CITY OF CROSSVILLE, TN DEBT POLICY

The purpose of this debt policy is to establish a set of parameters by which debt obligations will be undertaken by the City of Crossville, TN. This policy reinforces the commitment of the City and its officials to manage the financial affairs of the City, so as to minimize, risks, avoid conflicts of interest and ensure transparency while still meeting the capital needs of the City. A debt management policy signals to the public and the rating agencies that the City is using a disciplined and defined approach to financing capital needs and fulfills the requirements of the State of Tennessee regarding the adoption of a debt management policy.

The goal of this policy is to assist decision makers in planning, issuing, and managing debt obligations by providing clear direction as to the steps, and substance and outcomes desired. In addition, greater stability over the long-term will be generated, by the use of, consistent guidelines in issuing debt.

Definition of Debt: All obligations of the City to repay, with or without interest, in installments and/or at a later date, some amount of money utilized for the purchase, construction, or operation of City resources. This includes but is not limited to notes, bond issues, capital leases, and loans of any type whether from an outside source such as a bank or from another internal fund.

Approval of Debt: Bond anticipation notes, capital outlay notes, grant anticipation notes, and tax and revenue anticipation notes will be submitted to the State of Tennessee Comptroller's Office and the City Council prior to issuance or, entering into the obligation. A plan for refunding debt issues will also be submitted to the Comptroller's Office prior to issuance. Capital or equipment leases may be entered into by the City Council; however, details on the lease agreement will be forwarded to the Comptroller's Office on the specified form within 45 days.

Transparency:

- The City shall comply with legal requirements for notice and for public meetings related to debt issuance.
- All notices shall be posted in the customary and required posting locations, including as required local newspapers, bulletin boards, and websites.
- All costs (including principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the citizens, City Council, and other stakeholders in a timely manner.
- The terms and life of each debt issue shall be clearly presented and disclosed to the citizens/members, City Council, and other stakeholders in a timely manner.
- A debt service schedule outlining the rate of retirement for the principal amount shall be clearly presented and disclosed to the citizens/members, City Council, and other stakeholders in a timely manner.

Role of Debt:

- Long-term debt shall not be used to finance current operations. Long-term debt may be used for capital purchases or construction identified through the capital improvement, regional development, transportation, or master process or plan. Short-term debt may be used for certain projects and equipment financing as well as for operational borrowing; however, the City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and close budget management.
- In accordance with Generally Accepted Accounting Principles and state law;
- The maturity of the underlying debt will not be more than the useful life of the assets purchased or built with the debt, not to exceed 40 years; however, an exception may be made with respect to federally sponsored loans, provided such an exception is consistent with law and accepted practices.
- Debt issued for operating expenses must be repaid within the same fiscal year of issuance or incurrence.

Types and Limits of Debt:

- The City's total outstanding debt obligation will be monitored and reported to the City Council by the Finance Director and on a schedule established in the policy. The Finance Director shall monitor the maturities and terms and conditions of all obligations to ensure compliance. The Finance Director shall also report to the City Council any matter that adversely affects the credit or financial integrity of the City.
- The City Council is authorized to issue General Obligation bonds, Revenue bonds, TIFs, loans, notes and other debt allowed by law.
- The City will seek to structure debt with either level or declining debt service payments over the life of each individual bond issue or loan.

- As a rule, the City will not backload, use 'wrap-around' techniques, balloon payments or other exotic formats to pursue the financing of projects. When refunding opportunities, natural disasters, other non-general fund revenues, or other external factors occur, the City may utilize non-level debt methods. However, the use of such methods must be thoroughly discussed in a public meeting and the mayor and governing body must determine such use is justified and in the best interest of the City.
- The City may use capital leases to finance short-term projects.
- Bonds backed with a general obligations pledge often have lower interest rates than revenue bonds. The City may use its General Obligation pledge with revenue bond issues when the populations served by the revenue bond projects overlap or significantly are the same as the property tax base of the City. The City Council and management are 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.

