

ORDINANCE 11-13

AN ORDINANCE OF THE CITY OF WHITE HOUSE, TENNESSEE, ADOPTING A DEBT MANAGEMENT POLICY FOR THE CITY OF WHITE HOUSE, TENNESSEE.

WHEREAS, the governing body of this city desires to establish methods to manage its debt and related annual costs within both current and projected available resources while promoting understanding and transparency for its citizens, taxpayers, rate payers, businesses, investors and other interested parties; and

WHEREAS, such action is required by the Tennessee State Funding Board;

NOW, THEREFORE, BE IT RESOLVED by the Board of Mayor and Aldermen of the City of White House as follows:

Section 1. The debt management policy attached hereto and made a part hereof are hereby adopted.

Section 2. The City Manager and Finance Director are responsible for ensuring substantial compliance with this debt management policy hereby adopted.

Section 3. Changes or revisions to the procedures hereby adopted shall be made only by ordinance of the Board of Mayor and Aldermen of the City of White House.

First Reading: October 20, 2011 PASSED

Second Reading: November 17, 2011 PASSED



Mike Arnold, Mayor

ATTEST:



Amanda Priest, City Recorder

CITY OF WHITE HOUSE TENNESSEE

Debt Management Policy

Formally Adopted: _____, 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 the City of White House, Tennessee (the "City"), the issuance process and the management of the City's debt. The purpose of this Debt Policy is to improve the quality of management and legislative decisions and to provide justification for the structure of debt issuances consistent with the Debt Policy's goals while demonstrating a commitment to long-term capital planning. It is also the intent of the City that this Debt Policy will signal to credit rating agencies, investors and the capital markets that the City is well managed and will always be prepared to meet its obligations in a timely manner. This Debt Policy fulfills the requirements of the State of Tennessee regarding the adoption of a formal debt management policy on or before January 1, 2012.

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

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

City of White House, Tennessee
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 City'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

Debt policies and procedures are tools that ensure that financial resources are adequate to meet the City's long-term capital planning objectives. In addition, the Debt management policy (the "Debt Policy") helps to ensure that financings undertaken by the City have certain clear, objective standards which allow the City to protect its financial resources in order to meet its long-term capital needs.

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

- To guide the City in policy and debt issuance decisions
- To maintain appropriate capital assets for present and future needs
- To promote sound financial management
- To protect the City's credit rating
- To ensure the City's debt is issued legally under applicable state and federal laws
- To promote cooperation and coordination with other parties in the financing
- To evaluate debt issuance options

III. PROCEDURES FOR ISSUANCE OF DEBT

1) Authority

- a) The City will only issue Debt by utilizing the statutory authorities provided by *Tennessee Code Annotated* as supplemented and revised (“TCA”) and the Internal Revenue Code (the “Code”).
- b) The City 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 City’s Legislative Body.

2) Transparency

- a) 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 City, 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 City related to consideration and approval of Debt. Additionally, the City shall provide the Tennessee Comptroller’s office sufficient information on the Debt to not only allow for transparency regarding the issuance, but also 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 City will also make this information available to its legislative body, citizens and other interested parties.
- b) The City will file its Audited Financial Statements and any Continuing Disclosure document prepared by the City 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. CREDIT QUALITY AND CREDIT ENHANCEMENT

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

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

1) Insurance

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

2) Letters of Credit

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

V. AFFORDABILITY

The City shall consider the ability to repay Debt as it relates to the total budget resources, the wealth and income of the community and its property tax base and other revenues available to service the Debt. The City may consider debt ratios and other benchmarks compared to its peers when analyzing its Debt including materials published by the nationally recognized credit rating agencies.

VI. DEBT STRUCTURE

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

1) Term

All capital improvements financed through the issuance of Debt will be financed for a period not to exceed the useful economic life of the improvements and in consideration of the ability of the City to absorb such additional debt service expense. The term of Debt shall be determined by, but not limited to, the economic life of the assets financed, conditions in the capital markets, the availability of adequate revenue streams to service the Debt and the existing pattern of Debt payable from such identifiable fund or enterprise activity, but in no event will the term of such Debt exceed forty (40) years, as outlined in TCA.

2) Capitalized Interest

From time to time, certain financings may require the use of capitalized interest from the date of issuance until the City 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.

