

University of Tennessee Municipal Technical Advisory Service

MTAS Model Municipal Debt Policy

2011

City of _____, TN Debt Policy

(NOTE: Bold language or similar statements are required by the State of TN Comptroller's Office. Italicized language is recommended along with other components in GFOA's Model 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 _____, 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 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, 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 anticipation notes, bond issues, and loans of any type. Bond anticipation notes, capital outlay notes, grant anticipation notes, and tax and revenue anticipation notes are required to be approved by the State of Tennessee Comptroller's Office and the Entity's Governing Body prior to issuance. A plan for refunding debt issues must also be submitted to the Comptroller's Office prior to issuance. Capital or equipment leases may be entered into by the governing body; however, details on the lease agreement must be forwarded to the Comptroller's Office on a specified form within 45 days after authorization by the local governing body.

Transparency:

The Entity 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/members, governing body, and other stakeholders in a timely manner. All notices shall be posted in the customary and required posting locations, including as required local newspapers, bulletin boards, and websites.

This policy shall be reviewed annually with the approval of the annual budget.

Role of Debt:

- Long-term debt shall not be used to finance current operations but instead for capital purchases or construction identified through the capital improvement, regional development, transportation, or master process or plan. 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, the maturity of the underlying debt will not be more than the useful life of the assets purchased or built with the debt.

Types and Limits of Debt:

- The City will seek to limit total outstanding debt obligations to _____ (% of assessments, per capita amount, etc.), excluding overlapping debt.
- The City may issue General Obligation, Revenue, TIF and other debt as it determines most appropriate.
- The City will seek to structure debt with *level or declining* debt service payments over the life of each individual bond issue. The City recognizes the value of variable rate debt obligations and that cities have greatly benefitted from the use of these bonds in the financing of needed infrastructure. Variable interest rates and payments may be attractive under certain circumstances, but the use of variable rates and payments, and the conditions for conversion to fixed rates, must be clearly detailed in the bond documents.
- *As a rule, the City will not backload, use “wrap-around” techniques, balloon payments or other exotic formats to pursue projects. When refunding opportunities, natural disasters, other non-general fund revenues, or other external factors occur, the City may utilize non-level debt methods if it is in the City’s best interests. The use of “wrap-arounds”, backloading or balloon payments will be thoroughly discussed with the City’s Financial Advisory and City Council prior to implementing any of these techniques. At this time, the City chooses not to use derivate or other exotic financial structures in the management of the City’s debt portfolio. Prior to any proposed use of such, a written management report detailing the possible positive and negative consequences of the structures will be presented and adopted by City Council.*
- General Obligations bonds 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 support debt at levels that will not require a subsidy from the City’s General Fund.

Costs of Debt:

- All costs associated with the initial issuance or incurrence of debt shall be disclosed prior to action by the Governing Body in accordance with the notice requirements stated above.
- All costs associated with the repayment of the debt including interest, principal, and fees or charges shall be disclosed prior to action by the Governing Body 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.*

Professional Services:

The Entity 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 Entity and the lender or conduit issuer, if any. This includes “soft” costs or compensations in lieu of direct payments.

- **Counsel:** The Entity shall enter into an engagement letter agreement with each lawyer or law firm representing the Entity in a debt transaction. *(No engagement letter is required for any lawyer who is an employee of the Entity or lawyer or law firm which is under a general appointment or contract to serve as counsel to the Entity. The Entity does not need an engagement letter with counsel not representing the Entity, such as underwriters’ counsel.)*
- **Financial Advisor:** *(If the Entity chooses to hire financial advisors, the Entity must select between the following options.)* The Entity shall enter into a written agreement with each person or firm serving as financial advisor in debt management and transactions.
 - **In a competitive sale, the financial advisor (*either*):**
 - shall not be permitted to bid on an issue for which they are or have been providing advisory services; or
 - may bid on an issue for which they are providing advisory services only if (i) the governing body or designated official grants in writing specific authority on a transaction by transaction basis, (ii) 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 not requiring verification by the financial advisor, and (iii) the financial advisor fee is separately disclosed and billed from the underwriting fee.
 - **In a publicly offered, negotiated sale, the financial advisor (*either*):**
 - shall either not be permitted to resign as financial advisor in order to underwrite an issue for which they are or have been providing advisory services; or
 - 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)* 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 governing body *(or its designated official)* in advance of the pricing of the debt.

Conflicts:

Professionals involved in a debt transaction hired or compensated by the Entity shall be required to disclose to the Entity 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, 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 Entity 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.

TCA References:

TCA 7, Part 9 – Contracts, Leases, and Lease Purchase Agreements

TCA 9, Part 21 – Local Government Public Obligations Law