

RESOLUTION NO. 26914

A RESOLUTION TO ADOPT A REVISED DEBT MANAGEMENT POLICY TO ESTABLISH THE OBJECTIVES AND PRACTICES FOR DEBT MANAGEMENT FOR THE CITY AND TO ASSIST ALL CONCERNED PARTIES IN UNDERSTANDING THE CITY'S APPROACH TO DEBT MANAGEMENT.

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BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF CHATTANOOGA, TENNESSEE, That it is hereby adopting a revised Debt Management Policy to establish the objectives and practices for debt management for the City and to assist all concerned parties in understanding the City's approach to debt management.

ADOPTED: December 6, 2011

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# CITY OF CHATTANOOGA

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T E N N E S S E E



## Debt Management Policy

Adopted

DECEMBER 2011

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## *INTRODUCTION*

To maintain a high quality debt management program, the City of Chattanooga (the “City”) has adopted the guidelines and policies set forth in this document titled “Debt Management Policy” (“The Policy”). The purpose of creating the Debt Policy is to establish the objectives and practices for debt management for the City and to assist all concerned parties in understanding the City’s approach to debt management.

The Policy is intended to guide current and future decisions related to debt issued by the City by providing written guidance about the amount and type of debt issued, the issuance process, and the management of the City’s debt program within available resources. The purpose of the Policy is to improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to this Policy signals the rating agencies and the capital market that the City is well managed and should meet its obligation in a timely manner. This Policy fulfills the State of Tennessee requirements with regard to the adoption of a formal debt management policy.

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

The debt program for the City includes various types of obligations for which the City has pledged its full faith and credit as well as other designated revenues for the payment of both principal and interest. The City Council, comprised of nine elected officials, is the body authorized to issue indebtedness of the City.

Since the guidelines contained in the Policy require regular updating in order to maintain relevance and to respond to the changes inherent in the capital markets, the City plans to revisit the Policy from time to time.

## ***I. POLICY STATEMENT***

In managing its Debt, it is the City's policy to:

- A. Minimize the financing cost of capital at the lowest risk
- B. Ensure high credit quality
- C. Assure access to capital credit markets
- D. Preserve financial flexibility
- E. Manage interest rate risk exposure

## ***II. GOALS AND OBJECTIVES***

The City Council has established this Policy to insure that financial resources are adequate to meet the City's long-term planning objectives. In addition, the policy helps to ensure that financings undertaken by the City satisfy certain clear objective standards designed to protect the City's financial resources in order to meet its long-term capital needs. The adoption of clear and comprehensive financial policies enhances the internal financial management of the City.

The 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; the existing legal economic, and financial and debt market conditions. Specifically, the policies outlined in this document intended to assist in the following:

- A. Promote sound financial management through the definition and assignment of authority and responsibilities in policy and debt related decisions
- B. Identify and comply with legal and administrative limitations related to debt issuance and management
- C. Inform citizens and stakeholders of contemplated and outstanding debt
- D. To maintain appropriate resources and funding capacity for present and future capital needs
- E. Define the criteria for the issuance of debt
- F. Define the appropriate uses of debt
- G. Define the criteria for evaluating refunding candidates or alternative debt structures and other debt issuance options
- H. Promote cooperation and coordination with other parties in the financing and delivery of services
- I. Protect and enhance the City's credit rating
- J. Manage interest rate exposure and other risks
- K. Comply with Generally Accepted Accounting Principles (GAAP)
- L. Provide for public accountability and transparency as it relates to the selection of and payment for professional services related to the issuance of debt;

- M. To avoid conflicts of interest
- N. Promote post-issuance compliance

### ***III. GENERAL POLICIES***

The City Charter, approved by Private Act of the Tennessee Legislature and later by voter referendum adopted as Home Rule as provided by Article XI, Section 9 of the Constitution of Tennessee authorizes the City to issue bonds pursuant to Tennessee Code Annotated (TCA), Sections 9-21-101 et seq., and other applicable provisions of State and Federal laws, and the Resolutions of the City Council.

