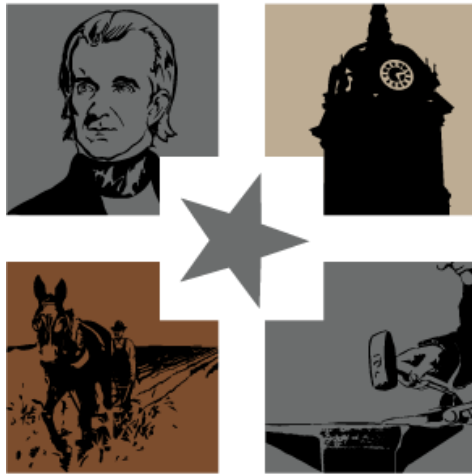


CITY OF COLUMBIA



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DEBT MANAGEMENT POLICY

City of Columbia, Tennessee

Policy Summary

The City's Debt Management Policy provides guidance pursuant to state law and Tennessee Comptroller's Office guidelines. The primary purpose of the policy reflected the following four principles, as established in the State's model policy, for strong financial management in the public sector. The principles focus on understanding transactions, ensuring debt obligations are explained to citizens, avoiding conflicts of interest and the disclosure of costs and risks.

Updated on 8/14/2014; originally adopted on 10/6/2011

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I. PURPOSE

The City of Columbia hereby amends Resolution No. 11-62 enacting a policy to specify the appropriate uses for debt. The “Debt Policy” reinforces the commitment of the City of Columbia and its officials to manage the City’s issuance of bonds in a way in a way that achieves the long-term capital improvement objectives while minimizing risks, avoiding conflicts of interest and ensuring transparency while still meeting the capital needs of the City and its utilities operated by the City’s Board of Public Utilities through Columbia Power and Water Systems (CPWS). This debt policy provides a formal commitment to the public, credit rating agencies, investors and the capital markets that the City will use a disciplined and defined approach to financing its capital needs.

The City of Columbia has a need for capital intensive projects and equipment purchases that are beyond the normal resources of the City and require the issuance of long-term general obligation debt and revenue debt. These expenditures are planned for and prioritized in the City’s Capital Improvement Program Budget and the City’s 5-year Capital Equipment Replacement Program, which are updated and approved annually. The issuance of debt enables the City to fund the up-front costs of these major equipment purchases and public infrastructure improvement projects. The issuance of debt also insures that the future beneficiaries of the expenditures will help pay for the cost over the life of the improvements.

In the State of Tennessee, there is no legal debt limit and therefore the City of Columbia is not subject to statutory debt limitations. Regardless, the following policies are adopted by the City of Columbia to provide budgetary guidance in developing the City’s short and long-term financial planning.

II. GENERAL POLICIES

A. The City may issue General Obligation, Revenue, and other debt as it determines most appropriate. Unless specifically disallowed by this policy, the City authorizes the use of all types of debt permitted by applicable Tennessee state statutes so long as such debt is issued in full compliance with applicable Tennessee state statutes and regulations implemented by the State Funding Board and so long as such debt is specifically authorized by resolution duly adopted by the City Council. Types of debt authorized include, but are not necessarily limited to:

- General obligation bonds, notes, and loan agreements
- Revenue bonds, notes and loan agreements
- Revenue and tax bonds, notes and loan agreements
- Leases
- Interfund loans

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- B. The City authorizes the use of debt to finance capital projects, to refinance existing debt, or to address temporary cash flow deficiencies (tax anticipation notes, revenue anticipation notes and interfund loans) all as permitted by and in full compliance with applicable Tennessee state statutes.
- C. Any new debt issuance will comply with State Form CT-0253 as well as any other state required forms that detail all associated costs for the issuance of the debt. These records will be available for public and City Council inspection as prescribed by applicable Tennessee state statutes and regulations implemented by the State Funding Board.
- D. The City will utilize long-term borrowing only for major capital improvement projects in the current year's Capital Projects Fund Budget and Sewer Fund Budget or Capital Improvements Plan of CPWS that cannot be financed from current revenue sources. The City will not use long-term debt to finance current operations.
- E. When the City finances capital projects by issuing bonds, it will pay back the interest and principal on the bonds for a period not exceeding the expected life of the improvements.
- F. The City will seek level or declining debt repayment schedules and will avoid issuing debt that provides for balloon principal payments reserved at the end of the term of the issue.
- G. The City will avoid variable-rate debt due to the potential volatility of such instruments, and will only consider such a debt structure as a last resort when current interest rates are deemed excessive and will likely decline in future years. The maximum amount of variable rate debt shall not exceed 25% of total outstanding debt.
- H. The City prohibits the use of debt related derivatives, such as interest rate swaps.
- I. The use of credit enhancements will be considered on a case-by-case basis, evaluating the economic benefit versus cost for each case.
- J. The City may issue debt for economic development only if a feasibility study is independently performed and attested by a Certified Public Accountant showing that the benefits outweigh the costs of the project to the City.
- K. The "Debt Policy" established within this document shall be reviewed annually with the approval of the annual budget.