3) Debt Service Structure

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

4) Call Provisions

In general, the City's Debt should 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 debt which carries longer redemption features unless a careful evaluation has been conducted by the City Manager and Finance Director and/or Financial Professionals, if any, with respect to the value of the call option.

5) Original Issuance Discount/Premium

Debt with original issuance discount/premium will be permitted.

6) Deep Discount Bonds

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

VII. DEBT TYPES

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

1) Security Structure

a) General Obligation Bonds

The City may issue Debt supported by its full faith, credit and unlimited ad valorem taxing power ("General Obligation Debt"). General Obligation Debt shall be used to finance capital projects that do not have significant independent creditworthiness or significant on-going revenue streams or as additional credit support for revenue-supported Debt, if such support improves the economics of the Debt and is used in accordance with these guidelines.

b) Revenue Debt

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

c) Capital Leases

The City may use capital leases to finance projects assuming the City Manager and Finance Director and/or Financial Professionals, if any, determine that such an instrument is economically feasible.

2) Duration

a) Long-Term Debt

The City may issue long-term Debt when it is deemed that capital improvements should not be financed from current revenues or short-term borrowings. Long-term Debt will not be used to finance current operations or normal maintenance. Long-term Debt will be structured such that financial obligations do not exceed the expected useful economic life of the project(s) financed.

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

b) Short-Term Debt

Short-term borrowing may be utilized for:

- i. Financing short economic life assets;
- ii. The construction period of long-term projects;
- iii. For interim financing; or
- iv. For the temporary funding of operational cash flow deficits or anticipated revenues subject to the following policies:
 1. *Bond Anticipation Notes ("BANs").* BANs, including commercial paper notes issued as BANs, may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall not mature more than 2 years from the date of issuance. BANs can be rolled in accordance with federal and state law. BANs shall mature within 6 months after substantial completion of the financed facility.
 2. *Revenue Anticipation Notes ("RANs") and Tax Anticipation Notes ("TANs").* RANs and TANS shall be issued only to meet cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to federal IRS and state requirements and limitations.
 3. *Lines of Credit.* Lines of Credit shall be considered as an alternative to other short-term borrowing options. A line of credit shall only be structured to federal and state requirements.
 4. *Interfund Loans.* Interfund Loans shall only be used to fund operational deficiencies among accounts or for capital projects to be paid from current fiscal year revenues. Such interfund loans shall be approved by the State Comptroller's office and shall only be issued in compliance with state regulations and limitations.

5. *Other Short-Term Debt.* Other Short-Term Debt including commercial paper notes, BANs, Capitalized Leases and CONs may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable to issue debt in a fixed or variable rate mode. The City will determine and utilize the most advantageous method for short-term borrowing. The City may issue short-term Debt when there is a defined repayment source or amortization of principal.

3) Interest Rate Modes

a) Fixed Rate Debt

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

b) Variable Rate Debt

The targeted percentage of net variable rate debt outstanding (excluding an amount of debt considered to be naturally hedged to short-term assets in the Unreserved General and/or Debt Service Fund Balance) shall not exceed 35% 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:

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

An analysis by the City Manager and Finance Director and/or Financial Professionals, if any, shall be conducted to evaluate and quantify the risks and returns associated

with the variable rate Debt including, but not limited to, a recommendation regarding the use of variable rate debt.

4) Zero Coupon Debt

Zero Coupon Debt may be used if an analysis has been conducted by the City Manager and Finance Director and/or Financial Professionals, if any, and the risks and returns associated with the Zero Coupon Debt have been made. The analysis shall include, but not be limited to a recommendation regarding the use of Zero Coupon Debt as the most feasible instrument considering available revenues streams, the need for the project and other factors determined by the Legislative Body.

5) 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.

VIII. REFINANCING OUTSTANDING DEBT

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

1) Debt Service Savings

Absent other compelling considerations such as the opportunity to eliminate onerous or restrictive covenants contained in existing Debt documents, the City has established a minimum net present value savings threshold of at least 3.0 percent of the advance refunded Debt principal amount. Current refunding opportunities may be considered by the City using any savings threshold if the refunding generates positive net present value savings. The decision to take less than 3.0 percent net present value savings for an advance refunding or to take the savings in any matter other than a traditional year-to-year level savings pattern must be approved by the Legislative Body or delegated to the City's Chief Executive.

2) Restructuring for economic purposes

The City may also refund Debt when it is in its best financial interest to do so. Such a 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 or any other reason approved by the Legislative Body in its discretion.