The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements and capital assets

The City is subject to debt limitations imposed by the City Charter. Total bonded indebtedness of the City shall not exceed 10% of the assessed valuation for the preceding year of all taxable property in the City. In determining the debt applicable to the legal debt limit, the following types or debt are excluded:

- A. General obligation bonds payable out of the revenues of a public utility;
- B. All bonds payable out of a designated revenue stream
- C. Tax anticipation bonds and notes
- D. Refunded bonds
- E. Sinking fund amounts

Revenues and rates for self supporting activities will be maintained to annually pay their operating expenses and one hundred and five percent (1.4%) of annual debt service for the tax-backed revenue bonds, general obligation bonds or other debt issued to finance their capital improvements

### ***IV. FEDERAL TAX STATUS***

- A. **Tax Exempt Debt** – Based on the assumptions that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restriction on use of financed projects, and investment constraints; the City will use its best efforts to maximize the amount of debt under this policy as tax-exempt.
- B. **Taxable Debt** – The City will sell taxable debt when necessary to finance projects with a private use or uncontrolled purpose. The City encourages the financing team to blend the financing of taxable projects with the financing of tax-exempt projects whenever possible.

### ***V. LEGAL LIMITATION ON THE USE OF DEBT***

- A. Debt shall only be issued for Projects included in the City's Capital Budget and the initial year of the Capital Improvement Plan that has been approved by City Council.
- B. Debt shall only be issued for working capital for operations after cash flow analysis has determined that there is a mismatch between available cash and cash outflows. Working capital debt shall be repaid by the end of the fiscal year in which the debt was incurred.
- C. The maximum amount of variable rate debt may not exceed 20% of the outstanding debt.

- D. The last maturity of debt issuance may not be more than 30 years with a goal maturity of 20 years or less

## ***VI. CREDIT QUALITY***

The City's debt management activities will be conducted to receive the highest credit ratings possible, consistent with the City's financing objectives. The City Finance Officer together with the Financial Advisors and any other appropriate financial professional(s) will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the City's debt. The City Finance Officer will provide the rating agencies with periodic updates of the general financial condition of the City. Full disclosure of operations and open lines of communications shall be maintained with the rating agencies. The City, together with the Financial Advisor, shall prepare presentations to the rating agencies to assist credit analyst in making informed decision. The City Finance Officer shall be responsible for determining whether a rating shall be requested on a particular financing, and which of the major rating agencies will be asked to provide such rating.

## ***VII. CREDIT ENHANCEMENTS***

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

- A. **Bond Insurance** – The City will purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination will be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds. For competitive sales, the purchaser of the bonds will determine whether bond insurance will be used.
- 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 Advisor may seek proposals from qualified banks or other qualified financial institutions pursuant to terms and conditions that are acceptable to the City
- C. **Liquidity** – For variable rate debt requiring liquidity facilities to protect against remarketing risk, the City will evaluate:
  - 1. Alternative forms of liquidity, including direct pay letters, standby letters of credit, and line of credit, in order to balance the protection offered against the economic costs associated with each alternative
  - 2. Diversification among liquidity providers, thereby limiting exposure to any individual liquidity provider
  - 3. All cost components attendant to the liquidity facility, including commitment fees, standby fees, draw fees, and interest rates charged against liquidity draws  
A comparative analysis and evaluation of the cost of external liquidity providers compared to the requirements for self liquidity

## VIII. DEBT STRUCTURE

The City shall establish all terms and conditions relating to the issuance of bonds and will invest all bond proceeds pursuant to the terms of the City's Investment Policy. Unless otherwise authorized by the City, the following shall serve as the 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 life of the improvements, and in consideration of the ability of the City to absorb the additional debt service expense within the debt affordability guidelines, but in no event will the term exceed thirty (30) years.
- B. **Capitalized Interest** - From time to time certain financings may require the use of capitalized interest from the issuance date until the City has beneficial use and/or occupancy of the financed project. Interest may be financial (capitalized) through a period permitted by federal law and State statute if it is determined by the Chief Financial Officer that doing so is beneficial to the financing and is appropriately memorialized in council action authorizing the sale and issuance of the Debt. Interest shall not be capitalized beyond three (3) years or a shorter period if further restricted by statute
- C. **Debt Service Structure - 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 life of facilities. The City shall avoid the use of bullet or balloon maturities, absent sinking fund requirements, except in those instances where these **maturities serve to make** existing overall debt service level or to match a specific income stream. Debt which is supported by project revenues and is intended to be self-supporting will be structured to achieve level proportional coverage to expected available revenues.
- D. **Call Provisions** - In general, the City's securities will include a call feature no later than ten (10) years from the date of delivery of the bonds. The City will avoid the sale of long-term non-callable bonds absent careful evaluation by the City's Chief Financial Officer and/or Financial Professionals, if any, with respect to the value of the call option
- E. **Original Issuance Discount/Premium** - Bonds with original issuance discount/premium will be permitted
- F. **Deep Discount Bonds** - Deep discount bonds may provide a lower cost of borrowing in certain capital markets. The City's Chief Financial Officer and/or Financial Professionals will carefully consider their value and effect on any future refinancing as **a result of the lower-than-market** coupon.
- G. **Structured Products** - The determination of the City to consider the use of structured products as a hedge against interest rate risk or a method to lower its cost of borrowing will be made by the Chief Financial Officer and/or Financial Professionals and recommended to the City council. The City will comply with state guidelines and will be able to quantify and understand the potential risks or to achieve fixed and/or variable rate exposure targets. The City will not use structured products for speculative purposes.



**IX. FINANCIAL LIMITS/DEBT AFFORDABILITY**

The ratios and standards identified below are primarily intended to limit the use of debt financing in order to facilitate long-term access to capital while ensuring that financial leveraging decisions do not negatively impact the City’s annual operations.

<b>Ratio</b>	<b>Value</b>
General Fund Balance Requirement	≥ 15%
Average Life of Total Debt	≤ 10 Years
Percentage of Principal Paid within 10 Years	≥ 50%
Per Capita Debt/Per Capita Assessed Value	≤ 4%
Debt Service/General Fund Operating Expense	≤ 10%
Enterprise Fund Debt Service Coverage Ratio	≥ 140%

**X. TYPES OF DEBT**

When the City determines that the use of debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued.

**Security Structure**

- A. General Obligation Bonds.** The City may issue general obligation bonds supported by the full faith and credit of the City. General obligation bonds shall be used to finance capital projects that do not have independent creditworthiness and significant ongoing revenue streams. The City may also use its general obligation pledge to support other bond issues, if such support improves the economics of the other bond issue and is used in accordance with these guidelines.
- B. Revenue Bonds.** The City may issue revenue bonds, where repayment of the bonds will be made through revenues generated from other sources. Revenue bonds will typically be issued for capital projects which can be supported from project or enterprise-related revenues. The City is committed to maintaining rates and fee structures of revenue supported debt at levels that will not require a subsidy from the City’s general fund.
- C. Capital Leases.** The City may use capital leases to finance projects or equipment with an expected life not less than the term of the lease. As with all debt, Capital leases must be entered into by council. Details of the lease agreement will be forwarded to the comptroller’s office on the specified form within 45 days.

**Duration**

- A. Long-Term Debt.** The City may issue long-term debt where it is deemed that capital improvements should not be financed from current revenues or short-term borrowings. Long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be statutorily supported by the full faith and credit of the City or other dedicated revenue source and will be structured such that financial obligations do not exceed the expected useful life of the project.
  - 1. *Serial and Term Bonds* may be issued in either fixed or variable rate modes to finance capital infrastructure projects with an expected life of five years or greater.

2. *Capital Outlay Notes* may be issued to finance capital infrastructure projects with an expected life of three to seven years.

