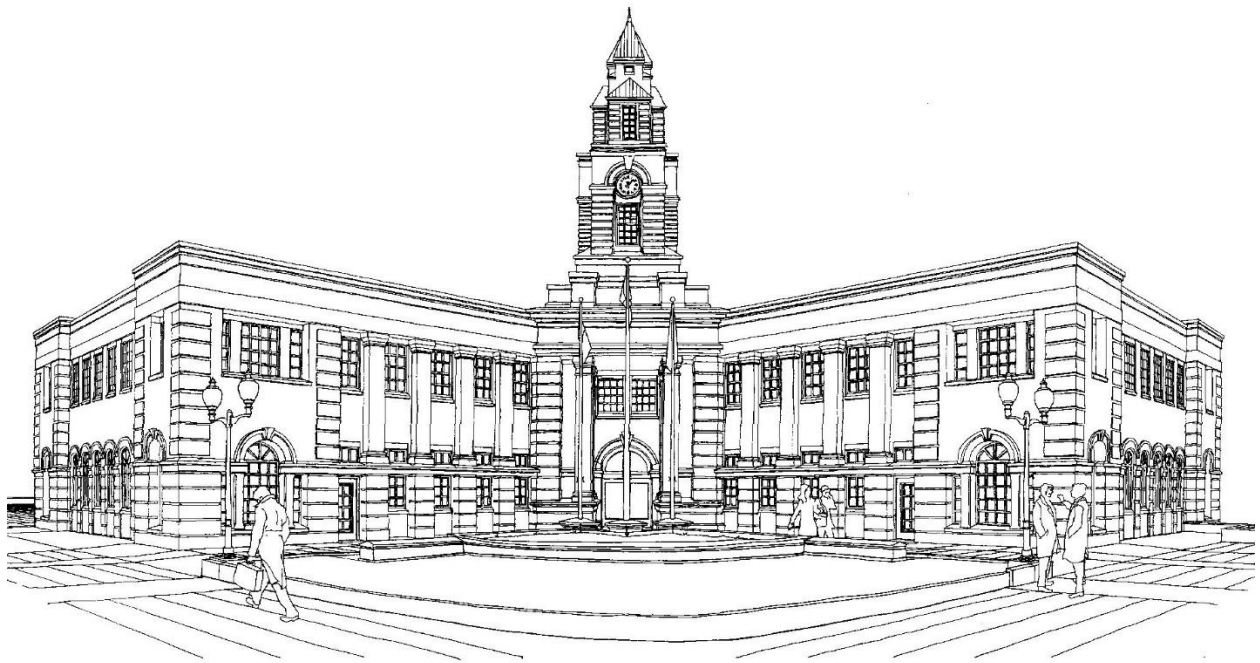


# **CITY OF MORRISTOWN TENNESSEE**

## **Debt Management Policy**



Revised and Adopted: October 15, 2019

## TABLE OF CONTENTS

Introduction .....	i
Goals and Objectives .....	1
Procedures for the Issuance of Debt .....	1
Credit Quality and Credit Enhancement .....	3
Affordability .....	4
Debt Structure .....	4
Debt Types .....	6
Refinancing Outstanding Debt. ....	11
Methods of Issuance .....	13
Professionals .....	14
Compliance.....	16
Debt Policy Review .....	17
Glossary .....	18

## INTRODUCTION

This Debt Management Policy (the “Debt Policy”) provides written guidance with parameters that affect the amount and type of debt that can be issued by the City of Morristown, Tennessee (the “City”), the issuance process and the management of the City’s debt. The purpose of this Debt Policy is to improve the quality of management and legislative decisions and to provide justification for the structure of debt issuances consistent with the Debt Policy’s goals while demonstrating a commitment to long-term capital planning. The City of Morristown’s intent of this Debt Policy will signal to credit rating agencies, investors and the capital markets that the City is well managed and will always be prepared to meet its obligations in a timely manner. This Debt Policy fulfills the requirements of the State of Tennessee (the “State”) regarding the adoption of a formal debt management policy.

This Debt Policy provides guidelines for the City to manage its debt and related annual costs within both current and projected available resources while promoting understanding and transparency for our citizens, taxpayers, rate payers, businesses, investors and other interested parties.

In managing the City’s debt (defined herein as tax-exempt or taxable bonds, capital outlay notes, other notes, leases, interfund loans or notes and loan agreements), the City's policy is to:

1. Achieve the lowest cost of capital within acceptable risk parameters
2. Maintain or improve credit ratings
3. Assure reasonable cost access to the capital markets
4. Preserve financial and management flexibility
5. Manage interest rate risk exposure within acceptable risk parameters

This Debt Policy supports the City of Morristown’s Council (the “Council”) desire to illustrate its commitment to sound financial management. Council may bi-annually or as circumstances, rules and regulation warrant, review this Debt Policy and make revisions and updates.

