LAWRENCE COUNTY
T E N N E S S E E

DEBT MANAGEMENT POLICY

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INTRODUCTION

The purpose of this Debt Management policy is to provide the governing body with written guidelines and restrictions that affect the amount and type of debt issued by a state or local government, the issuance process, and the management of a debt portfolio. A debt management policy improves the quality of decisions, provides justification for the structure of debt issuance, identifies policy goals, and demonstrates a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for a government to manage its debt program in line with those resources.

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 County plans to revisit the Policy from time to time. (see paragraph 16)

1. **POLICY STATEMENT**

In managing its debt, it is the County's policy to:

- Provide for public accountability & transparency
- Achieve the lowest costs of capital
- Ensure high credit quality
- Maximize future debt capacity
- Assure access to the capital credit markets
- Preserve financial flexibility
- Manage interest rate risk exposure

2. **GOALS AND OBJECTIVES**

Debt Policies and procedures are tools that ensure that financial resources are adequate to meet the County's long-term planning objectives. In addition, the Debt Management Policy ("Policy") helps to ensure that financings undertaken by the County satisfy certain clear objective standards which allow the County to protect its 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 County.

The Policy formally establishes parameters for issuing debt and managing a debt portfolio which considers the County's specific capital improvement needs; ability to repay financial obligations; the existing legal, economic, financial and debt market conditions. Specifically, the policies outlined in this document are intended to assist in the following:

- To identify & comply with all laws related to debt issuance & management.
- Guide County officials in policy and debt issuance decisions.
- Maintain appropriate capital assets for present and future needs.
- Promote sound financial management.
- Protect the County's credit rating.
- Ensure the legal use of the County's debt issuance authority.
- Promote cooperation and coordination with other service providers in the financing and delivery of services.
- To evaluate debt issuance options.
- To move the County toward achieving the GFOA Certificate of Achievement in Financial Reporting.

3. **MUNICIPAL ADVISOR APPOINTMENT**

In order to provide continuity in the management, issuance and delivery of services related to debt management, the County may appoint a Municipal Advisor which shall be appointed on the basis of recognized competence and integrity according to Tennessee Code Annotated § 12-4-106. The Municipal Advisor shall adhere to Policy guidelines. See paragraph 14.

4. **ISSUANCE PROCESS & COSTS**

State law authorizes Counties to issue general obligation bonds subject to the adoption of a bond resolution by the Board of County Commissioners. Other sections of Tennessee Code Annotated and the Federal Tax Code may govern the issuance or structure of any debt issued. These provisions serve as the basis for the County's affordability guidelines described later in this Policy. Prior to the issuance of any debt a CT-0253 form will be presented as an estimate to costs associated with the transaction.

5. **CREDIT QUALITY AND CREDIT ENHANCEMENT**

The County's debt management activities will be conducted in order to receive the highest credit rating(s) possible, consistent with the county's financing objectives. The County Mayor and Director of Accounts and Budgets will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the County's debt. The County shall prepare presentations to the rating agencies to assist credit analysts in making an informed decision.

The County Mayor, Director of Accounts and Budgets, or Municipal Advisor will provide a credit presentation to the County Commission, explaining any current or recent rating applied for, rating agency views on the County's performance and current items which may adversely or positively affect the County's credit rating.

The County will consider the use of credit enhancement on a case by case basis, evaluating the economic benefit versus cost for each case. Nothing shall prevent the County to apply for Bond Insurance for any issue.

(A) Bond Insurance - The County may purchase bond insurance when such purchase will result in a lower true interest costs taking into account the bond insurance premium for negotiated sales. For competitive sales, the County Mayor or Director of Accounts and Budgets shall determine if Bond Insurance will be applied for, and if available, the purchaser of the bonds will determine whether bond insurance will be used.

The County will solicit quotes for bond insurance from interested providers, or in the case of a competitive sale will either apply for bond insurance, or allow bidders to request insurance. In a negotiated sale the County will select a provider whose bid is cost-effective and whose terms and conditions governing the guarantee are satisfactory to the County. The winning bidder in a competitive sale will determine the provider of bond insurance.

6. **DEBT AFFORDABILITY**

The ratios and standards indentified in Exhibit A are intended to provide guidelines which permit and facilitate long-term access to capital while ensuring that financial leveraging decisions do not negatively impact the County's financial operations. The County shall consider the ability to repay debt as it relates to net debt per capita, net debt to assessed value, and ratio of debt expenditures as a percentage of total expenditures.