**B. Short-Term Debt.** Short-term borrowing may be utilized for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates) subject to the following policies:

1. *Bond Anticipation Notes (BANs)* may be issued to reduce the debt service during the construction period of a project or facility. The BANs shall not mature more than 5 years from the date of issuance. BANs shall mature within 6 months after substantial completion of the financed facility.
2. *Revenue Anticipation Notes (RANs)* and Tax Anticipation Notes (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* shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.
4. *Other Short-Term Debt, including commercial paper notes,* may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable. The City will determine and utilize the least costly method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal.

#### **Interest**

**A. Fixed Rate Debt** - Debt that has an interest rate that remains constant throughout its life. The City may give preference to fixed rate debt in order to maintain a predictable debt service schedule

**B. Variable Rate Debt** - Debt which bears a variable interest rate but do not include debt which, during the remainder of the term thereof to maturity, bears interest at a fixed rate. The percentage of net variable rate debt outstanding (excluding debt which has been converted to synthetic fixed rate debt and debt matched to assets) shall not exceed 20% of the City's total outstanding debt and will take into consideration the amount and investment strategy of the City's operating cash.

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

1. *Asset-Liability Matching*
2. *Construction Funding*
3. *High Interest Rates.* Interest rates are above historic averages.
4. *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.
5. *Adequate Safeguards 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.

6. *Financial Advisor Analysis*-An analysis from the City's Financial Advisor evaluating and quantifying the risks and returns involved in the variable rate financing and recommending variable rate as the lowest cost option.

An analysis from the City Finance Officer and/or its Financial Professionals, if any, will be conducted to evaluate and quantify the risks and returns associated with the variable rate debt including, but not limited to, a recommendation regarding its use

#### **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 the Legislative Body.

### ***XI. RISK ASSESSMENT***

The City, with the assistance of its financial advisor, will evaluate each transaction to assess the types and amounts of risk associated with that transaction, considering all available means to mitigate those risks. The City will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy. The following risks should be assessed and reported to council before issuing debt:

- A. **Change in Public/Private Use** – The change in the public/private use of a project that is funded by tax-exempt funds could potentially cause a bond issue to become taxable.
- B. **Default Risk** – The risk that debt service payments cannot be made by the due date.
- C. **Liquidity Risk** – The risk of having to pay a higher rate to the liquidity provider in the event of a failed remarketing
- D. **Interest Rate Risk** – The risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issued had been fixed.
- E. **Rollover Risk** – The risk of the inability to obtain a suitable liquidity facility at an acceptable price to replace a facility upon termination or expiration of a contract period.
- F. **Credit Risk** – The risk that an issuer of debt securities or a borrower or counterparty may default on his obligations by failing to repay principal and interest in a timely manner

### ***XII. TRANSPARENCY***

The City shall comply with legal requirements for notice and for public meetings specifying on the council agenda when matters related to debt issuance will be considered. In the interest of transparency, the terms and life of each debt issue as well as all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens, City Council, and other stakeholders in a timely manner in the documents provided to the City Council and the State of Tennessee Comptroller's office for approval which are available for public review on request.

Additionally, disclosure of costs will be made by electronic submission through the Municipal Securities Rulemaking Board Electronic Municipal Market Access (EMMA) website.

**The City's Debt Management Policy shall be posted on the City's website for public review in a prominent location. XIII. PROFESSIONAL SERVICES SECTION**

- A. As needed, the City may select professionals to assist in its Debt issuance and administration processes. Selection of the professionals will be based on the following:
- a. Relevant experience with municipal issuers and the public sector
  - b. 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.
  - c. Professional qualifications and experience of principal employees
  - d. Independence from municipal bond underwriting, trading, or other clients, activities, or events which could result in a conflict of interest particularly as it relates to the underwriting or trading of the City's debt
  - e. The firm's professional reputation for integrity and compliance with state and federal law.
  - f. Consideration will be given to the proposed fee structure and estimated costs, but price will not be the sole determining factor.

The City requires all 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.