**City of Morristown, Tennessee  
DEBT MANAGEMENT POLICY**

**I. GOALS AND OBJECTIVES**

Council is establishing debt policies and procedures as tools to ensure that financial resources are adequate to meet the City's long-term capital needs. In addition, the Debt Policy helps to ensure that financings undertaken by the City have certain clear, objective standards, designed to protect the City's financial resources in order to meet long-term capital needs.

The Debt Policy formally establishes parameters for issuing debt and managing a debt portfolio which considers the City's specific capital improvement needs; ability to repay financial obligations; and, existing legal, economic, and financial market conditions.

A. The Goals of this Debt Policy are:

1. To provide management with appropriate guidelines and direction to assist in making sound debt management decisions.
2. To further demonstrate strong financial management practices for our citizens, taxpayers, rate payers, businesses, investors, and other interested parties.

B. The Objectives of this Debt Policy are:

1. To enhance the decision process through transparency;
2. To guide the City in policy and debt issuance decisions;
3. To maintain appropriate capital assets for present and future needs;
4. To promote sound financial management;
5. To protect the City's credit rating;
6. To ensure the City's debt is issued legally under applicable state and federal laws;
7. To promote cooperation and coordination with other parties in the financing;
8. To evaluate debt issuance options.

**II. PROCEDURES FOR ISSUANCE OF DEBT**

**A. Authority**

1. The City will only issue Debt by utilizing the statutory authorities provided by *Tennessee Code Annotated* as supplemented and revised ("TCA") and the Internal Revenue Code (the "Code").

2. The City will adhere to any lawfully promulgated rules and regulations of the State and those promulgated under the Code.
3. All Debt must be formally authorized by resolution of Council.

## **B. Transparency**

1. It is recognized that the issuance of Debt must have various approvals, and, on occasion, written reports provided by the State of Tennessee Comptroller's office either prior to adoption of resolutions authorizing such Debt or prior to issuance and/or following issuance.

The debt service schedule outlining the rate of retirement for the principal amount of Debt, all costs (including principal, interest, issuance, one-time, continuing and ongoing, including any portion of the interest rate going to a third-party), terms and life of all Debt shall be clearly presented and disclosed to the citizens, Council, and other stakeholders in a timely manner.

The City, in conjunction with any professionals (including, but not limited to, financial advisors, underwriters, bond counsel, etc. who may individually or collectively be referred to herein as "Financial Professionals") will ensure compliance with TCA, the Code and all federal and State rules and regulations. Such State compliance will include, but not be limited to, compliance with all legal requirements regarding adequate public notice of all meetings of the City related to consideration and approval of Debt.

Additionally, the City shall provide the Tennessee Comptroller's office sufficient information on the Debt to not only allow for transparency regarding the issuance, but also assure that the Comptroller's office has sufficient information to adequately report or approve any formal action related to the sale and issuance of Debt.

The City will also make this information available to its Council, citizens and other interested parties.

2. The City will file Audited Financial Statements and any Continuing Disclosure document prepared by the City or the Dissemination Agent. To promote transparency and understanding, these documents should be furnished to members of Council and made available electronically or by other usual and customary means to the citizens, taxpayers, rate

payers, businesses, investors and other interested parties by posting such information on-line or in other prominent places.

3. Annual Debt Budgets shall be adopted by Council and comply with the legal notice and filing requirements as promulgated by TCA. Additionally, the City Administrator and/or his/her designee will present an Annual Debt Report in conjunction with the Annual Debt Budget. The Annual Debt Report shall consist of, but not be limited to, the following:
  - a. Schedule of Outstanding Debt and Schedule of Budgeted Debt Payments and any additional schedules, as required by the Tennessee Comptroller of the Treasury;
  - b. Debt Per Capita Ratio (total debt/population);
  - c. Debt to Assessed Property Value (total debt/assessed property value);
  - d. Documentation of the most recent debt rating(s) as available;
  - e. Percentage of fixed versus variable rate debt;
  - f. Multi-year budgets that include current debt costs of principal, interest, and other annual costs.

### **III. CREDIT QUALITY AND CREDIT ENHANCEMENT**

The City's Debt management activities will be conducted in a manner to maintain or receive the highest possible credit ratings. The City Administrator and the Assistant City Administrator for Finance and Administration in conjunction with any Financial Professionals that the City may choose to engage will be responsible for maintaining relationships and communicating with one or more rating agencies.