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III. PROCEDURE FOR ISSUANCE OF DEBT

A. Authority

- 1) The City of Columbia will only issue debt by utilizing the statutory authorities provided by *Tennessee Code Annotated* as may be supplemented and periodically revised (“TCA”) and the Internal Revenue Code (the “Code”).
- 2) The City of Columbia will also adhere to any lawfully promulgated rules and regulations of the State of Tennessee and those promulgated under the Code.
- 3) All debt shall be formally authorized by resolution of the City of Columbia City Council.

B. Method of Issuance

It shall be the general policy of the City to sell General Obligation and Revenue bonds through a competitive bid process, however; the City may periodically authorize the issuance of debt by negotiated sale as permitted by and in full compliance with applicable Tennessee state statutes. In the competitive bid process, the City’s bonds will be offered in a public sale to any and all eligible bidders. Unless all bids are rejected, the debt will be awarded to the bidder providing the lowers true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

C. Transparency

- 1) It is understood that the issuance of debt will require various approvals and, on occasion, written reports provided to 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 and/or its Financial Advisor will ensure compliance with TCA, the Code, and all applicable Federal and State rules and regulations. The City shall comply with legal requirements for notice and for public meetings related to debt issuance. In the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the citizens, City Council, and other stakeholders in a timely manner. All notices shall be posted in customary and required posting locations. All costs for which City Council approval is not required will be presented via an informational memo at the conclusion of the bond sale.
- 2) The City will maintain good communications with bond rating agencies about the financial condition of the City and will follow a policy of full disclosure on every financial report and bond prospectus.

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- 3) The City will seek to maintain and improve its creditworthiness from its current long-term obligation rating of “AA+” from Standard & Poor’s Financial Services.
- 4) In an effort to demonstrate transparency in financial reporting, the City will strive to receive the Certificate for Achievement of Excellence in Financial Reporting presented annually by the Government Finance Officers Association.
- 5) Costs related to the repayment of debt, including liabilities for future years, shall be provided in the context of the annual budgets from which such payments will be funded. The costs of General Obligation bonds will be provided in the context of Debt Service Fund; and the costs of Revenue bonds will be provided in the context of the dedicated revenue stream and related expenditures.

IV. REFINANCING OUTSTANDING DEBT

The Finance Director and City Manager, with assistance from the City’s Financial Advisor, will have the responsibility to analyze outstanding debt for refunding opportunities. The following parameters will be considered when analyzing possible refunding opportunities:

A. Debt Service Savings

Absent other compelling considerations, the City will require in any refunding bond issue a minimum net present value savings threshold of at least three (3) percent of the refunded debt principal amount.

B. Restructuring for economic purposes

The City may also consider refunding debt when it is in its best financial interest to do so. Such a refunding will be limited to restructuring to meet unanticipated revenue shortfalls, achieve annual cost savings, mitigate irregular debt service payments, etc.

C. Term of Refunding Issues

Normally, the City will refinance debt equal to or within its existing term. However, the City may consider maturity extension for economic purposes, when necessary to achieve desired outcomes, provided that such extension is legally permissible. The City may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful life of the financial facility and the concept of inter-generational equity will guide these decisions.

D. Escrow Structuring

The City will 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 the financial advisor or broker-dealer stating that the securities were procured through an arms-length, competitive bid process.

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V. PROFESSIONAL SERVICES

The City requires the financial staff and City Attorney to be familiar with the applicable constitutions, charters, laws, rules, and regulations and report the effects on planned and outstanding debt. The City requires 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 compensation in lieu of direct payments.

A. Counsel

The City of Columbia 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 and not serving as bond counsel for the transaction. The City does not need an engagement letter with counsel not representing the City, such as underwriters’ counsel.

B. Financial Advisor

If the City of Columbia chooses to hire financial advisors, the City shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions. Whether in a competitive or negotiated sale, the financial advisor shall not be permitted to bid on, privately place or underwrite an issue for which they are or have been providing advisory services for the issuance.

C. Underwriter

When considering the engagement of an underwriter for a negotiated sale, the City will take the following criteria into account:

- Reputation
- Experience
- Professional qualifications and licenses
- Capital adequacy and financial wherewithal indicating an ability to fulfill financial commitments to the City
- Financing plans, ideas, and analysis
- Costs including underwriter’s compensation and all other costs associated with a financing transaction

If an Underwriter is used for a debt issue, the City of Columbia shall require the Underwriter to clearly identify itself in writing (e.g., in a response to a request for proposals or in promotional materials provided to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the City 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 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

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maturity to the Mayor, Finance Director or other designated official in advance of the pricing of the debt.

VI. CONFLICTS

- A. Professionals involved in a debt transaction hired or compensated by the City of Columbia shall be required to disclose to the City existing client and business relationships between and among the professionals to a transactions (including but not limited to financial advisor, bond 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.

- B. 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 disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.