**B. Counsel**

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. *Financial Advisor* – The financial advisor is contracted by the City to assist on financial matters. The City Council shall approve the written agreement between the City and each person of the firm serving as financial advisor in 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. Financial advisors retained under this policy shall comply with the ethical standards and disclosure requirements for brokers, dealers, and municipal securities dealers who act as financial advisors to issuers of municipal securities as mandated by the Municipal Securities Rulemaking Board (MSRB).

- D. *Underwriter* – If there is an underwriter, the City shall require the Underwriter to clearly identify itself in writing as an underwriter and not as a financial advisor from the earliest stages of its relationship with the City with respect to the 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 shall be required to provide pricing information both as to interest rates and to takedown per maturity to the City Finance Officer in advance of the pricing of the debt. (See also p.14)

- a. The City reserves the right to approve the Underwriter's selection of counsel.
  - b. The City reserves the right to draw up a list of general qualifications or a list of acceptable firms for an underwriter to select counsel.
- E. *Conflict of Interest Disclosure*** – Professionals involved in a debt transaction hired or compensated by the City shall be required to provide full disclosure to the City existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, bond counsel, trustee, paying agent, 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 relationship
- a. 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. This disclosure shall extend to any existing or known future relationships or representations that could give rise to, or the appearance of, a conflict of interest.
  - b. Financial Professionals shall agree to refrain from entering into any relationship that would give rise to a conflict of interest during the contract period.
  - c. No disclosure is required that would violate any rule or regulation of professional conduct.
  - d. Any failure to comply with this anti-conflict provision will result in the termination of the contract.
- F. *Financial Advisory Scope of Services*** - Financial advisory services provided to the City shall include, but shall not be limited to the following:
1. Advise the City on financial matters relating to proposed capital financing projects.
  2. Analyze the current debt profile and recommend appropriate changes to ensure correct mix of fixed rate debt, variable rate debt and structured products to accomplish the City's immediate and long-term fiscal objectives.
  3. Working with the City staff and their legal advisors, prepare Preliminary Official Statement, Official Statement, Notice of Bond Sale and other related documents.
  4. Advise and assist in presentations to rating agencies.
  5. Assist the City in obtaining competitive bids from bond underwriters, trustees, paying agents/registrars, printers and escrow verification agents, as necessary.
  6. In the event the City undertakes negotiated underwritings, the Financial Advisor shall represent the City's interests in all aspects of the negotiated transaction, including underwriter selection, revenue and transaction structuring, credit enhancement and pricing scales.
  7. Arrange for electronic disclosure and bidding services.
  8. Monitor the performance of bond proceeds investments. Prepare and present information and financial trends as they relate to bond proceeds investments.
  9. Develop five and ten year debt strategies that incorporate the City's capital financing plans and revenue constraints. Discuss funding alternatives and cost benefits of proposed

strategies. Determine the City's debt or bonding capacity and the revenue impact of capital projects.

10. Assist the City in identifying and obtaining new sources of funding for capital needs such as new revenues, asset sales, state and/or federal grants or incentive programs.
11. Assess use of swaps and other structured products, and propose strategies, which maximize the City's access to capital markets.
12. Develop a formal written debt policy, which incorporates the City's financial and operational objectives.
13. Conduct necessary analysis and feasibility studies relating to financing of City projects, including cash flows, sources and uses, and sensitivity analysis of variables in a financing, such as interest rate, maturities, and rate of principal redemption.
14. Propose innovative financing techniques, which may assist the City in minimizing costs, simplifying debt financing or achieving the City's objectives.
15. Provide consultation and research on tax issues faced by the City relative to the financing of public infrastructure.
16. Advise the City in complying with and preparing continuing disclosure information pursuant to Securities and Exchange Commission's (SEC) rules.
17. Cooperate and confer with the City's Bond Counsel and other advisors retained by the City.
18. Review all financing documents and advise the State Comptroller accordingly.
19. Undertake such additional actions as will lead to the prompt and successful delivery of the proceeds and the production and availability of bonds.
20. Make recommendations on legislation, as requested, which may significantly affect the bond's cost of financing.

