HAMBLEN COUNTY
TENNESSEE

Debt Management Policy

Formally Adopted: December 15, 2011

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INTRODUCTION

Debt management policies provide written guidance about the amount and type of debt issued by a state or local government, the issuance process and the management of the debt portfolio. A debt management policy tailored to the needs of the Board of County Commissioners (the "Governing Body") of Hamblen County, Tennessee (the "County"), improves the quality of decisions, identifies and discloses parameters relating to the structure and issuance of debt, identifies policy goals, and provides a foundation for long-term financial planning, all of which are in the public interest of the County. Adherence to a debt management policy signals to ratings agencies, investors, and the capital markets that the County is well-managed and should always be prepared to 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.

This Debt Management Policy (the "Policy") is intended to comply with the debt management requirements promulgated by the Tennessee State Funding Board in December 2010 to be formally adopted on or before January 1, 2012. The County may, from time to time, review this Policy and make revisions and updates, if warranted.

I. GOALS AND OBJECTIVES

The Governing Body is establishing a debt management policy as a tool to ensure that financial resources are adequate to meet the County's long-term capital needs. In addition, the Policy helps to ensure that financings undertaken by the County satisfy certain clear, objective standards, designed to protect the County's financial resources in order to meet its long-term capital needs.

A. The goals of this Policy are:
   1. To provide management with appropriate guidelines and direction to assist in making sound debt management decisions;
   2. To further demonstrate strong financial management practices for our county citizens, outside investors, and credit agencies.

B. The objectives of this Policy are:
   1. To enhance the decision process through transparency;
   2. To identify and define the types of financing available for the County;
   3. To evaluate those financing options by considering all risk;
   4. To identify all expenditures related to the financing option including, but not limited to, principal, interest, and annual costs along with issue specific transaction costs;
   5. To address the hiring of outside professionals and address any potential conflict of interest issues
   6. To protect and enhance the County's credit rating

II. TRANSPARENCY ENHANCEMENT

To ensure transparency of the decision process, annual budgets, annual debt reports, and issuance specific debt reports (those required by Tennessee Code Annotated, "TCA") shall be prepared and available for public review. Additionally, in the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the Governing Body and the citizens in a timely manner.

The Governing Body may assign an ad hoc Debt Management Committee to review reports and study debt standards and the ability of the County to repay debt. In the absence of a Debt Management Committee, these duties will rest with the Finance Committee.

The County Mayor and Finance Director are responsible for the analysis and reporting.

A. Annual Debt Budgets:

   The Annual Debt Budgets shall be adopted by the Governing Body and comply with the legal notice and filing requirements as promulgated by TCA.

B. Annual Debt Report:

An Annual Debt Report shall be submitted to the Finance Committee by June of each year. Generally, the report will be presented in conjunction with the Annual Debt Budgets.

The Annual Debt Report shall consist of, but not be limited to the following:

1. Schedule of Outstanding Debt and Schedule of Budgeted Debt Payments, and any additional schedules, as required by Tennessee Comptroller of the Treasury;
2. Net Debt Calculation (total principal outstanding less most recent year respective debt fund balance);
3. Debt Per Capita Ratio (total debt/population) and Net Debt Per Capita Ration (net debt/population) – County compared to benchmark;
4. Debt to Assessed Property Value (total debt/assessed property value) and Net Debt to Assessed Property Value (net debt/assessed property value) – County compared to benchmark;
5. Debt as a Percentage of Personal Income (total personal income/debt per capita) and Net Debt as a Percentage of Personal Income (total personal income/net debt per capita) – County compared to benchmark;
6. Documentation of the most recent debt rating(s) as available;
7. Percentage of fixed versus variable rate debt;
8. Multi-year budgets that include the current debt costs of principal, interest, and annual cost

C. Issuance Specific Debt Reports:

All new debt issues shall include all required forms as promulgated by TCA. The documents will be available for review by the Governing Body and public inspection.

III. DEBT TYPES

All financing shall be approved by the Governing Body and the Tennessee Comptroller of the Treasury within the legal guidelines of TCA, Internal Revenue Code (the "Code"), and the regulations promulgated by the Comptroller's Office. Additionally, all financing will be reviewed by the County Attorney, or legal bond counsel may be hired to ensure compliance with TCA.

A. Long-Term Loans and Bonds

The County may issue long-term loans and bonds to finance capital improvements and refinancing outstanding debt, and all costs associated with capital improvements and refinancing. As indicated within this policy, the costs associated with the issuance of this debt will be disclosed to ensure compliance with this policy and to address potential conflicts of interest. The term of the debt will not exceed the expected economic life of the project(s). Additionally, long term debt will not be issued to finance current operations. The following summarizes but does not limit the types of long-term debt that may be issued:

1. Fixed Rate Bonds – Bonds that have an interest rate that remains constant throughout the life of the bond;

2. Variable Rate Bonds – Bonds that bear a variable interest rate throughout the life of the bond.

B. Short-Term Debt

Short-term borrowing may be utilized for the following: Financing capital assets with debt not exceeding the economic life of the assets; interim financing for the temporary funding of operational cash flow deficits or anticipated revenues subject to the following policies:

1. Bond Anticipation Notes ("BANs") – BANs may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. BANs issued will be repaid by proceeds of a subsequent long-term bond issue.