Use of Variable Rate Debt:

- 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. The City will 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.
2. Prior to entering into any variable rate debt obligation that is backed by insurance and secured by a liquidity provider, the City Council shall be informed of the potential effect on rates as well as any additional costs that might be incurred should the insurance fail.
3. Prior to entering into any variable rate debt obligation that is backed by a letter of credit provider, the City Council shall be informed of the potential effect on rates as well as any additional costs that might be incurred should the letter of credit fail.
4. Prior to entering any variable rate debt obligation, the City Council will be informed of any terms, conditions, fees, or other costs associated with the prepayment of variable rate debt obligations.
5. The City shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any variable rate debt obligation.

Use of Derivatives:

- The City chooses not to use derivative or other exotic financial structures the management of the City's debt portfolio.
- Prior to any reversal of this provision:

1. A written management report outlining the potential benefits and consequences of utilizing these structures must be submitted to the City Council; and
2. The City Council must adopt a specific amendment to this policy concerning the use of derivatives or interest rate agreements that complies with the State Funding Board Guidelines.

Costs of Debt:

- All costs associated with the initial issuance or incurrence of debt, management, and repayment of debt (including interest, principal, and fees or charges) shall be disclosed prior to action by the City Council in accordance with the notice requirements stated above.
- In cases of variable interest or non-specified costs, detailed explanation of the assumptions shall be provided along with the complete estimate of total costs anticipated to be incurred as part of the debt issue.
- Costs related to the repayment of debt, including liabilities for future years, shall be provided in context of the annual budgets from which such payments will be funded (i.e. General Obligations bonds in context of the General Fund, Revenue bonds in context of the dedicated revenue stream and related expenditures, loans and notes).

Refinancing Outstanding Debt:

- The City will refund debt when it is in the best financial interest of the City to do so, and the Chief Financial Officer shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The decision to refinance must be explicitly approved by the governing body, and all plans for current or advance refunding of debt must be in compliance with state laws and regulations.

- The Chief Financial Officer will consider the following issues when analyzing possible refunding opportunities:

1. 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.
2. Restructuring for Economic Purposes — The City will refund debt when it is in the best financial interest of the City to do so. Such refunding may include restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, or to release reserve funds. Current refunding opportunities may be considered by the Chief Financial Officer if the refunding generates positive/neutral present value savings, and the Chief Financial Officer must establish a minimum present value savings threshold for any refinancing, to include a net negative, if such outcome addresses intergenerational issues.
3. Term of Refunding Issues - The City will refund bonds within the term of the originally issued debt, except during times of negative variable economic conditions when such actions is in the best interests of the tax and rate payors of the City. The Chief Financial Officer may consider maturity extension, when necessary to achieve a desired outcome, provided such extension is legally permissible. The Chief Financial Officer 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. 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 consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any refunding.

Professional Services:

The City shall require 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.

- 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.
- Financial Advisor: If the City chooses to hire financial advisors, the City must select between the following options. The City shall enter into a written agreement with each person or firm serving as financial advisor in debt management and transactions.

1. In a competitive sale, the financial advisor shall not be permitted to bid on an issue for which they are or have been providing advisory services.
2. In a publicly offered, negotiated sale, the financial advisor may resign as financial advisor only in advance of negotiations in order to underwrite an issue for which they are or have been providing advisory services.

   (Underwriter: *(If there is no financial advisor)* In advance of pricing of the debt in a publicly offered, negotiated sale, the underwriter must provide pricing information both as to interest rates and to takedown per maturity to the City Council or its designated official)

Conflicts:

- 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 advisor, swap advisor, 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.

- 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.

Review of Policy:

This policy shall be reviewed at least annually by the City Council with the approval of the annual budget. Any amendments shall be considered and approved in the same process as the initial adoption of this Policy, with opportunity for public input.

Compliance: The Finance Director is responsible for ensuring compliance with this policy.

REVISED AND ADOPTED THIS 24th Day of July 2020:

James Mayberry, Mayor

ATTESTED

Valerie Hale, City Clerk

CITY SEAL, ATTESTED Valerie Hale
City Clerk

Valerie Hale
City Seal Stamped Hereto: