obligation giving rise to the occurrence under Event 16 and the existing or potentially forthcoming financial difficulties resulting therefrom;
- iii. A description of the Issuer's current financial status; and
- iv. Other appropriate facts deemed material by the Disclosure Officer, the inclusion of which would help further the availability of information to assist investors in making more informed investment decisions in connection with the occurrence of events relating to a Financial Obligation that reflect financial difficulties.

ARTICLE VI MISCELLANEOUS

SECTION 6.01 ANNUAL REVIEW.

The Disclosure Officer shall conduct an evaluation of the policies set forth in this Policy no less often than annually, and promptly after completing the evaluation the Disclosure Officer shall prepare an annual report of the Issuer's compliance.

SECTION 6.02 AMENDMENTS TO POLICY.

This Policy may be amended from time to time to adapt to changed circumstances that arise from a change in legal requirements or industry disclosure practices or procedures, a change in Rule 15c2-12, or a change in law.

EXHIBIT A

LEASE AGREEMENTS OPERATING AS VEHICLES TO BORROW MONEY (FINANCIAL OBLIGATIONS)

As a result of the amendments to Rule 15c2-12, compliance therewith effective February 27, 2019, Issuers or Obligated Persons that periodically enter into leases should develop policies and procedures to (i) determine whether the lease is a vehicle to borrow money, and is therefore a Financial Obligation, as opposed to an operating lease, (ii) determine if such lease becomes Material once incurred, after considering other relevant factors and all outstanding Financial Obligations (an Issuer or Obligated Person's threshold for outstanding Financial Obligations) and (iii) require that all executed leases are timely communicated to the Disclosure Officer for purposes of determining whether an Event Filing is necessary.

I. Leases Operating as Vehicles to Borrow Money (Financial Obligations)

The SEC has determined that a lease should generally be considered a debt obligation and thus a "Financial Obligation" under the Rule when such lease operates as a vehicle to borrow money (i.e., capital leases but not mere operating leases).¹

Capital leases are generally recorded on the balance sheet of the Issuer or Obligated Person as an asset and a liability by an amount equal to the present value of the minimum lease payments; in contrast, operating leases are handled as off-balance sheet financings of assets and are recorded as operating expenses on the Issuer or Obligated Person's income statement. In determining which types of leases to include under the umbrella of "Financial Obligations," the SEC deemed it appropriate to include only those leases that could represent competing debt of the Issuer or Obligated Person (e.g., capital leases which are essentially vehicles to borrow money).

Because capital leases of the Issuer or Obligated Person are recorded in the same fashion as other competing debt of the Issuer or Obligated Person, each sharing a line item in the balance sheet as a liability or included in a more general line item (i.e., competing debt), capital leases are viewed by the SEC as rising to the level of a Financial Obligation because they operate more like a debt obligation. As such, Issuers and Obligated Persons should have procedures in place that help determine whether leases are capital leases or operating leases, as the incurrence of a capital leases will require a Materiality analysis to determine whether an Event 15 notice filing is required.

To make the determination of whether a lease operates as a vehicle to borrow money, the Disclosure Officer should work with appropriate staff and accountants, municipal advisors, financial advisors and other outside consultants of the Issuer or Obligated Person, to the extent necessary, to determine whether the lease is a vehicle to borrow money (i.e., a capital lease) or an

¹ Although the SEC in Release No. 34-83885, implementing the amendment of Rule 15c2-12 to include Event 15 and 16, has discontinued (following GASB's lead) the use of the term "capital lease" and "operating lease," the distinction remains useful to the extent that "capital leases" are commonly understood to be financed purchases of an underlying asset (and thus generally are vehicles to borrow money) whereas "operating leases" are not.

operating lease as operating leases will not rise to the level of a Financial Obligation under Event 15 of Rule 15c2-12.

Characteristics of Leases Operating as Vehicles to Borrow Money (Capital Leases)

In making the determination of whether a lease operates as a vehicle to borrow money and is therefore a Financial Obligation for purposes of Event 15, relevant characteristics may include, but are not limited to, the following:

- i. The lease contains a transfer of ownership of the underlying asset at the end of the lease term or shortly thereafter;
- ii. An option to purchase the underlying asset being leased at a discounted price is available, which may be exercised during or at the end of the lease term;
- iii. The term of the lease is greater than 75% of the useful life of the leased asset; or
- iv. The present value of the lease payment is greater than 90% of the leased asset's fair market value.

