NORTHEAST OHIO REGIONAL OHIO SEWER DISTRICT

DEBT MANAGEMENT POLICY

Introductory Statement of Intent: The following are the general policies that the Northeast Ohio Regional Sewer District (NEORSD) expects to follow in the financing of its capital program. NEORSD intends for this Debt Management Policy to be applied in conjunction with and, to the fullest extent possible, consistently with its Investment Policy. The Debt Management Policy is designed to provide a framework for evaluating its capital funding program. From time to time, NEORSD expects that it will deviate from the Policy as it implements its capital program. It will deviate from the Policy only when it believes it is in its best financial interest to do so, and such deviations will be fully disclosed to, and must be approved by, the Board.

Section 1.Background

NEORSD was created in 1972 as an independent political subdivision organized under the laws of the State of Ohio for the purpose of assuming the responsibility for operation and maintenance of certain wastewater collection and treatment systems serving the Cleveland metropolitan area. NEORSD is operated as a single Enterprise Fund with a goal of generating sufficient revenues through user rates and charges to meet all operating and capital expenses. NEORSD is governed by its Board of Trustees ("Board"), which consists of seven members serving staggered five-year terms.

NEORSD is the largest wastewater treatment provider in the State of Ohio, with a service area of approximately 380 square miles within and around the City of Cleveland. Specifically, it serves 97% of the City of Cleveland and all or portions of 60 communities in Cuyahoga and Summit Counties. NEORSD's service area contains a residential service population in excess of 1,000,000. It provides wastewater collection and treatment services to a diverse customer base including residential, commercial, and industrial customers.

Each year NEORSD prepares a five-year Capital Improvement Plan (CIP), which lists anticipated capital projects by category and the year in which the project will be constructed. Historically, NEORSD had been successful in obtaining federal construction grants to fund these projects. As grant funds decreased, it obtained funding for most projects through the State-administered Clean Water State Revolving Fund Program known as the Water Pollution Control Loan Fund (WPCLF) in Ohio. This program provides below market interest rate loans secured by user fees paid by customers. In addition to grant funds and low interest loan funds, NEORSD has also accessed the Ohio Water Development Authority (OWDA) market rate loan program. These loans are also secured by user fees. Other sources of funding for capital projects include internally generated funds and proceeds from NEORSD's own revenue bond financing. As NEORSD reviews its CIP, priority of funding will generally be:

a) Grant funds
b) Low interest loan funds from WPCLF
c) Internally generated funds
d) Revenue Bonds and Notes
e) Market-rate loans from OWDA
f) Other loan funds as available, such as Public Works Commission funds
g) Lease financing

Consistently with the foregoing priorities, the District may from time to time establish interim financing mechanisms for its CIP, and it will generally seek to secure obligations that it issues or incurs for interim financing purposes on a subordinated basis relative to its Revenue Bonds.

Section 2.Guiding Principles

The following policies will govern the issuance of all NEORSD debt:

A. ***Duration of Debt***: NEORSD will not issue debt for a period longer than the period during which it expects to use the public improvement being financed. The Ohio Revised Code provides guidelines on the maximum period of time for which Capital Improvements may be financed. However, the duration specified in those guidelines may often differ from NEORSD's expectations of the practical economic life of an asset. NEORSD intends to have debt fully retired during the expected useful life of the asset being financed. In any event, NEORSD does not expect to issue debt with a final maturity more than 30 years from the date of issuance.

B. ***Trust Agreement***: NEORSD will abide by all of the covenants that are contained in the Trust Agreement that secures its Revenue Bonds. NEORSD considers these covenants to be minimum requirements, and NEORSD expects to exceed the requirements of each covenant by a comfortable margin.

C. ***Net Revenue Pledge***: the presumption will be that NEORSD will secure debt obligations that it issues for the permanent financing of capital improvements by a pledge of NEORSD's Net Revenues on a parity with the pledge that secures NEORSD's outstanding Revenue Bonds. As noted above, NEORSD may, from time to time, use interim financing methods before issuing long-term Revenue Bonds for the permanent financing of projects, and it will generally secure such interim financing on a subordinated basis relative to its Revenue Bonds. In addition, if NEORSD enters into a contractual arrangement with another political subdivision or entity to construct a Water Resource Project to be owned by the other subdivision or entity, then NEORSD may utilize the flexibility it has under its Trust Agreement to finance the Project on a stand-alone basis rather than by a pledge of NEORSD's Net Revenues.

D. ***Lowest Cost Financing***: NEORSD has historically used the Water Pollution Control Loan Fund and other low-cost sources of capital. It intends to continue to vigorously pursue the use of loan funds and grant financing and to maximize such use to reduce the overall financing cost of its capital program. Bond financing is considered the secondary source of funding after NEORSD has exhausted other less expensive alternatives.

E. ***Cash Financing from Available Sources***: NEORSD has historically paid for a portion of its capital budget on a cash basis. NEORSD will continue this practice and use cash to pay for capital expenditures that it expects to recur on an annual basis. It also expects to use cash for ongoing equipment replacement and for larger capital projects when the available cash balance exceeds its working capital needs.

F. ***Lease Financing***: NEORSD will use leasing for facilities or equipment if it can be demonstrated that this is (i) the most cost effective way to secure financing, or (ii) on small projects that do not warrant entry into the bond market.

G. ***Waiver of Policy by Board of Trustees***:NEORSD may deviate from the requirements of the Debt Policy when, by resolution, the Board finds that it is in its best interest to do so.

Section 3.Operational Policies

Within the framework of the principles described above, NEORSD will be guided by the following operational policies.

A. ***Type of Sale***: NEORSD expects to sell its Bonds and Notes through the Negotiated Sale process. It expects to continue this practice indefinitely, but NEORSD does not rule out the possibility of selling securities through a Competitive Sale from time to time. It will consider the Competitive Sale format when (i) it becomes a more frequent and regular issuer in the market, (ii) stable market conditions exist and (iii) a traditional structure is being used. During periods of low volatility, market timing is less critical than when conditions are rapidly changing. The advantages of a Negotiated Sale are reduced during periods of stable market conditions. A traditional structure with level annual principal payments or level annual debt service is easily accommodated through a Competitive Sale.

B. ***Authorization***: Prior to the issuance of any debt, the Board will pass a resolution authorizing the financing arrangements. The Board will set limits and parameters on the sale in the resolution and will delegate the determination of the specific terms of the debt to the Executive Director or Director of Finance. The final terms will be set in a Certificate of Award which must comply with the limits and parameters established in the authorizing resolution.

C. ***Hiring of Professionals***: NEORSD will, from time to time, issue requests for qualifications or requests for proposals for Underwriters. It is NEORSD's position that it benefits from having a team of professionals pre-approved. Those professionals become familiar with the needs and programs of NEORSD, which enables them to provide a higher quality of service. Such firms are also motivated to present innovative ideas to NEORSD because they have a reasonable expectation of being compensated for their efforts. NEORSD intends to initiate the RFQ or RFP process every 3 to 5 years. Fees for Underwriters and other professional services will be negotiated on a project-by-project basis with the assistance of NEORSD's financial advisor. Bond Counsel, financial advisors and other professionals will be selected in a manner consistent with NEORSD's procurement policy for professional services.

D. ***Coverage***: The Trust Agreement governing NEORSD's revenue bonds calls for annual coverage of 115% on senior lien debt and 100% on all indebtedness. NEORSD intends to set rates to produce a minimum annual coverage of 125% on senior lien bonds and 105% on all indebtedness in order to insulate itself from fluctuations in usage or a higher than expected level of delinquent accounts.

E. ***Debt Service Reserve Fund***: The Trust Agreement permits NEORSD to set the amount of the Debt Service Reserve Fund securing each series of Bonds at the time that the Bonds are sold. NEORSD maintains a preference for not funding a Debt Service Reserve Requirement for a series of Bonds when it can be reasonably projected that coverage on such Bonds will exceed 150% for the ten years following the issuance of the Bonds. NEORSD will generally fund a reserve at the time of sale if coverage is less than the 150% level or if it feels that a funded reserve is necessary in order to maintain or improve the ratings of NEORSD. If the obtaining of a surety bond or other credit facility is determined to be a more economical means of funding a reserve than cash, then NEORSD will use that means.

F. ***Use of Credit Enhancement***: NEORSD will use Bond Insurance and/or Letters of Credit for Credit Enhancement when it is economically advantageous to do so. Enhancement will be used when present value savings result or when such use permits NEORSD to incorporate less restrictive covenants into a transaction which results in greater flexibility or reductions in financing costs. NEORSD will select Bond Insurance through a competitive process. On Competitive Sales, NEORSD will "pre-qualify" the securities being offered for Bond Insurance. Each bidder will then make the decision as to whether or not to purchase the insurance.

G. ***Bond Anticipation Notes***: Bond Anticipation Notes are typically an interim means of financing and, by their very nature, expose NEORSD to interest rate risk upon renewal. Notes may be used to (i) to finance small projects until such time as the project or projects can be rolled into a larger bond sale, (ii) during times of high interest rates and when the expectation is that interest rates are stable or trending downward and (iii) on an interim basis during the construction period until such time as the project is placed into service.

H. ***Interest Rate Exposure***: Variable rate demand bonds, auction rate securities, and Bond Anticipation Notes carry inherent interest rate risk. Such securities have traditionally carried interest rates significantly lower than fixed rate securities issued at the same time and offer the potential for lower debt service costs over the life of the issue. NEORSD will consider using such debt (i) when the interest rate environment is generally considered high and the expectation is that interest rates have a stable or declining bias, (ii) to match assets and liabilities, (iii) when the interest rate yield curve is relatively steep and (iv) when it is advantageous for NEORSD to redeem bonds on short notice or restructure its debt once a project has become operational. NEORSD anticipates that not more than 25% of its total debt portfolio (including loans, e.g., from the WPCLF and the OWDA) will be in the form of notes or variable rate bonds with an interest reset period of one year or less. Notwithstanding the parameters outlined in this section, NEORSD does not consider the issuance of up to $50,000,000 of variable rate debt or notes a departure from this policy even if such issuance would increase the percentage of variable rate debt above the 25% target level.

I. ***Deferred Amortization***: Generally, NEORSD will not defer the Principal amortization on a project for more than one year after the project being financed is placed into service. NEORSD may structure a debt issue with delayed Principal amortization when the delay will allow it to avoid a rate increase by wrapping the debt service requirements around existing debt.

J. ***Capitalized Interest***: Generally, both state law and federal tax law allow NEORSDinclude in its tax-exempt bond issues a sufficient amount to capitalize interest for a period that ends on the later of (i) three years after the date of the bonds' issuance, or (ii) one year after the financed project is placed in service. By definition, capitalization of interest increases the amount of debt that is being issued. Generally, NEORSD will capitalize interest only during the period of a project's construction.

K. ***Costs of Issuance***: Unless an alternative source of revenues is identified, NEORSD will pay Costs of Issuance from the proceeds of the debt issue and amortize the costs over the life of the project.

L. ***Project Costs Prior to Debt Issue***: If project costs are incurred prior to the issuance of debt, the Board will pass a resolution documenting its intent to be reimbursed from bond proceeds.

M. ***Refinancing***: Since Federal regulations limit a tax-exempt issue to one Advance Refunding, NEORSD will not Advance Refund a debt obligation unless it can be demonstrated that such refunding will result in present value savings of at least 4% of the Debt Service on the debt being refinanced. Since regulations do not restrict the number of times that debt can be refinanced on a current basis, NEORSD only needs to show a net savings for Current Refunding issues. Not withstanding the foregoing, NEORSD may refund an issue at a level below the minimum savings thresholds if the purpose of the refunding is to incorporate less restrictive covenants into a transaction, to achieve greater flexibility or lower financing costs.

N. ***Credit Ratings***: NEORSD seeks to maintain the highest possible credit ratings for its debt without compromising the delivery of its basic core services. The staff and Board will attempt to take prudent steps to maintain the highest ratings possible, but it recognizes that external factors impact the rating decision-making process. Staff will maintain an ongoing dialogue with rating analysts in an effort to ensure that the analysts fully understand NEORSD's capital program, operations and decision-making processes. NEORSD's debt policy will be communicated to the rating agencies, and deviations from the stated policy will be fully disclosed.

O. ***Investor Relations***: NEORSD understands that it has been a relatively infrequent participant in the debt markets, and the investor base is still developing. With the assistance of its financial advisor and underwriting team, it will make every effort to reach out to the investor base and attempt to expand the universe of potential investors.

P. ***Continuing Disclosure***: NEORSD will meet its continuing disclosure requirements in a timely and thorough manner.

Q. ***Investment of Bond Proceeds***: NEORSD will invest bond proceeds in investments that are consistent with its Trust Agreement and Investment Policy. Investments of bond proceeds must mature or be marketable at par prior to the date that the proceeds are anticipated to be spent. NEORSD will seek to minimize market risk on the investment of bond proceeds.

R. ***Technology***: The bond market has evolved in recent years in ways that have made it more efficient. Competitive sales are conducted electronically, and disclosure documents are distributed to investors and bidders using the internet. NEORSD intends to use these tools to increase the efficiency of its program to the extent that such tools have become accepted by the market.

S. ***Generally Accepted Accounting Principles***: NEORSD will conform to Generally Accepted Accounting Principles in reporting and disclosing all debt transactions.

T. ***Arbitrage Compliance***: NEORSD will fully comply with all arbitrage rebate requirements of the federal tax code and IRS regulations, and will perform arbitrage rebate calculations for each issue subject to rebate. All necessary rebate payments will be filed and paid when due.