#### ***XIV. REFINANCING OUTSTANDING DEBT***

The City Finance Officer with the assistance of the City's Financial Advisor shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The City will consider the following issues when analyzing possible refunding opportunities:

1. *Debt Service Savings* - The City establishes a minimum present value savings threshold of 3% of the refunded bond principal amount. The present value savings will be net of all costs related to the refinancing. If present value savings is less than 3.0%, the City may consider the option value captured as a percent of total savings. If the option value exceeds 70% and present value savings is less than 3.0%, the City may opt to complete a refunding. The decision to take savings on an upfront or deferred basis must be explicitly approved by the City.
2. *Restructuring* - The City will refund debt when it is in the best financial interest of the City to do so. Such refunding will be limited to restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants.
3. *Term of Refunding Issues* - The City will refund bonds within the term of the originally issued debt. However, the City may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financed facility and the concept of inter-generational equity should guide this decision.

4. *Escrow Structuring* - The City shall utilize the least costly securities available in structuring refunding escrows. 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 (in the case of open market securities), 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. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.
5. *Arbitrage* - The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any resulting positive arbitrage will be rebated as necessary according to Federal guidelines.

## ***XV. ISSUANCE SECTION***

The City will determine the method of issuance on a case-by-case basis.

### ***A. Method of Sale***

1. *Competitive* - In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale. The City shall use a competitive sale method of issuance for all general obligation new money transactions as required by statutes of the State of Tennessee.
2. *Negotiated* - While the City prefers the use of a competitive process, the City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:
  - a. A structure which may require a strong pre-marketing effort such as a complex transaction or a "story" bond.
  - b. Size of the issue which may limit the number of potential bidders
  - c. Market volatility is such that the City would be better served by flexibility in timing a sale in a changing interest rate environment.
  - d. Whether the Bonds are issued as variable rate demand obligations.
  - e. Whether an idea or financing structure is a proprietary product of a single firm.
3. *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 result in a cost savings to the City relative to other methods of debt issuance.

### ***B. Underwriter Selection (Negotiated Sale)***

1. *Senior Manager Selection*. The City with the assistance of the Financial Advisor shall select the senior manager for a proposed negotiated sale. The selection criteria are outlined in section XI (Financial Professionals). Additionally:
  - a. The Underwriter shall not serve as the Financial Advisor to the City in the same debt or derivative transaction. A Financial and/or Swap Advisor cannot resign and become the Underwriter in a debt transaction.
  - b. The Underwriter must not be selected until after a Financial Advisor has been engaged for the debt transaction.

- c. The Underwriter must have documented experience in underwriting debt for the City or comparable issuers, and for financings of similar size, types and structures.
- d. The Underwriter is to be selected either by a Competitive Request for Proposal (RFP) or Qualification (RFQ) process, with the assistance of the Financial Advisor

2. *Co-Manager Selection.* Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.

- a. *Selling Groups* - The City may establish selling groups in certain transactions. To the extent that selling groups are used, the City Finance Officer, at his or her discretion, may make appointments to selling groups as the transaction dictates.
- b. *Underwriter's Counsel.* In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with input from the City
- c. *Underwriter's Discount* - The City Finance Officer with the assistance of the Financial Advisor will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the City Finance Officer will determine the allocation of fees, if any, with respect to the management fee. The determination will be based upon participation in the structuring phase of the transaction. All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties by the City Finance Officer. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.
- d. *Evaluation of Underwriter Performance.* The City with the assistance of the Financial Advisor will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.
- e. *Syndicate Policies* - For each negotiated transaction, the City Finance Officer may prepare syndicate policies that will describe the designation policies governing the upcoming sale. The City Finance Officer shall ensure receipt of each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.
- f. *Designation Policies* - To encourage the pre-marketing efforts of each member of the underwriting team, orders for the City's bonds will be net designated, unless otherwise expressly stated. The City shall require the senior manager to:
  - 1. Comply with MSRB regulations governing the priority of orders and allocations
  - 2. Equitably allocate bonds to other managers and the selling group



Within 10 working days after the sale date, submit to the City Finance Officer a detail of orders, allocations and other relevant information pertaining to the City's sale