7. BOND STRUCTURE

The County shall establish all terms and conditions relating to the issuance of bonds, notes and other obligations and will invest proceeds pursuant to the terms of the resolution authorizing the issuance of the debt in compliance with applicable State law and to the extent the issue is tax-exempt with Federal tax laws and regulations governing their issuance. Unless otherwise authorized by the County, 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 County to absorb the additional debt service expense within the debt affordability guidelines, but in no event will the term exceed forty (40) years or the amount allowed by State law.

(b) Capitalized Interest - From time to time certain financings may require the use of capitalized interest from the issuance date until the County has beneficial use and/or occupancy of the financed project. Interest may be capitalized through a period permitted by Federal law and State statute if it is determined that doing so is beneficial by County officials

(c) Debt Service Structure – General Obligation Debt issuance shall be planned to achieve relatively net level debt service amortization taking into consideration the County's outstanding debt obligations, while matching debt to the useful life of the project being financed. The County 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.

Revenue Supported debt will be structured to achieve adequate debt service coverage ratios.

(d) Call provisions - Typically, securities will include a call feature no later than ten (10) years from the date of delivery of the bonds. Non-callable bonds will be given careful evaluation by the County with respect to the value of the call option.

(e) Original Issue Discount/Premium - Bonds with original issue discount/premium will be permitted.

(f) Structured products - The determination of the County to consider the use of structured products as a hedge against interest rate risk or a method to lower its costs of borrowing will be made by the County Mayor, Director of Accounts and Budgets, and Budget committee. The County 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 County will not use structured products for speculative purposes. (see paragraph 10)

8. TYPES OF DEBT

When the County 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

1. General Obligation Bonds - Are supported by the full faith and credit of the County and are typically used to finance capital projects not supported with public utility type revenues. The County may also use its general obligation pledge to support other revenue supported bond issues, if such bond support improves the economics of the other bond issue and is used in accordance with these guidelines and State and Federal law.
2. Revenue Bonds - Are supported only with revenues generated from specifically designated sources. Revenue Bonds will be issued for capital projects which can be supported from project or enterprise fund related revenues.

9. DURATION

Long-Term Debt (maturing after 3 years)

The County 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 debt will be structured in such a way that financial obligations do not exceed the expected economic life of the project(s).

(a) BONDS will be only be issued in fixed rate mode for projects with an economic life in excess of three years or greater

(b) NOTES may be issued to for projects with an economic life of three to twelve years

Short-Term Debt (maturing within three years)

Short-Term borrowing may be utilized for the construction period of a long-term project or 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:

(a) <u>Bond Anticipation Notes (BANS)</u> may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. BAN’s shall be issued according to state and federal law and shall not mature more than two years from the date of issuance.

(b) <u>Revenue Anticipation Notes (RAN’S) & Tax Anticipation Notes (TAN’S)</u> shall be issued only to meet cash flow needs consistent with a finding that the sizing of the issue fully conforms to Federal IRS regulations as well as state requirements and limitations.

(c) Capital Outlay Notes shall be considered to finance projects with a useful life of twelve years or less.

(d) Intra-fund Loans shall only be used to fund operational deficiencies among accounts or for capital projects to be paid from fiscal year revenues. Such intra-fund loans shall in no event extend beyond (12) months and shall only be issued in compliance with state regulations and limitations.

(e) Other short-term debt 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 rate mode. The County will determine and utilize the least costly method for short-term borrowing. The County may issue short-term debt when there is a defined repayment source or amortization of principal.

10. INTEREST RATE MODES

To maintain a predictable debt service burden, the County will only issue fixed rate debt until such time as the Board of County Commissioners amends the Policy.

11. REFINANCING OUTSTANDING DEBT

The County Mayor, Director of Accounts and Budgets, and Budget Committee, shall have the responsibility to analyze outstanding debt for refunding opportunities, in consideration of the following:

1. Debt Service Savings – Absent other compelling considerations such as the opportunity to eliminate restrictive covenants contained in existing debt documents, the County establishes a minimum present value savings threshold of 2.75% of advanced refunded bond principal, net of all costs of issuance. The decision to take savings on an upfront or deferred basis must be explicitly approved by the Board of County Commissioners. Current refunding opportunities will be considered if the refunding generates positive present value savings. The Director of Accounts and Budgets and/or Municipal Advisor will monitor refunding opportunities on a quarterly basis.