The City will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when clearly demonstrable savings can be shown shall an enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

#### **A. Insurance**

The City may purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

## **B. Letters of Credit**

The City may enter into a letter-of-credit (“LOC”) agreement when such an agreement is deemed prudent and advantageous. The City or its Financial Professionals, if any, may seek proposals from qualified banks or other qualified financial institutions pursuant to terms and conditions that are acceptable to the City.

## **IV. AFFORDABILITY**

The City shall consider the ability to repay Debt as it relates to the total budget resources, the wealth and income of the community and its property tax base and other revenues available to service the Debt. The City may consider debt ratios and other benchmarks compared to its peers when analyzing its Debt including materials published by the nationally recognized credit rating agencies. The City will limit total outstanding principal on Debt to 10% of the Assessed Value of the City, excluding overlapping, enterprise, revenue and any other self-supporting debt.

## **V. DEBT STRUCTURE**

The City shall establish all terms and conditions relating to the issuance of Debt and will invest all bond proceeds pursuant to the terms of its investment policy, if any. Unless otherwise authorized by the City, the following shall serve as the Debt Policy for determining structure:

### **A. Term**

All capital improvements financed through the issuance of Debt will be financed for a period not to exceed the useful economic life of the improvements and in consideration of the ability of the City to absorb such additional debt service expense. The term of Debt shall be determined by, but not limited to, the economic life of the assets financed, conditions in the capital markets, the availability of adequate revenue streams to service the Debt and the existing pattern of Debt payable from such identifiable fund or enterprise activity, but in no event will the term of such Debt exceed thirty (30) years, unless as otherwise outlined in TCA (e.g. federally sponsored loans or Balloon Debt, which requires prior Comptroller approval and permission).

### **B. Debt Service Structure**

General Obligation debt issuance shall be planned to achieve relatively net level debt service or level principal amortization considering the City's

outstanding debt obligations, while matching debt service to the useful economic life of facilities. Absent events or circumstances determined by Council, the City shall avoid the use of bullet or balloon maturities (with the exception of sinking fund requirements required by term bonds) except in those instances where such maturities serve to make existing overall debt service level or match specific income streams. Debt which is supported by project revenues and is intended to be self-supporting should be structured to achieve level proportional coverage to expected available revenues.

### **C. Call Provisions**

**Fixed Rate Debt** – In general, the City's Debt should include a call feature no later than ten (10) years from the date of delivery of the Debt when issuing Fixed Rate Debt

**Variable Rate Debt** (including variable rate debt with rate lock features) – Must be redeemable at par at any time, with a maximum of 30 days' notice.

The City will avoid the sale of long-term debt which carries longer redemption features unless a careful evaluation has been conducted by the City Administrator and the Assistant City Administrator for Finance and Administration and/or Financial Professionals, if any, with respect to the value of the call option.

Additionally, the City will not issue any debt, or enter into any debt and/or loan agreement, that cannot be redeemed and/or prepaid with a notice requirement of 30 days or less in order to ensure the City does not create an advance refunding, which is not allowable under current tax regulations.

### **D. Original Issuance Discount/Premium**

Debt with original issuance discount/premium will be permitted.

### **E. Deep Discount Bonds**

Deep discount debt may provide a lower cost of borrowing in certain capital markets. The City Administrator and the Assistant City Administrator for Finance and Administration and/or Financial Professionals, if any, should carefully consider their value and effect on any future refinancing as a result of the lower-than-market coupon.



## **VI. DEBT TYPES**

All financing shall be approved by Council and, as required, the Tennessee Comptroller of the Treasury within the legal guidelines of TCA, the Code, and regulations promulgated by the Comptroller's Office. Additionally, all financing shall be reviewed by the City Attorney, or legal bond counsel may be hired to ensure compliance with TCA. When the City determines that Debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

### **A. Security Structure**

#### **1. General Obligation Bonds**

The City may issue Debt supported by its full faith, credit and unlimited ad valorem taxing power ("General Obligation Debt"). General Obligation Debt shall be used to finance capital projects that do not have significant independent creditworthiness or significant on-going revenue streams or as additional credit support for revenue-supported Debt, if such support improves the economics of the Debt and is used in accordance with these guidelines. In order for any revenue supported or enterprise fund Debt to be considered eligible to be issued General Obligation Debt, it must first be determined that the populations served by the projects financed from the Debt proceeds overlap or significantly are the same as the property tax base of the City. Any previously issued General Obligation Debt may also be refunded using General Obligation Debt.

#### **2. Revenue Debt**

The City may issue Debt supported exclusively with revenues generated by a project or enterprise fund ("Revenue Debt"), where repayment of the debt service obligations on such Revenue Debt will be made through revenues generated from specifically designated sources. Typically, Revenue Debt will be issued for capital projects which can be supported from project or enterprise-related revenues.