2. Capital Outlay Notes ("CONs") – CONs are short term notes (less than twelve (12) year maturities) secured by the pledge of the County's full faith and credit.

3. Revenue Anticipation Notes ("RANs") and Tax Anticipation Notes ("TANs") – RANs and TANs are to be utilized for cash flow purposes until annual revenues are received for a particular fund. All RANS and TANS will be paid in the same fiscal year in which they are issued.

4. Grant Anticipation Notes ("GANs") – GANs may be issued when the County wishes to finance projects in anticipation of a grant from a state or federal agency. The principal amount of the GANs shall not exceed the amount of the anticipated grant.

The County may undertake interfund borrowings, in which amounts on deposit in one County fund are lent to another fund. All such interfund borrowings shall be approved by the Governing Body; and shall be preceded by receipt of the approval of the Comptroller's Office; and shall only be issued in compliance with state regulations and limitations.

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 longer-term debt in a fixed or variable rate mode. The County will determine and utilize the most advantageous method for short-term borrowing. The County may issue short-term Debt when there is a defined repayment source or amortization of principal.

C. **Capital Leases**

The County may use capital leases to finance projects assuming the Mayor and Finance Director determine that such an instrument is more economically feasible than purchasing the asset. Capital leases may be considered for long-term or short-term borrowing, but the term of the lease shall not exceed the economic life of the asset.

IV. RISK ASSESSMENT

The County will evaluate each transaction to assess the types and amounts of risk associated with each transaction, considering all available means to mitigate those risks. The County will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy, TCA, and other regulations. The following risks should be assessed 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 issue 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 may default on his obligations by failing to repay principal and interest in a timely manner.

G. Fee Risk – The risk that on-going fees may increase beyond what is initially expected.

V. DEBT COSTS

In order to assist the County in making better debt management decisions and to reflect the cost of debt, the following shall be completed:

A. As previously identified in this Policy, the Annual Debt Report will be provided to the Governing Body;

B. Prior to the issuance of debt, the County Mayor and/or Finance Director will prepare a multi-year budget to reflect the current debt cost of principal, interest, and estimated annual costs over the life of the existing debt. This will allow the Governing Body to determine if extra capacity exists or if additional funding will be needed;

C. Update ratios with the issuance of new debt as noted in the Annual Debt Report.

VI. PROFESSIONAL SERVICES AND POTENTIAL CONFLICTS OF INTEREST

As needed, the County may select financial professionals to assist in its debt issuance and administration processes. All professionals engaged to assist the County shall be required to clearly disclose all compensation and consideration received related to services provided. This includes "soft" costs or compensations in lieu of direct payments. 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 County's overall needs for continuity and innovation in capital planning and debt financing;

C. Experience and demonstrated success as indicated by its experience;

D. Professional reputation; and

E. Professional qualifications and experience of principal employees.

The following summarizes, but does not limit, the financial professionals that may be utilized by the County:

A. 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 general County matters.

B. Bond Counsel – Bond counsel for each debt transaction is contracted by the County Mayor and serves to assist the County in debt issues.

C. Financial Advisor – If the county elects to engage a financial advisor for a debt transaction, the County shall enter into a written contract with the financial advisor on the terms and conditions approved by the County Mayor. The financial advisor shall not be permitted to bid on or underwrite an issue for which they are or have been providing advisory services.

D. If there is an underwriter for a debt issue, 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 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 in advance of the pricing of the debt.

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.

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.

VII. CREDIT QUALITY AND CREDIT ENHANCEMENT

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. The County will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

A. Insurance

The County 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.

B. Letters of Credit

The County may enter into a letter-of-credit ("LOC") agreement when such an agreement is deemed prudent and advantageous. The County or its Financial Professionals, if any, will prepare and distribute a request for qualifications to qualified banks or other qualified financial institutions pursuant to terms and conditions that are acceptable to the County.

VIII. MISCELLANEOUS

The debt management policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. A violation of the Governing Body's debt policy shall in no way be interpreted as a violation of law and shall have no bearing on the validity of debt issued by the Governing Body. The Governing Body maintains the right to modify this Policy (except to the extent these guidelines are mandated by applicable state law or regulation) 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 Governing Body. Any exceptions to these policies shall be expressly acknowledged in the resolution authorizing the pertinent debt issue. In the event of a conflict between the terms of a debt resolution and this Policy, the terms of the debt resolution shall control.

This Policy will be periodically reviewed by the County Mayor and the Finance Director. The County Mayor and Finance Director may at any time present recommendations for any amendments, deletions, additions, improvements or clarifications. Any changes require the approval of the aforementioned ad hoc Debt Management Committee, if present, or the Finance Committee before approval by the Governing Body.

IX. ADOPTION OF THE POLICY

The Governing Body adopted this Policy on December 15, 2011.