BEDFORD COUNTY
TENNESSEE

Debt Management Policy

Formally Adopted: November 8, 2011

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INTRODUCTION

This Debt Management Policy (the “Debt Policy”) is a written guideline with parameters that affect the amount and type of debt that can be issued by Bedford County, Tennessee (the “County”), the issuance process and the management of the County’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. It is also the intent of the County that this Debt Policy will signal to credit rating agencies, investors and the capital markets that the County 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 regarding the adoption of a formal debt management policy on or before January 1, 2012.

This Debt Policy provides guidelines for the County 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.

The County may, from time to time, review this Debt Policy and make revisions and updates, if warranted.

DEBT MANAGEMENT POLICY

I. INTRODUCTORY STATEMENT

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

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

II. GOALS AND OBJECTIVES

1) **Goal/Mission:**

The goal of the Debt management policy (the "Debt Policy") is to ensure that financings undertaken by the County have certain clear, objective standards which allow the County to protect its financial resources in order to meet its long-term capital needs. The Debt Policy should provide management with appropriate guidelines and direction to assist in making sound debt management decisions, while further demonstrating strong financial management practices for our county citizens, outside investors and credit agencies.

2) **Objectives:**

- Enhance decision process transparency and identify all expenditures of principal, interest and annual costs, along with issue specific transaction costs
- Address hiring outside professionals
- Address any potential conflict of interest issues
- Additional requirements for new debt

III. 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, prior to issuance and/or following issuance. The County, in conjunction with any professionals (including, but not limited to, financial advisors, underwriters, bond counsel, etc. which 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 County related to consideration and approval of Debt. Additionally, the County shall provide the Tennessee Comptroller's office sufficient information on the Debt to not only allow for transparency regarding the issuance, but also assuring 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 County will also make this information available to its legislative body, citizens and other interested parties. In the interest of transparency, all costs (including interest, issuance, continuing and one-time) shall be disclosed to the citizens/members, governing body and other stakeholders in a timely manner. The method for disclosure of costs and other information, including documentation of compliance with the policy, shall be developed by the Mayor and Finance Director and maintained on file in the Finance Office.

2) The County will file its Audited Financial Statements and any Continuing Disclosure document prepared by the County or its Dissemination Agent. To promote transparency and understanding, these documents should be furnished to members of the Legislative Body and made available electronically or by other usual and customary means to its citizens, taxpayers, rate payers, businesses, investors and other interested parties by posting such information on-line or in other prominent places.

IV. PROFESSIONALS

1) <u>Hiring of Professionals for Debt Issuance</u>

As needed, the Finance Director, with the approval of the Finance Committee, may select Financial Professionals to assist in its Debt issuance and administration processes.

2) <u>Financial Advisor</u>

The County shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions. Whether in a negotiated or competitive sale, the financial advisor shall **<u>not</u>** be permitted to bid on, privately place or underwrite an issue for which they are providing advisory services for the issuance. The county will utilize the most current definition of "financial advisor," as determined by the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board, when determining what exactly defines a financial advisor.

3) Underwriter

If there is an underwriter, the County shall 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 County 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 County. 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 governing body (or its designated official) in advance of the pricing of debt. The Underwriter in a publicly offered, negotiated sale (if there is no Financial Advisor) must provide pricing information to the Finance Committee (or the Finance Director and County Mayor) a minimum of 10 days prior to the award of the debt.

4) Counsel

The County shall enter into an engagement letter agreement with each lawyer or law firm representing the County in a debt transaction. No engagement letter is required for any lawyer who is an employee of the County or lawyer or law firm which is under a general appointment or contract to serve as counsel to the County. The County does not need an engagement letter with counsel not representing the County, such as underwriters' counsel.

5) Disclosure

The County 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 County and the lender or conduit issuer, if any. This includes "soft" costs or compensations in lieu of direct payments.

V. CONFLICT OF INTEREST ISSUES

1) It is required that all professionals related to the debt issue will enter into a written engagement letter related to their proposed services, cost and any potential conflict of interest. These letters will be signed by the County Mayor and are open records.

2) Financial Professionals involved in a debt transaction hired or compensated by the County shall be required to disclose to the County 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, 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 County to appreciate the significance of the relationships.

3) 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.

VI. DEBT ISSUANCE

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

1) Authority

a) The County 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").

b) The County will adhere to any lawfully promulgated rules and regulations of the State and those promulgated under the Code.

c) All Debt must be formally authorized by resolution of the County's Legislative Body.

2) Affordability

The County 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 County 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.

3) Term

In accordance with State statute, no repayment schedule of debt will extend past the useful life of the asset for which the funds are being issued. The most current, adopted county's capital asset policy will be referenced for asset useful lives.

4) **Capitalized Interest**

From time to time, certain financings may require the use of capitalized interest from the date of issuance until the County is able to realize beneficial use and/or occupancy of the financed project. Interest may be capitalized through a period permitted by federal law and TCA if it is determined that doing so is beneficial to the financing by the Legislative Body and is appropriately memorialized in the legislative action authorizing the sale and issuance of the Debt.

5) **Debt Service Structure**

General Obligation debt issuance shall be planned to achieve relatively net level debt service or level principal amortization considering the County's outstanding debt obligations, while matching debt service to the useful economic life of facilities. Absent events or circumstances determined by its Legislative Body, the County 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.

6) **Call Provisions**

In general, the County's Debt should include a call feature no later than ten (10) years from the date of delivery of the bonds. The County will avoid the sale of long-term debt which carries longer redemption features unless a careful evaluation has been conducted by the Mayor and Finance Director and/or Financial Professionals, if any, with respect to the value of the call option.

7) **Original Issuance Discount/Premium**

Debt with original issuance discount/premium will be permitted.

VII. DEBT TYPES

The Mayor and Finance Director will determine the type of debt to issue on a case-by-case basis consistent with the options provided by prevailing State law.

<u>Interest Rate Modes</u>

1) Fixed Rate Debt

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

2) Variable Rate Debt

The County may utilize variable rate debt in the county's overall debt management plan. The County will maintain a reasonable fund balance in the general debt service fund to safeguard against interest rate and liquidity risks.

VIII. REFINANCING OUTSTANDING DEBT

The Mayor and Finance Director, in conjunction with Financial Professionals, if any, shall have the responsibility to analyze outstanding Debt for refunding opportunities. An analysis report shall be provided which fully explains the reasons for the refinancing and the net savings and costs of the refinancing which will include not only interest charges, but also the fees associated with the transaction. Current refunding opportunities may be considered by the County using any savings threshold if the refunding generates positive net present value savings.

IX. METHODS OF ISSUANCE

The Mayor and Finance Director may consult with a Financial Professional regarding the method of sale of Debt. The Mayor and Finance Director will determine the method of issuance of Debt on a case-by-case basis consistent with the options provided by prevailing State law.

Whether in a competitive or negotiated sale, the financial advisor shall **<u>not</u>** be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance.

X. DEBT POLICY REVIEW

1) <u>General Guidance</u>

The guidelines outlined herein are only intended to provide general direction regarding the future issuance of Debt. The County 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 County as long as such exceptions or changes are consistent with TCA and any rules and regulations promulgated by the State.

This Debt Policy should be reviewed from time to time as circumstances, rules and regulations warrant.

2) <u>Designated Official</u>

The Mayor and Finance Director are responsible for ensuring substantial compliance with this Debt Policy.