#### **3. Leases**

The City may use leases to finance projects assuming the City Administrator and the Assistant City Administrator for Finance and Administration and/or Financial Professionals, if any, determine that such an instrument is more economically feasible than purchasing the

asset. The term of the lease shall not exceed the economic life of the asset.

## **B. Duration**

### **1. Long-Term Debt**

The City may issue long-term debt when it is deemed that capital improvements, and all costs associated with capital improvements should not be financed from current revenues or short-term borrowings. Long-term debt **will not** be used to finance current operations or normal maintenance. Long-term debt will be structured such that financial obligations do not exceed the expected useful economic life of the project(s) financed. As indicated within this policy, the costs associated with the issuance of this debt will be disclosed to ensure compliance with this policy and to address potential conflicts of interest. The following summarizes but does not limit the types of long-term debt that may be issued:

- a. *Serial and Term Debt.* Serial and Term Debt may be issued in either fixed or variable rate modes to finance capital infrastructure projects;
- b. *Capital Outlay Notes (“CONs”).* CONs may be issued to finance capital infrastructure projects with an expected life up to twelve years; or
- c. *Leases.* Leases may be issued to finance infrastructure projects or equipment with an expected life not greater than its expected useful life.

### **2. Short-Term Debt**

Short-term borrowing may be utilized for:

- a. Financing short economic life assets;
- b. The construction period of a long-term projects;
- c. For interim financing; or
- d. For the temporary funding of operational cash flow deficits or anticipated revenues subject to the following policies:

1. *Bond Anticipation Notes (“BANs”*. BANs, including commercial paper notes issued as BANs, may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall not mature more than 2 years from the date of issuance. BANs can be rolled in accordance with federal and state law. BANs shall mature within 6 months after substantial completion of the financed facility.
2. *Revenue Anticipation Notes (“RANs”) and Tax Anticipation Notes (“TANs”*). RANs and TANS shall be issued only to meet cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to federal IRS and state requirements and limitations.
3. *Lines of Credit*. Lines of Credit shall be considered as an alternative to other short-term borrowing options. A line of credit shall only be structured to federal and state requirements.
4. *Interfund Loans*. Interfund Loans shall only be used to fund operational deficiencies among accounts or for capital projects to be paid from current fiscal year revenues. Such interfund loans shall be approved by the State Comptroller’s office and shall only be issued in compliance with state regulations and limitations.
5. *Other Short-Term Debt*. Other Short-term debt including commercial paper notes, BANs, Leases and CONs may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable to issue debt in a fixed or variable rate mode. The City will determine and utilize the most advantageous method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal.

## **C. Interest Rate Modes**

### **1. Fixed Rate Debt**

To maintain a predictable debt service schedule, the City may give preference to debt that carries a fixed interest rate.

### **2. Variable Rate Debt**

The targeted percentage of net variable rate debt outstanding (excluding an amount of debt considered to be naturally hedged to short-term

assets in the Unreserved General and/or Debt Service Fund Balance) shall not exceed 25% of the City's total outstanding debt and will take into consideration the amount and investment strategy of the City's operating cash. Any debt or loan obligation whose rate is subject to change at any point over the life of the loan is considered variable rate debt.

The following circumstances may result in the consideration of issuing variable rate debt:

- a. *Asset-Liability Matching*;
- b. *Construction Period Funding*;
- c. *High Fixed Interest Rates*. Interest rates are above historic averages;
- d. *Diversification of Debt Portfolio*;
- e. *Variable Revenue Stream*. The revenue stream for repayment is variable and is anticipated to move in the same direction as market-generated variable interest rates or the dedication of revenues allows capacity for variability; and
- f. *Adequate Safeguard Against Risk*. Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts such structures could include, but are not limited to, interest rate caps and short-term cash investments in the City's General Fund.

The City recognizes the value of variable rate debt obligations and that cities have greatly benefitted from the use of variable rate debt in the financing of needed infrastructure and capital improvements.

However, the City also recognizes there are inherent risks associated with the use of variable rate debt and will implement steps to mitigate these risks; including:

1. Prior to entering into any variable rate debt obligation:
  - a. If the Debt is backed or supported by insurance and/or secured by a liquidity provider or letter of credit provider, Council shall be informed of the potential effect on rates as well as any additional costs that might be incurred should the insurance,

liquidity facility or letter of credit facility, or their providers, fail.

- b. Council will be informed of any terms, conditions, upfront fees, on-going fees, referral fees paid from the interest rate to another party (e.g. marketer or third-party solicitor) or any other costs associated with the variable rate debt obligations.

2. The City shall:

- a. Annually include in its budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration.
- b. Not enter into any variable rate debt obligation that cannot be redeemed at par at any time, with a maximum of 30 days' notice.
- c. When entering into any variable rate debt obligation that is subject to an initial fixed rate lock period great than one (1) year require Council action. It must be fully disclosed to Council that it is variable rate debt and subject to a rate reset at a future date.
- d. Consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any variable rate debt obligation.

An analysis by the City Administrator and the Assistant City Administrator for Finance and Administration and/or Financial Professionals, if any, shall be conducted to evaluate and quantify the risks and returns associated with the use of variable rate debt including, but not limited to, a recommendation regarding the use of variable rate debt.

**D. Zero-Coupon Debt**

Zero-Coupon Debt as allowed under TCA may be used if an analysis has been conducted by the City Administrator and Assistant City Administrator for Finance and Administration and/or Financial Professionals, if any, and the risks and returns associated with the Zero-Coupon Debt have been made. The analysis shall include, but not be limited to, a recommendation regarding the use of Zero-Coupon Debt as the

most feasible instrument considering available revenues streams, the need for the project and other factors determined by Council.

### **E) Synthetic Debt**

The City **will not** enter into any new interest rate swaps or other derivative instruments unless it adopts a Debt Derivative Policy consistent with the requirements of TCA and only after approval of the State Comptroller's office and affirmative action of Council. Additionally, prior to any consideration of such instruments a written management report outlining the potential benefits and consequences and use of these instruments must be submitted to Council.

## **VII. REFINANCING OUTSTANDING DEBT**

The City Administrator and Assistant City Administrator for Finance and Administration, in conjunction with Finance Professionals, if any, shall have the responsibility to analyze outstanding Debt for refunding opportunities. The City Administrator and Assistant City Administrator for Finance and Administration will consider the following issues when analyzing possible refunding opportunities:

### **A. Onerous Restrictions**

Debt may be refinanced to eliminate onerous or restrictive covenants contained in existing debt documents, or to take advantage of changing financial conditions or interest rates.

### **B. Debt Service Savings**

Absent other compelling considerations such as the opportunity to eliminate onerous or restrictive covenants contained in existing debt documents, the City has established a minimum net present value savings threshold of at least three percent (3%) of the refunded debt principal amount on advanced refundings. Current refunding opportunities may be considered by the City using any savings threshold if the refunding generates positive net present value savings.

### **C. Restructuring for economic purposes**

The City may also refund Debt when it is in the best financial interest to do so. Such a refunding will be limited to restructuring to meet realistic revenue expectations, achieve cost savings, mitigate irregular debt service

payments, release reserve funds or remove unduly restrictive bond covenants or any other reason approved by Council at its discretion.

#### **D. Term of Refunding Issues**

Normally, the City will refund Debt equal to or within its existing term. However, the City Administrator and the Assistant City Administrator for Finance and Administration may consider maturity extension, when necessary to achieve desired outcomes. Should it be determined that extending the maturity is advantageous a recommendation for consideration will be presented provided that such extension is legally permissible, and it is approved by Council. The City Administrator and Assistant City Administrator for Finance and Administration may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful economic life of the financed facility and the concept of inter-generational equity should guide these decisions.

#### **E. Escrow Structuring**

The City shall utilize the least costly securities available in structuring refunding escrows. In the case of open market securities, a certificate will be provided by a third party agent, who is not a broker-dealer stating that the securities were procured through an arms-length, competitive bid process, that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. In cases where taxable Debt is involved, the City Administrator and Assistant City Administrator for Finance and Administration, with the approval of bond counsel, may make a direct purchase as long as such purchase is the most efficient and least costly. Under no circumstances shall an underwriter, agent or any Finance Professionals sell escrow securities involving tax-exempt debt to the City from their own account.

#### **F. Arbitrage**

The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any positive arbitrage will be rebated as necessary according to Federal guidelines. The City shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any refunding.

## VIII. METHODS OF ISSUANCE

The City Administrator and Assistant City Administrator for Finance and Administration may consult with a Finance Professional regarding the method of sale of debt. Subject to approval by Council, the City Administrator and Assistant City Administrator for Finance and Administration will determine the method of issuance of debt on a case-by-case basis consistent with the options provided by prevailing State law.

### A. Competitive Sale

In a competitive sale, the City's Debt will be offered in a public sale to any and all eligible bidders. Unless bids are rejected, the debt shall be awarded to the bidder providing the lowest true interest cost (TIC) as long as the bid adheres to the requirements set forth in the official notice of sale. In a competitive sale, a financial advisor may not bid on an issue for which they are providing advisory services.