## ***XVI. MANAGEMENT AND MONITORING SECTION***

The City Finance Officer shall be responsible for monitoring and review of procedures to identify and resolve noncompliance on a timely basis, to preserve the preferential tax-advantaged bonds

### ***A. Post-Sale***

#### *1. After sale evaluation*

- a. Immediately after the sale of debt, the process and outcome of the transaction will be evaluated by the City's Financial Advisor. This evaluation will contain at a minimum:
  - i. Market conditions at the time of sale or pricing;
  - ii. An evaluation of all borrowing costs including underwriting spread and a comparison of rates on the City's debt with similar issues;
  - iii. For a negotiated sale, an analysis of the performance of the syndicate members/firm(s) selling the debt;
  - iv. A review of investors buying the debt; and
  - v. Observations of the secondary market activity on the debt for two weeks following the sale or pricing of the debt.
- b. The City shall retain documentation of pricing of the bonds, pre-sale and post-sale data. The after sale evaluation shall be completed no later than 30 days after the sale and will be available for public inspection upon request.

#### *2. Investment of Debt Proceeds*

- a. Debt proceeds shall be invested to prevent the loss of principal (safety), maximize liquidity, and to maximize yield without risk to safety or liquidity. Safety shall be the preeminent principal in the investment of debt proceeds with liquidity being second.
  - b. Debt proceeds shall be invested in accordance with the requirements of law, particularly tax law requirements.
  - c. Investments shall be purchased at a fair market price.
  - d. Cash flow projections shall be made in determining project cash requirements in determining which permitted investments shall be used.
  - e. Adequate records shall be maintained to comply with arbitrage rebate requirements.
3. The City shall develop procedures to ensure that sale related reporting requirements are met within the required time.

### ***B. Project Compliance***

1. The City shall not permit private business use in facilities constructed using tax-exempt debt except as specifically disclosed prior to sale of debt or as subsequently opined by nationally recognized Bond Counsel to not impact the tax-exempt status of the debt.

2. Debt proceeds shall be expended within the legally allowable construction period and accounted for in a manner that allows project expenditures to be traced to debt proceeds to show compliance with legal requirements.
3. Documents related to a debt issue shall be retained for the life of an issue or the life of the refunding of the issue plus three years.

**C. *Continuing Disclosure Compliance***

At the time Debt is delivered, the City will execute a Continuing Disclosure Agreement (required by SEC Rule 15c2012) in which it will covenant for the benefit of holders and beneficial owners of the publically traded Debt to provide, commencing on the Settlement Date and throughout the term of the agreement, certain financial information relating to the City to each MSRB via EMMA no later than 270 days after the end of each of the City's fiscal years and provide notice of the occurrence of any of the following material events:

1. Principal and interest payment delinquencies
2. Nonpayment-related defaults
3. Unscheduled draws on bond-related reserves
4. Unscheduled draws on credit enhancements
5. Substitution of credit or liquidity providers or the failure of performance on the part of a liquidity provider
6. Adverse tax opinions or events affecting the tax-exempt status of any bonds
7. Modifications to rights of bond holders
8. Bond calls
9. Defeasances
10. Matters affecting collateral
11. Rating changes

**D. *Arbitrage Compliance***

The City will maintain a system of record keeping and reporting which complies with the arbitrage rebate compliance requirements of the Internal Revenue Code.

***XVII. DEBT POLICY REVIEW***

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt and derivatives. The City maintains the right to modify these guidelines and may make exceptions to any of them at any time to the extent that the execution of such debt achieves City goals and such exceptions or changes are consistent with TCA and other rules and regulations promulgated by the State and Federal government.

This policy will be reviewed from time to time as circumstances, rules and regulations warrant. At that time, the City will consider any recommendations for any amendments, deletions, additions, improvements or clarifications.

The City Financial Officer is responsible for ensuring substantial compliance with this Debt Policy.

Public hearing on the Policy was held on December 6, 2011.

