

CITY OF JACKSON

TENNESSEE

Debt Management Policy

I. Policy Statement

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

- Comply with legal requirements for notice and for public meetings related to debt service
- Achieve transparency with respect to all costs (including interest, issuance, continuing, and one-time) to be disclosed to the citizens/members, governing body, and other stakeholders in a timely manner.
- Achieve the lowest cost of capital
- Ensure high credit quality
- Assure access to the capital credit markets
- Preserve financial flexibility
- Manage interest rate risk exposure

II. Goals & Objectives

- To guide the City and its managers 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 legal use of City's debt issuance authority
- To promote cooperation and coordination with other stakeholders in the financing and delivery of services
- To evaluate debt issuance options

III. Bond Structure

The City shall establish all terms and conditions relating to the issuance of bonds and will invest all bond proceeds pursuant to the terms of the City's Investment Policy. Unless otherwise authorized by the City, the following shall serve as the Policy for determining structure:

1. Term

All capital improvements financed through the issuance of debt will be financed, in general, for a period not to exceed the useful life of the improvements, and in consideration of the ability of the City to absorb the additional debt service expense within the debt affordability guidelines, but in no event will the term exceed thirty (30) years.

2. 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 life of facilities. The City 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.

Debt which is supported by project revenues and is intended to be self-supporting will be structured to achieve level proportional coverage to expected available revenues.

3. Call Provisions

In general, the City's securities will include a call feature no later than ten (10) years from the date of delivery of the bonds. The call feature can be excluded if the exclusion results in a better rate or premium.

4. Original Issuance Discount/Premium

Bonds with original issuance discount/premium will be permitted.

5. Structured Products

The determination of the City to consider the use of structured products as a hedge against interest rate risk or a method to lower its cost of borrowing will be made by the Finance Committee. The City 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 City will not use structured products for speculative purposes.

IV. Types of Debt

When the City 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

The City may issue general obligation bonds supported by the full faith and credit of the City. General Obligation bonds shall be used to finance capital projects that do not have independent creditworthiness and significant ongoing revenue streams. The City may also use its General Obligation pledge to support other revenue-supported bond issues, if such support improves the economics of the other bond issue and is used in accordance with these guidelines.

2. Revenue Bonds

The City may issue revenue bonds, where repayment of the debt service obligations of the bonds will be made through revenues generated from specifically designated sources. Revenue bonds will typically be issued for capital projects which can be supported from project or enterprise-related revenues.

3. Capital Leases

The City may use capital leases to finance short-term projects.

Duration

1. Long-Term Debt (maturing after 3 years)

The City 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 borrowing will not be used to finance current operations or normal maintenance.

a) *Serial and Term Bonds* may be issued in either fixed or variable rate modes to finance capital infrastructure projects with an expected life of three years or greater.

b) *Capital Outlay Notes* may be issued to finance capital infrastructure projects with an expected life of three to twelve years.

2. 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) *Bond Anticipation Notes (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 law and State statute. BANs shall mature within 6 months after substantial completion of the financed facility.

b) *Revenue Anticipation Notes (RANs) and Tax Anticipation Notes (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.

c) *Lines of Credit* shall be considered as an alternative to other short-term borrowing options. A *line* of credit shall be structured to limit concerns as to the Internal Revenue Code.

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

e) *Other Short-Term Debt*, including commercial paper notes, 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 City will determine and utilize the least costly method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal.

Interest Rate Modes

Fixed Rate Debt

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

Variable Rate Debt

The percentage of net variable rate debt outstanding (excluding (1) debt which has been converted to synthetic fixed rate debt and (2) an amount of debt considered to be naturally hedged to short-term assets in the Unreserved Fund Balance) shall not exceed twenty percent (20%) of the City's total outstanding debt and will take into consideration the amount and investment strategy of the City's operating cash.

Total Debt

The City's annual General Obligation Debt service, as a percentage of the City's Property Tax Revenue (PILOT & IDB included), shall not exceed twenty-three percent (23%). However, the debt limit may be exceeded up to a five percent (5%) increment based on purchases authorized and deemed necessary to address public health or public safety emergencies declared by the Mayor, or for indebtedness deemed necessary by a two-thirds vote of the City Council.

The City's annual audit also includes "ratios" for Total General Obligation Debt to Assessed Value and to Appraised Value.