### B. Negotiated Sale

The City recognizes that some securities are best sold through a negotiated sale with an underwriter or group of underwriters. The City shall assess the following circumstances in determining whether a negotiated sale is the best method of sale:

1. State requirements on negotiated sales;
2. Debt structure which may require a strong pre-marketing effort such as those associated with a complex transaction generally referred to as a "story" bond;
3. Size or structure of the issue which may limit the number of potential bidders;
4. Market conditions including volatility wherein the City would be better served by the flexibility afforded by careful timing and marketing such as is the case for Debt issued to refinance or refund existing Debt;
5. Whether the Debt is to be issued as variable rate obligations or perhaps as Zero-Coupon Debt;
6. Whether an idea or financing structure is a proprietary product of a single firm;



7. In a publicly offered, negotiated sale, a financial advisor, if any, shall not be permitted to resign as the financial advisor in order to underwrite an issue for which they are or have been providing advisory services;
8. If there is no financial advisor, then the underwriter in a publicly offered, negotiated sale shall be required to provide pricing information both as to interest rates and to takedown per maturity to Council (or its designated official) in advance of the pricing of the debt.

### **C. Private Placement**

From time to time, the City may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to be advantageous to the City.

## **IX. PROFESSIONALS**

### **A. Financial Professionals**

The City may select Financial Professionals to assist in debt issuance and administration processes on an as needed basis. The need to hire Financial Professionals will be evaluated by the City Administrator and Assistant City Administrator for Finance and Administration. Should it be determined that the services of Financial Professionals are needed, a recommendation will be made to Council for their consideration for approval. Selection of Financial Professionals will be based on, but not limited to, the following criteria:

1. Relevant experience with municipal government issuers and the public sector;
2. Indication that the firm has a broadly-based background and is therefore, capable of balancing the City's overall needs for continuity and innovation in capital planning and debt financing;
3. Experience and demonstrated success as indicated by their experience;
4. The firm's professional reputation;
5. Professional qualifications and experience of principal employees;
6. Whether the firm is a regulated entity, and
7. Estimated costs, but price should not be the sole determining factor.

## **B. Miscellaneous**

### **1. Written Agreements**

- a. Any Financial Professionals engaged by the City shall enter into written agreements including, but not limited to, a description of services provided and fees and expenses to be charged for the engagement.
- b. The City shall enter into an engagement letter agreement with each lawyer or law firm representing the City in a debt transaction. No engagement letter is required for any lawyer who is an employee of the City or lawyer or law firm which is under a general appointment or contract to serve as counsel to the City. The City does not need an engagement letter with counsel not representing the City, such as underwriters' counsel.
- c. The City shall require all Financial Professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the City and the lender or conduit issuer, if any. This includes "soft" costs or compensations in lieu of direct payments.
- d. Financial Advisor: If the City chooses to hire financial advisors, the City will enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions. Whether in a competitive or negotiated sale, the Financial Advisor will not be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance.
- e. Underwriter: If there is an Underwriter, the City will require the Underwriter to clearly identify itself in writing (*e.g.*, in a response to a request for proposals or in promotional materials provided to an issuer) as an Underwriter and not as a Financial Advisor from the earliest stages of its relationship with the City with respect to that issue. The Underwriter must clarify its primary role as a purchaser of securities in an arm's-length commercial transaction, and that it has financial and other interests that differ from those of the City. The Underwriter in a publicly offered, negotiated sale will be required to provide pricing information both as to interest rates and to takedown per maturity to the governing body in advance of the pricing of the debt.

## **2. Conflict of Interest**

- a. Financial Professionals involved in a debt transaction hired or compensated by the City shall be required to disclose to the City existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisors, swap advisors, bond counsel, swap counsel, trustee, paying agent, liquidity or credit enhancement provider, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow the City to appreciate the significance of the relationships.
- b. Financial Professionals who become involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard, electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

## **X. COMPLIANCE**

### **A. Continuing Annual Disclosure**

Normally at the time Debt is delivered, the City will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the publicly traded Debt to provide certain financial information relating to the City by no later than twelve months after each of the City's fiscal years, the "Annual Report" and provide notice of the occurrence of certain enumerated events. The Annual Report and audited financial statements, if filed separately, will be filed with the MSRB through the operation of the Electronic Municipal Market Access system ("EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the City is unable to provide the Annual Report to the MSRB and any SID by the date required, notice of each failure will be sent to the MSRB and any SID on or before such date. The notices of certain enumerated events will be filed by the City with the MSRB through EMMA and any SID. The specific nature of the information to be contained in the Annual Report or the notices of significant events is provided in each Continuing Disclosure Certificate. These covenants are made in order to assist underwriters in complying with SEC Rule 15c2-12(b) (the "Rule").