2. Restructuring for economic purposes – The County will refund debt when it is in the best financial interest of the County to do so. Such refunding will be limited to restructuring to meet unanticipated revenue expectations, achieve costs savings, mitigate irregular debt service payments, release reserve funds or remove unduly restrictive bond covenants or to mitigate the risks associated with any variable rate debt exposure issued prior to the adoption of this Policy.

3. Term of Refunding Issues – Bonds will be refunded within the original term. However, the County Mayor, Director of Accounts and Budgets, and Budget Committee may recommend, subject to Commission approval, a maturity extension in order to achieve a desired outcome, provided the extension is legally permissible. The County

Mayor, Director of Accounts and Budgets, and Budget Committee may also consider shortening the term of the original issue in order 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 County shall utilize State and Local Government Securities (SLGS) to fund escrow accounts for an advanced refunding issue, if available. 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, and that the price paid was reasonable within Federal regulations. Under no circumstance shall an underwriter, agent, financial advisor or municipal advisor sell escrow securities to the County from its own account.

5. Arbitrage – The County shall take all necessary steps to optimize escrows.

12. METHODS OF ISSUANCE - The County in consultation with the Municipal Advisor will determine the method of issuance on a case by case basis and in accordance with State law.

1. Competitive Sale – In a competitive sale the issue shall be awarded to the bidder providing the lowest true interest costs as long as the bid adheres to the requirements set forth in the detailed notice of sale.

2. The County recognizes that some issues are best sold through negotiation when permitted under State law. In its consideration of a negotiated sale, the County shall assess the following circumstances:
    - Timing the sale.
    - A structure which may require a strong pre-marketing effort for a complex transaction.
    - Size of the issue which may limit potential bidders.
    - Market volatility is such that the County would be better served by flexibility in timing a sale.
    - If the issue is a variable rate demand obligation (if allowed).
    - Whether an idea or financing structure is a proprietary product of a single firm.

3. Private Placement – From time to time the County may elect to privately place its debt. Such placement shall only be considered if this method is demonstrated to result in a costs savings to the County relative to other methods of debt issuance.

13. UNDERWRITER SELECTION (NEGOTIATED SALE)

The County Mayor or Director of Accounts and Budgets, in consultation with the Municipal Advisor, shall evaluate each refunding opportunity and select an underwriter/lender which will meet the objectives in the plan of refunding. The Director of Accounts and Budgets shall provide a report to the Board of County Commissioners after each sale.

The County Mayor, Director of Accounts and Budgets, and Budget Committee, in consultation with the Municipal Advisor, shall select a senior manager for a proposed negotiated sale. The selection criteria shall include but not be limited to the following:

- Ability and experience of the firm in managing similar transactions.
- Prior knowledge and experience with the County.
- The firms willingness to risk capital and demonstration of such risk
- Quality and experience of personnel assigned to the County's engagement.
- Financing ideas presented.
- Underwriting fees.

The underwriter must clearly identify itself to the County in writing (e.g., in a response to a request for proposals or in promotional materials provided to the County) as an underwriter and not as a financial or municipal 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 County Mayor and Director of Accounts and Budgets in advance of the pricing of the debt.

14. MUNICIPAL ADVISOR

In lieu of the County Mayor, Director of Accounts and Budgets, and Budget Committee being primarily responsible for debt management and issuance, the County may select a Municipal Advisor (Advisor) to assist in its debt issuance and debt administration processes. Selection of the Advisor shall be based on, but not limited to, the following criteria:

- Experience with municipal government issuers and the public sector
- The firm's background in providing services, balancing of the County's needs for continuity, and innovation in capital planning and debt financing.
- Prior experience and success of the firm
- Independence from underwriting, trading, or activities that relate to conflicts of interest
- Qualifications and experience of the principal employee who will work with the County
- Consideration will be given to the proposed fee structure and to estimated costs, but price will not be a significant and sole determining factor.
- Proper registration with the Securities and Exchange Commission and the Municipal Securities Rulemaking Board.

<u>Municipal Advisory Services</u> - Municipal Advisory Services provided to the County shall include, but shall not be limited to the following:

- Advise on financial matters relating to proposed capital financing projects.
- Analyze the current debt profile and recommend appropriate changes to accomplish the County's objectives.