Although the characteristics above may be helpful in determining whether a lease operates as a vehicle to borrow money, the Disclosure Officer and appropriate staff and consultants should review of the entire lease, in context with the Issuer's financing and/or operating objectives, in considering whether a lease is a Financial Obligation subject to Event 15. Although a capital lease (as such term in commonly understood) will generally be treated as a vehicle to borrow money, the mere labelling of the lease as "capital" or "operating" will not itself be determinative.

II. Determining Factors for Materiality of Leases that Constitute Financial Obligations

Issuers and Obligated Persons should apply the Materiality standard in Section 3.02(f) and the relevant facts and circumstances in Section 5.02(c) of this Policy, in conjunction with the factors below for purposes of determining whether a lease that operates a vehicle to borrow money is Material and subject to an Event Filing under Event 15.

Given the difference in size, sophistication, features and number of obligations executed by certain issuers and Obligated Persons, factors used in determining the materiality of a lease that operates as a vehicle to borrow money may vary. The Disclosure Officer may utilize factors relevant to the Issuer or Obligated Person which may include, but are not limited to, one or more the following:

- i. Whether the cost of the lease incurred and the payment obligations thereof exceeds a specified percentage of the Issuer's or Obligated Person's fund balance (for purposes of this and the following considerations, the Issuer must determine, given its circumstances, the appropriate way to measure the impact of a lease, e.g., by the aggregate payments required, by principal amount or by annual payment impact to the Issuer's debt portfolio);
- ii. Whether the incurrence of the lease will increase the outstanding indebtedness of the Issuer or Obligated Person by more than a specified ratio or percentage;
- iii. Whether the incurrence of the lease and the payment obligations thereof exceeds a specified percentage of the Issuer's unrestricted revenues;
- iv. Whether the lease represents multiple counterparts of a single transaction that, if incurred at once, would exceed the limits stated in (i), (ii) or (iii) above;
- v. Whether the incurrence of the lease in conjunction with other outstanding Financial Obligations would in the aggregate exceed the limits stated in (i), (ii) and (iii) above; or
- vi. Whether the lease has acceleration provisions or is considered a security on parity or senior to outstanding Financial Obligations.

When utilizing the above factors, the Disclosure Officer must be aware that although a lease may not be Material when compared to the Issuer's or any Obligated Person's general revenues and fund balance, such lease may be material to Financial Obligations pledged to be paid from the specifically pledged revenues and fund balances. Therefore, the Disclosure Officer must look at both the general revenues and the specifically pledged revenues of the Issuer and any Obligated Person when determining the materiality of a lease that operates as a vehicle to borrow money.

If after using the Materiality standard in Section 3.02(f), the relevant facts and circumstances in Section 5.02(c) of this Policy and the factors described above, the Disclosure Officer determines that the lease operating as a vehicle to borrow money is Material, a filing under Event 15 must be made within ten business days from the incurrence of such lease.

If a determination of Materiality is made under factor (v) above for a lease or any other Financial Obligation, additional Financial Obligations incurred thereafter may likely carry a *de facto* Materiality designation. As such, factor (v) above works as a magnitude test of the Issuer or Obligated Person as it becomes the Issuer or Obligated Person's Materiality threshold for all outstanding Financial Obligations.

III. Communication Amongst Departments Once Leases are Incurred

The Disclosure Officer should become aware of the frequency in which the Issuer or Obligated Person incurs leases, as opposed to other forms Financial Obligations, in the ordinary course of the Issuer or Obligated Person's business. To further communication amongst multiple departments within the Issuer or Obligated Person, the Disclosure Officer should require that any member of the Issuer or Obligated Person's staff authorized to execute leases on behalf of the Issuer or Obligated Person report and provide copies of all leases directly to the Disclosure Officer within two (2) business days prior to their execution. Upon receipt of any lease, the Disclosure Officer shall immediately work with appropriate staff and accountants, municipal advisors, financial advisors and other outside consultants of the Issuer, to the extent necessary, to determine whether the lease operates as a vehicle to borrow money (i.e., is a Financial Obligation) and whether such lease is Material using the Materiality standard in Section 3.02(f), the relevant facts and circumstances in Section 5.02(c) of this Policy and the factors described above.