## **B. Arbitrage Rebate**

The City shall also maintain a system of record keeping and reporting which complies with the arbitrage rebate compliance requirements of the Internal Revenue Code (the “Code”).

## **C. Records**

The City shall also maintain records required by the Code including, but not limited to, all records related to the issuance of the debt including detailed receipts and expenditures for a period up to 6 years following the final maturity date of the debt or as required by the Code.

# **XI. DEBT POLICY REVIEW**

## **A. General Guidance**

The guidelines outlined herein are only intended to provide general direction regarding the future issuance of debt. The City maintains the right to modify this Debt Policy and may make exceptions to any of its guidelines at any time to the extent that the execution of such Debt achieves the goals of the City as long as such exceptions or changes are consistent with TCA and any rules and regulations promulgated by the State and/or the Code.

This Debt Policy should be reviewed bi-annually or as circumstances, rules and regulations warrant.

## **B. Designated Official**

The City Administrator and Assistant City Administrator for Finance and Administration are responsible for ensuring substantial compliance with this Debt Policy.

## GLOSSARY

**Advance Refunding**, for purposes of certain tax and securities laws and regulations, means a refunding in which the refunded issue remains outstanding for a period of more than 90 days after the issuance of the refunding issue. Typically, such refunded bonds are secured solely by an escrow funded with the proceeds of the refunding bonds. The proceeds of the refunding issue are generally invested in Treasury securities or federal agency securities (although other instruments are sometimes used), with principal and interest from these investments being used (with limited exceptions) to pay principal and interest on the refunded issue. Bonds are “escrowed to maturity” when the proceeds of the refunding issue are deposited in an escrow account for investment in an amount sufficient to pay the principal of and interest on the issue being refunded on the original interest payment and maturity dates, although in some cases an issuer may expressly reserve its right (pursuant to certain procedures delineated by the SEC) to exercise an early call of bonds that have been escrowed to maturity. Bonds are considered “prerefunded” when the refunding issue’s proceeds are escrowed only until a call date or dates on the refunded issue, with the refunded issue redeemed at that time. The Internal Revenue Code and regulations thereunder restrict the yield that may be earned on investment of the proceeds of an advance refunding issue.

**Advisor** means an individual or firm with a deep knowledge in a specific area, engaged in the business of advising others.

**Arbitrage**, in respect to the issuance of municipal securities, usually refers to the difference between the interest paid on tax-exempt bonds and the interest earned by investing the proceeds of the tax-exempt bonds in higher-yielding taxable securities. Federal income tax laws generally restrict the ability to earn arbitrage in connection with tax-exempt bonds or other federally tax-advantaged bonds

**Backloading** refers to the structuring of the debt service to be less in the short term and more in the long term.

**Bank Qualified (BQ)** is a designation given to a public purpose bond offering by the issuer if it reasonably expects to issue in the calendar year of such offering no more than \$10 million (\$30 million for bonds issued in 2009-2010) of bonds of the type required to be included in making such calculation under the Internal Revenue Code. When purchased by a commercial bank for its portfolio, the bank may deduct a portion of the interest cost of carry for the position. A bond that is bank qualified is also known as a “qualified tax-exempt obligation.”

**Bond Counsel** plays the role to render a legal opinion on the municipality's authority to issue bonds and, if so, if the bond is exempt from federal and state taxes.

**Call Date** is the date on which bonds may be called for redemption as specified by the bond contract.

**Call Feature** (or Call Provision) of a bond grants the issuer the right to retire the debt, fully or partially, before the scheduled maturity date. Inclusion of a call feature benefits bond issuers by allowing them to replace an old bond issue with a lower-interest cost issue if interest rates in the market fall.

**Continuing Disclosure** means the disclosure of material information relating to municipal securities provided to the marketplace by the issuer of the securities or any other entity obligated with respect to the securities after the initial issuance of municipal securities. Such disclosures include, but are not limited to, annual financial information, certain operating information and notices about specified events affecting the issuer, the obligor, the municipal securities or the project financed. Such disclosures are required to be provided by the issuer or obligor to the MSRB's EMMA system for the benefit of bondholders of the issuer's securities under continuing disclosure agreements entered into as contemplated under SEC Rule 15c2-12 or on a voluntary basis.

**Coupon or Coupon Rate** is the periodic rate of interest, usually calculated as an annual rate payable on a security expressed as a percentage of the principal amount. The coupon rate does not take into account any discount or premium in the purchase price of the security.

**Current Refunding** is a refunding transaction where the municipal securities being refunded will all mature or be redeemed within 90 days or less from the date of issuance of the refunding issue. Certain federal income tax rules relating to permitted yields of invested proceeds of the refunding issue, rebate of arbitrage earnings and the ability to refund certain types of municipal securities may be less restrictive in the case of current refundings as contrasted with advance refundings.