3) Term of Refunding Issues

Normally, the City will refund Debt equal to or within its existing term. However, the City Manager and Finance Director may consider maturity extension, when necessary to achieve desired outcomes, provided that such extension is legally permissible and it is approved by the Legislative Body. The City Manager and Finance Director may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful economic life of the financed facility and the concept of inter-generational equity should guide these decisions.

4) Escrow Structuring

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

IX. METHODS OF ISSUANCE

The City Manager and Finance Director may consult with a Financial Professional regarding the method of sale of Debt. Subject to approval by the Legislative Body, the City Manager 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.

1) Competitive Sale

In a competitive sale, the City's Debt will be offered in a public sale to any and all eligible bidders. Unless bids are rejected, the Debt shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

In a competitive sale, a financial advisor may bid on an issue for which they are providing advisory services only if:

- a) Authorized by the rules and regulations of the Municipal Securities Rulemaking Board (the "MSRB"), including Rule G-23, as may be amended and modified;
- b) The Legislative Body or designated official grants in writing specific authority on a transaction by transaction basis;
- c) Such sale is properly carried out through a widely and publicly advertised sale, during normal bond sale hours, and through an industry standard, electronic bidding platform; and
- d) The financial advisory fee is separately disclosed and billed from the underwriting fee.

2) Negotiated Sale

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

- a) State requirements on negotiated sales;
- b) Debt structure which may require a strong pre-marketing effort such as those associated with a complex transaction generally referred to as a "story" bond;
- c) Size or structure of the issue which may limit the number of potential bidders;
- d) Market conditions including volatility wherein the City would be better served by the flexibility afforded by careful timing and marketing such as is the case for Debt issued to refinance or refund existing Debt;
- e) Whether the Debt is to be issued as variable rate obligations or perhaps as Zero Coupon Debt;
- f) Whether an idea or financing structure is a proprietary product of a single firm;
- g) In a publicly offered or privately placed, negotiated sale, a financial advisor, if

any, shall not be permitted to resign as the financial advisor in order to underwrite or privately place an issue for which they are or have been providing advisory services;

- h) The underwriter shall 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 negotiated 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 Legislative Body (or its designated official) in advance of the pricing of the debt.

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 be advantageous to the City.

X. PROFESSIONALS

1) Financial Professionals

As needed, the City may select Financial Professionals to assist in its Debt issuance and administration processes. In selecting Financial Professionals, consideration should be given with respect to:

- a) relevant experience with municipal government 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) experience and demonstrated success as indicated by its experience;
- d) the firm's professional reputation;
- e) professional qualifications and experience of principal employees; and
- f) the estimated costs, but price should not be the sole determining factor.

2) Miscellaneous

a) Written Agreements

- i. Any Financial Professionals engaged by the City shall enter into written agreements including, but not limited to, a description of services provided and fees and expenses to be charged for the engagement.
- ii. 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.
- iii. The City shall require all Financial Professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the City and the lender or conduit issuer, if any. This includes "soft" costs or compensations in lieu of direct payments.

b) Conflict of Interest

- i. Financial Professionals involved in a debt transaction hired or compensated by the City shall be required to disclose to the City existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisors, swap advisors, bond counsel, swap counsel, trustee, paying agent, 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.
- ii. 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.

XI. COMPLIANCE

1) Continuing Annual Disclosure

Normally at the time Debt is delivered, the City will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the publically traded Debt to provide certain financial information relating to the City by not later than twelve months after each of the City's fiscal years, (the "Annual Report and provide notice of the occurrence of certain enumerated events. The

Annual Report (and audited financial statements, if filed separately) will be filed with the MSRB through the operation of the Electronic Municipal Market Access system ("EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the City is unable to provide the Annual Report to the MSRB and any SID by the date required, notice of each failure will be sent to the MSRB and any SID on or before such date. The notices of certain enumerated events will be filed by the City with the MSRB through EMMA and any SID. The specific nature of the information to be contained in the Annual Report or the notices of significant events is provided in each Continuing Disclosure Certificate. These covenants are made in order to assist underwriters in complying with SEC Rule 15c2-12(b) (the "Rule").

2) Arbitrage Rebate

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

3) Records

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

XII. DEBT POLICY REVIEW

1) General Guidance

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

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

2) Designated Official

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