The Policy was adopted by City Council on December 6, 2011, effective January 1, 2012

## Glossary

**Arbitrage.** The difference between the interest paid on the tax-exempt securities and the interest earned by investing the security proceeds in higher-yielding taxable securities. IRS regulations govern arbitrage on the proceeds from issuance of municipal securities.

**Balloon Maturity.** A later maturity within an issue of bonds which contains a disproportionately large percentage of the principal amount of the original issue.

**Bond Anticipation Notes (BANs).** Notes which are paid from the proceeds of the issuance of long-term bonds. Typically issued for capital projects.

**Bullet Maturity.** A maturity for which there are no principal and/or sinking fund payments prior to the stated maturity date.

**Call Provisions.** The terms of the bond giving the issuer the right to redeem all or a portion of a bond prior to its stated date of maturity at a specific price, usually at or above par.

**Capitalized Interest.** A portion of the proceeds of a bond issue which is set aside to pay interest on the same bond issue for a specific period of time. Interest is commonly capitalized for the construction period of the project.

**Capital Lease.** Fixed-term (and usually non-cancelable) lease that is similar to a loan agreement for purchase of a capital asset<sup>6</sup> on installments.

**Commercial Paper.** Very short-term, unsecured promissory notes issued in either registered or bearer form, and usually backed by a line of credit with a bank.

**Competitive Sale.** A sale/auction of securities by an issuer in which underwriters or syndicates of underwriters submit sealed bids to purchase the securities. Contrast to a negotiated sale.

**Continuing Disclosure.** The principle that accurate and complete information material to the transaction which potential investors would be likely to consider material in making investment decisions with respect to the securities be made available on an ongoing basis.

**Credit Enhancement.** Credit support purchased by the issuer to raise the credit rating of the issue. The most common credit enhancements consist of bond insurance, direct or standby letters of credit, and lines of credit.

**Debt.** Obligations to repay, with or without interest, in installments some amount of money utilized for the purchase, construction, or operation of City resources. Includes but is not limited to notes, bonds, capital leases and loans of any type.

**Debt Service Coverage.** Net Revenue available for debt service divided by debt service.

**Debt Service Reserve Fund.** The fund in which moneys are placed which may be used to pay debt service if pledged revenues are insufficient to satisfy the debt service requirements.

**Debt Service Structure.** The repayment schedule necessary to pay the principal amount of the debt and the associated interest.

**Deep Discount Bonds.** Bonds which are priced for sale at a substantial discount from their face or par value.

**Derivatives.** A financial product whose value is derived from some underlying asset value.

**Designation Policies.** Outline how an investor's order is filled when a maturity is oversubscribed when there is an underwriting syndicate. The senior managing underwriter and issuer decide how the bonds will be allocated among the syndicate. There are three primary classifications of orders which form the designation policy: Group Net orders; Net Designated orders and Member orders.

**Escrow.** A fund established to hold moneys pledged and to be used to pay debt service on an outstanding issue.

**Expenses.** Compensates senior managers for out-of-pocket expenses including: underwriters counsel, DTC charges, travel, syndicate expenses, dealer fees, overtime expenses, communication expenses, computer time and postage.

**Letters of Credit.** A bank credit facility wherein the bank agrees to lend a specified amount of funds for a limited term.

**Liquidity.** Usually refers to the ability to convert assets (such as investments) into cash.

**Management Fee.** The fixed percentage of the gross spread which is paid to the managing underwriter for the structuring phase of a transaction.

**Members.** Underwriters in a syndicate other than the senior underwriter.

**Moody's Median.** Key financial, debt, economic and tax base statistics with median values for each statistic presented.

**Negotiated Sale.** A method of sale in which the issuer chooses one underwriter to negotiate terms pursuant to which such underwriter will purchase and market the bonds.

**Net Revenue.** Defined in greater detail by the City's Indenture. Net Revenue is the difference between gross revenue and operating and maintenance expenses.

**Original Issue Discount.** The amount by which the original par amount of an issue exceeds its public offering price at the time it is originally offered to an investor.

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