V. Refinancing Outstanding Debt

The Finance Committee with assistance from the City's Financial Advisor shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The Finance Committee will consider the following issues when analyzing possible refunding opportunities:

1. 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 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.

2. Term of Refunding Issues

The City will refund bonds within the term of the originally issued debt. However, the Finance Committee may consider maturity extension, when necessary to achieve a desired outcome, provided that such extension is legally permissible. The Finance Committee 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.

3. Arbitrage

The City shall take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding subject to the City's investment policies. Any positive arbitrage will be rebated as necessary according to Federal guidelines.

VI. Methods of Issuance

The City or its designee will determine the method of issuance on a case-by-case basis.

1. Competitive Sale

In a competitive sale, the City's bonds 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.

2. Negotiated Sale

While the City prefers the use of a competitive process, the City recognizes that some securities are best sold through negotiation. In its consideration of a negotiated sale, the City shall assess the following circumstances:

- a. State prohibitions against negotiated sales,
- b. A structure which may require a strong pre-marketing effort such as a complex transaction or a "story" bond,
- c. Size of the issue which may limit the number of potential bidders,
- d. Market volatility is such that the City would be better served by flexibility in timing a sale,
- e. Whether the Bonds are issued as variable rate demand obligations,
- f. Whether an idea or financing structure is a proprietary product of a single firm.

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 result in a cost savings to the City relative to other methods of debt issuance.

VII. Underwriter Selection (Negotiated Transaction)

Senior Manager Selection

The Finance Committee or its designee shall select the senior manager for a proposed negotiated sale. The selection criteria shall include but not be limited to the following:

- The firm's ability and experience in managing complex transactions

- Prior knowledge and experience with the City
- The firm's willingness to risk capital and demonstration of such risk
- Quality and experience of personnel assigned to the City's engagement
- Financing ideas presented
- Underwriting fees

Co-Manager Selection

Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of the City's bonds.

Underwriter's Counsel

In any negotiated sale of City debt in which legal counsel is required to represent the underwriter, the appointment will be made by the Senior Manager with input from the City.

Underwriter's Discount

The Finance Committee will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the Finance Committee will determine the allocation of fees with respect to the management fee, if any. The determination will be based upon participation in the structuring phase of the transaction.

All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties by the Finance Committee. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

VIII. Consultants

Financial Advisor

The City shall select a financial advisor (or advisors) to assist in its debt issuance and debt administration processes. Selection of the City's financial advisor(s) shall be based on, but not limited to, the following criteria:

- Overall quality of the firm's proposal as an indicator of its probability for success.
- Relevant Financial Advisor experience with municipal government issuers and the public sector.

- 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.
- Experience and demonstrated success as indicated by its listing of current major clients.
- The firm's professional reputation for integrity and compliance with state and federal law.
- A formal written agreement will be initiated and will contain language forbidding the Financial Advisor from bidding on either a private placement or in an underwriting capacity.

Financial Advisory Services

Financial advisory services provided to the City shall include, but shall not be limited to the following:

- Advise the City on financial matters relating to proposed capital financing projects.
- Analyze the current debt profile and recommend appropriate changes to ensure correct mix of fixed rate debt, variable rate debt and structured products to accomplish the City's immediate and long-term fiscal objectives.
- Working with the City staff and their legal advisors, prepare Preliminary Official Statement, Official Statement, Notice of Bond Sale and other related documents.
- Advise and assist in presentations to rating agencies.
- Assist the City in obtaining competitive bids from bond underwriters, trustees, paying agents/registrars, printers and escrow verification agents, as necessary.
- In the event the City undertakes negotiated underwritings, the Financial Advisor shall represent the City's interests in all aspects of the negotiated transaction, including underwriter selection, revenue and transaction structuring, credit enhancement and pricing scales.
- Arrange for electronic disclosure and bidding services.
- Advise the City in complying with and preparing continuing disclosure information pursuant to Security and Exchange Commission rules.

Disclosure

All professionals engaged in the process of issuing debt will be required to 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.

Conflict of Interest

The City requires that its consultants and advisors provide objective advice and analysis, maintain the confidentiality of City financial plans, and be free from any conflicts of interest.

Bond Counsel

City debt will include a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all legal requirements necessary for issuance, and a determination of the proposed debt's federal income tax status. The approving opinion and other documents relating to the issuance of debt will be prepared by counsel with extensive experience in public finance and tax issues. The Counsel will be selected by the City.