Section 4.Project Financing

As noted above, NEORSD's Trust Agreement gives it the flexibility to finance a Water Resource Project on a stand-alone basis rather than by a pledge of NEORSD's Net Revenues if NEORSD enters into a contractual arrangement with another political subdivision or entity to construct a Water Resource Project to be owned by the other subdivision or entity. Generally, NEORSD will avail itself of that flexibility in those circumstances in order not to expose itself to any credit risk on such project financings and in order to maximize the creditworthiness of its Revenue Bonds as a means of financing improvements to NEORSD's core system.

Section 5. Derivative Products

NEORSD will not purchase or utilize derivative products including swaps, interest rate caps or interest rate collars until such time as the Board approves a policy governing the use of such instruments.

Section 6. Definitions

All capitalized terms used in this Debt Policy shall have the meanings established herein:

A. "Advance Refunding" means a refinancing of a Bond or Note that occurs more than 90 days prior to the maturity date or call date of the Bond or Note being refinanced.

B. "Bond" means a long-term, interest-bearing debt instrument secured by a pledge of certain identified revenues.

C. "Bond Anticipation Note" or "BAN" means a note issued in anticipation of a later issuance of Bonds and usually paid from the proceeds of the sale of the Bonds or renewal Notes.

D. “Bond Counsel” means legal counsel retained to (1) assist in the legal structuring of debt issues, and (2) render an opinion as to the enforceability of the debt obligations and as to the tax-exempt status of interest on the debt obligations.

E. “Bond Insurance” means a financial guarantee purchased by NEORSD or the Underwriter to make timely payment of principal and interest by the Bond Insurer in the event that NEORSD is unable to do so.

F. “Capital Improvement”generally means the acquisition or construction of an asset with a useful life greater than five years.

G. “Capitalized Interest” means an amount borrowed as part of a Note or Bond issue which is used to pay interest on the Bond or Note.

H. “Competitive Sale” means a Bond or Note issuance where NEORSD (along with its financial advisors and Bond Counsel) structures a Bond or Note sale and offers the securities for sale through a competitive bidding process.

I. “Continuing Disclosure” means the requirement that NEORSD disseminate financial and operating data on an ongoing basis subsequent to the issuance of Notes or Bonds in order to comply with Rule 15c2-12 under the Securities and Exchange Act of 1934 promulgated by the Securities and Exchange Commission.

J. “Costs of Issuance” means costs required to sell Bonds or Notes including, without limitation, legal fees, underwriting fees, financial advisory fees, credit enhancement costs, rating fees, printing fees, and other necessary expenses.

K. “Credit Enhancement” means bond insurance or a letter of credit which is purchased by NEORSD the primary purpose of which is to increase the credit rating of an issue of Bonds or Notes.

L. “Credit Rating” means a designation of credit strength assigned to Bonds or Notes of NEORSD by one of the primary rating agencies (Moody’s Investors Service, Standard & Poor’s, or Fitch Ratings).

M. “Debt Service” means the payment of Principal and Interest on a debt issue.

N. “Derivative” means a contract entered into between NEORSD and a Counterparty whereby NEORSD purchases an interest rate management product. Such products include swaps, caps and collars.

O. “Duration” or “Term” means the length of time a debt issue is outstanding prior to being paid in full.

P. “Fixed Rate” means an interest rate that is set at the time of issuance and which remains fixed or unchanged for the life of the debt.

Q. "Interest Rate Risk" means the risk that a market increase in interest rates will expose NEORSD to an increase in Debt Service costs.

R. "Letter of Credit" means a form of Credit Enhancement whereby a Bank agrees to guarantee payment of Debt Service.

S. "Negotiated Sale" means a Note or Bond sale where NEORSD selects an Underwriter or team of Underwriters to represent it in the market. The Underwriting team selected sets the rates on the bonds in consultation with NEORSD and its advisors.

T. "Note" means a debt instruments with a term of one year or less.

U. "Principal" means the par amount of an issue of Bonds or Notes.

V. "Refunding" or "Refinancing" means a debt issuance,the proceeds from the sale of which are used to pay or defease previously issued debt.

W. "Revenue Bond" means, in the case of NEORSD, its Wastewater Improvement Revenue Bonds, secured by a pledge of NEORSD's Net Revenues.

X. "Underwriter" means an investment banking firm or commercial bank that purchases Bonds or Notes from NEORSD through either a Negotiated Sale or Competitive Sale.

Y. "Variable Rate" means an interest rate that is periodically reset during the life of a debt issue.