**Counterparty** means the other party or participant in an agreement or contract.

**Debt Service** means a series of payments including interest (the amount or fee earned or paid for use of money or credit, calculated on the amount of principal) and principal (the amount of money borrowed, or credit provided) required on a debt over time. The rate of interest can be variable or fixed.

**Discount Bond** is a bond that is purchased for less than its par value or compound accreted value. This occurs when bonds are issued for an amount below the par value due to the market interest rate (yield) exceeding the interest rate (coupon) on the bond.

**Electronic Municipal Mark Access (EMMA®) System** is a centralized online source for free access to municipal disclosures, market transparency data and educational materials about the municipal securities market operated by the MSRB. Among other things, EMMA serves as the official source for official statements and other primary market disclosure documents for new issues of municipal securities as well as the official source for continuing disclosures for outstanding issues of municipal securities for which the issuer or obligated person has entered into a continuing disclosure agreement as contemplated under SEC Rule 15c2-12.

**Fiscal Agent** is usually a bank or trust company that handles bonds for a municipality, usually throughout the life of the debt.

**Frontloading** refers to the structuring of the debt service to be more in the short period and less in the long term.

**General Obligation Bonds** refer to bonds that are payable from general funds of the issuer. In Tennessee, general obligation bonds entail the full faith and credit (and taxing power) of the issuer. General obligation bonds are payable from (and in some cases solely from) the City's ad valorem taxes.

**Hedge** is to take a position in one market in an attempt to offset exposure to the price risk of an equal but opposite obligation or position in another market.

**Issuance Costs** are the fees and expenses of professionals and service providers and other similar fees and expenses, whether or not payable at the time the debt is incurred. "Costs" also means recurring and nonrecurring fees and expenses during the life of the debt. [whether paid directly by the City or indirectly by the lending institution as part of the interest cost]

**Letter of Credit** is an irrevocable commitment, usually made by a commercial bank, to honor demands for payment of a debt upon compliance with conditions and/or the occurrence of certain events specified under the terms of the letter of credit and any associated reimbursement agreement. A letter of credit is frequently used to provide credit and liquidity support for variable rate demand obligations and other types of securities.

**Level Debt Service** is a debt service schedule in which the combined annual amount of principal and interest payments remains relatively constant over the life of the issue of bonds.

**Level Principal** is a debt service schedule in which the annual amount of principal payments remains relatively constant over the life of the issue of bonds, resulting in declining annual debt service as the annual amount of interest payments declines. This is sometimes referred to as "declining debt service."

**Line of Credit** is an arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the bank will permit the borrower to maintain.

**Premium** is the amount by which the price paid for a security exceeds the security's par value. This occurs when bonds are issued for an amount greater than the par value due to the bonds having an interest rate (coupon rate) higher than the market interest rate (yield).

**Price** is the amount to be paid for a bond, usually expressed as a percentage of par value but also sometimes expressed as the yield that the purchaser will realize based on the dollar amount paid for the bond. The price of a municipal security moves inversely to the yield.

**Refunding** is a procedure whereby an issuer refinances outstanding bonds by issuing new bonds. There are generally two major reasons for refunding: to reduce the issuer's interest costs or to remove a burdensome or restrictive covenant imposed by the terms of the bonds being refinanced. The proceeds of the new bonds are either deposited in escrow to pay the debt service on the outstanding bonds when due in an "advance refunding" or used to promptly (typically within 90 days) retire the outstanding bonds in a "current refunding." The new bonds are referred to as the "refunding bonds," and the outstanding bonds being refinanced are referred to as the "refunded bonds" or the "prior issue." Generally, refunded bonds are not considered a part of the issuer's debt because the lien of the holders of the refunded bonds, in the first instance, is on the escrowed funds, not on the originally pledged source of revenues.

**Revenue Bond** is a debt instrument that is issued with the intent to be repaid from a stream of revenue that is produced by the project that the debt funded.

**Serial Bonds** are bonds of an issue that mature in consecutive years or other intervals and are not subject to mandatory sinking fund provisions.

**Term Bond** is a bond that comes due in a single maturity whereby the issuer may agree to make periodic payments into a sinking fund for mandatory redemption of term bonds before maturity or for payment at maturity.

**Underwriter** is a municipal securities dealer that purchases a new issue of municipal securities from the issuer for resale in a primary offering. The underwriter may acquire the securities either by negotiation with the issuer or by award on the basis of competitive bidding.

**Yield** is the annual rate of return on an investment, based on the purchase price of the investment, its coupon rate and the length of time the investment is held. The yield of a municipal security moves inversely to the price.