- Work with County officials in preparing resolutions, engaging bond counsel, drafting a Preliminary Official Statement, Official Statement, Notice of Sales and other related documents.
- Advise and assist in presentations to rating agencies.
- Engaging third party providers such as Trustee/Paying agents, bond insurers, printers and verification agents.
- Assist in developing a formal debt policy which incorporates the County's financial and operational objectives.
- Undertake such additional actions as will lead to the prompt and successful delivery of the proceeds and the bonds at closing.

The County Commission shall approve the written agreement between the County and the municipal advisor with respect to a debt transaction. The municipal advisor shall not be permitted to bid on or underwrite an issue for which it has been providing advisory services.

15. DISCLOSURE

To the extent any outstanding bond or debt obligation so requires, the County will provide annual financial and economic information as required by the Municipal Securities Rulemaking Board or the Securities and Exchange Commission, according to the Disclosure Certificate. It shall be the responsibility of the County Mayor and Director of Accounts and Budgets to monitor this compliance.

Legal Counsel - The County will 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 serves as counsel to the County regarding County matters generally. Bond counsel for each debt transaction is contracted by the County Mayor and serves to assist the County in such debt issue.

16. DEBT POLICY REVIEW

The Debt Policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. The County 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 the County's goals.

This Policy will be reviewed no less frequently than annually. At that time the County Commission will consider any recommendations for any amendments, deletions, additions, improvements, or clarification.

17. DISCLOSURE OF COSTS

The County requires all professionals engaged to assist in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by the County in a timely manner. This includes "soft" costs or compensations in lieu of direct payments.

18. POTENTIAL CONFLICTS OF INTEREST

Professionals involved in a debt transaction hired or compensated by the County shall be required to disclose existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, 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. 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.

19. TRANSPARENCY

The County shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings. Additionally, in the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens in a timely manner. An estimate of the costs described above will be presented to the County Commission along with any resolution authorizing debt.

Within four weeks of closing on a debt transaction, the debt service schedule and the State Form CT-0253 shall be available at the office of the Director of Accounts and Budgets for review by members of the Governing Body and the public.

20. DEBT ADMINISTRATION – POST SALE

A. The Director of Accounts and Budgets will maintain for review by members of the County Commission and the public a report describing the transaction and setting forth all the costs associated with the transaction.

B. The municipal advisor will provide a closing memorandum with written instructions on transfer and flow of funds.

C. The Director of Accounts and Budgets will establish guidelines and procedures for tracking the flow of all bond proceeds, as defined by the Internal Revenue Code, over the life of bonds reporting to the IRS all arbitrage earnings associated with the financing and any tax liability that may be owed.

D. Compliance with arbitrage requirements on invested tax-exempt bond funds will be maintained. Proceeds that are to be used to finance construction expenditures are exempted from the filing requirements, provided that the proceeds are spent in accordance with requirements established by the IRS. The County will comply with all of its tax certificates for tax-exempt financings by monitoring the arbitrage earning on bond proceeds on an interim basis and by rebating all positive arbitrage when due, pursuant to Internal Revenue Code Section 148. The County will contract with an arbitrage consultant to prepare these calculations, when needed. The County will also retain all records relating to debt transactions for as long as the debt is outstanding, plus three years after the final redemption date of the transaction.

E. Compliance with private activity requirements with respect to tax exempt debt-financed facilities will be maintained. The Director of Accounts and Budgets shall maintain a record of the allocation of debt proceeds to expenditures, and monitor the use of tax exempt debt-financed facilities to ensure that no impermissible private use occurs.

F. Any proceeds or other funds available for investment by the County must be invested pursuant to applicable State law.

EXHIBIT A

RATIOS AND STANDARDS

NET DEBT PER CAPITA
Total par amount of Debt of County divided by its population, less Debt Service Fund Balance, less revenue supported debt.

- Bench mark as established is a goal to have no more than $1,500 in net debt per-capita at any given time.

NET DEBT TO ASSESSED PROPERTY VALUE
Net Debt divided by Assessed Property Value.

- The overall Net Debt to Assessed value should not exceed 10.3% of Assessed Value.

RATIO OF DEBT EXPENDITURES TO TOTAL GOVERNMENT EXPENDITURES (excludes capital & agency Funds).

- Ratio should not exceed 9.5%.

- The Debt Service Fund balance benchmark shall be at least 13 months of the annual debt service requirements and no less than 45% of annual debt service expenditures.