

Ordinance No. 11-367

An Ordinance Establishing a Debt Policy for the Town of Mount Carmel, Tennessee.

Section 1.

(a). The purpose of this debt policy is to establish a set of parameters by which debt obligations will be undertaken by the Town of Mount Carmel, TN. This policy reinforces the commitment of the Town and its officials to manage the financial affairs of the Town so as to minimize risks, avoid conflicts of interest and ensure transparency while still meeting the capital needs of the Town. A debt management policy signals to the public and the rating agencies that the Town 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.

(b). Definition of Debt: All obligations of the Town 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 Town resources. This includes but is not limited to notes, bond issues, capital leases, and loans of any type (*whether from an outside source such as a bank or from another internal fund*).

(c). Approval of Debt: Bond anticipation notes, capital outlay notes, grant anticipation notes, and tax and revenue anticipation notes will be submitted to the State of Tennessee Comptroller's Office and the Town Council prior to issuance or entering into the obligation. A plan for refunding debt issues will also be submitted to the Comptroller's Office prior to issuance. Capital or equipment leases may be entered into by the Town Council; however, details on the lease agreement will be forwarded to the Comptroller's Office on the specified form within 45 days.

(d). Transparency:

- The Town shall comply with legal requirements for notice and for public meetings related to debt issuance.
- All notices shall be posted in the customary and required posting locations, including as required local newspapers, bulletin boards, and websites.
- All costs (including principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the citizens, Town Council, and other stakeholders in a timely manner.

- The terms and life of each debt issue shall be clearly presented and disclosed to the citizens/members, Town Council, and other stakeholders in a timely manner.
- A debt service schedule outlining the rate of retirement for the principal amount shall be clearly presented and disclosed to the citizens/members, Town Council, and other stakeholders in a timely manner.

(e). Role of Debt:

- Long-term debt shall not be used to finance current operations. Long-term debt may be used for capital purchases or construction identified through the capital improvement, regional development, transportation, or master process or plan. Short-term debt may be used for certain projects and equipment financing as well as for operational borrowing; however, the Town 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 and state law,
 1. The maturity of the underlying debt will not be more than the useful life of the assets purchased or built with the debt, not to exceed 30 years; however, an exception may be made with respect to federally sponsored loans, provided such an exception is consistent with law and accepted practices.
 2. Debt issued for operating expenses must be repaid within the same fiscal year of issuance or incurrence.

(f). Types and Limits of Debt:

- The Town will seek to limit total outstanding debt obligations to 10% of the total Town's taxable assessed valuation, excluding overlapping debt, enterprise debt, and revenue debt.
- The limitation on total outstanding debt must be reviewed prior to the issuance of any new debt.
- The Town's total outstanding debt obligation will be monitored and reported to the Town Council by the City Recorder and on a schedule established in the policy. The City Recorder shall monitor the maturities and terms and conditions of all obligations to ensure compliance. The City Recorder shall also report to the Town Council any matter that adversely affects the credit or financial integrity of the Town.
- The Town has issued Capital Outlay Notes, Sewer Revenue Bonds and Tax Anticipation Notes in the past and is authorized to issue General Obligation bonds, Revenue bonds, TIFs, loans, notes and other debt allowed by law.
- The Town will seek to structure debt with *level or declining* debt service payments over the life of each individual bond issue or loan.
- As a rule, the Town will not backload, use "wrap-around" techniques, balloon payments or other exotic formats to pursue *the financing of* projects. When

refunding opportunities, natural disasters, other non-general fund revenues, or other external factors occur, the Town may utilize non-level debt methods. However, the use of such methods must be thoroughly discussed in a public meeting and the mayor and governing body must determine such use is justified and in the best interest of the Town.

- The Town may use capital leases to finance short-term projects.
- Bonds backed with a general obligations pledge often have lower interest rates than revenue bonds. The Town 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 Town. The Town Council and management are committed to maintaining rates and fee structures of revenue supported debt at levels that will not require a subsidy from the Town's General Fund.

(g). Use of Variable Rate Debt:

- The Town recognizes the value of variable rate debt obligations and that cities have greatly benefitted from the use of variable rate debt in the financing of needed infrastructure and capital improvements.
- However, the Town also recognizes there are inherent risks associated with the use of variable rate debt and will implement steps to mitigate these risks; including:
 1. The Town will annually include in its budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration.
 2. Prior to entering into any variable rate debt obligation that is backed by insurance and secured by a liquidity provider, the Town Council shall be informed of the potential affect on rates as well as any additional costs that might be incurred should the insurance fail.
 3. Prior to entering into any variable rate debt obligation that is backed by a letter of credit provider, the Town Council shall be informed of the potential affect on rates as well as any additional costs that might be incurred should the letter of credit fail.
 4. Prior to entering into any variable rate debt obligation, the Town Council will be informed of any terms, conditions, fees, or other costs associated with the prepayment of variable rate debt obligations.
 5. The Town shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any variable rate debt obligation.

(h). Use of Derivatives:

- The Town chooses not to use derivative or other exotic financial structures in the management of the Town's debt portfolio.

- Prior to any reversal of this provision:
 1. A written management report outlining the potential benefits and consequences of utilizing these structures must be submitted to the Town Council; and
 2. The Town Council must adopt a specific amendment to this policy concerning the use of derivatives or interest rate agreements that complies with the State Funding Board Guidelines.

(i). Costs of Debt:

- All costs associated with the initial issuance or incurrence of debt, management and repayment of debt (including interest, principal, and fees or charges) shall be disclosed prior to action by the Town Council 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, loans and notes).

(i). Refinancing Outstanding Debt:

- The Town will refund debt when it is in the best financial interest of the Town to do so, and the Chief Financial Officer shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The decision to refinance must be explicitly approved by the governing body, and all plans for current or advance refunding of debt must be in compliance with state laws and regulations.
- The Chief Financial Officer will consider the following issues when analyzing possible refunding opportunities:
 1. Onerous Restrictions – Debt may be refinanced to eliminate onerous or restrictive covenants contained in existing debt documents, or to take advantage of changing financial conditions or interest rates.
 2. Restructuring for Economic Purposes – The Town will refund debt when it is in the best financial interest of the Town to do so. Such refunding may include restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, or to release reserve funds. Current refunding opportunities may be considered by the Chief Financial Officer if the refunding generates positive present value savings, and the Chief Financial Officer must establish a minimum present value savings threshold for any refinancing.

- 3. Term of Refunding Issues – The Town will refund bonds within the term of the originally issued debt. However, the Chief Financial Officer may consider maturity extension, when necessary to achieve a desired outcome, provided such extension is legally permissible. The Chief Financial Officer 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.
- 4. Escrow Structuring – The Town shall utilize the least costly securities available in structuring refunding escrows. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the Town from its own account.
- 5. Arbitrage – The Town shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any refunding.

(k). Professional Services:

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

- **Counsel¹:** The Town shall enter into an engagement letter agreement with each lawyer or law firm representing the Town in a debt transaction. *(No engagement letter is required for any lawyer who is an employee of the Town or lawyer or law firm which is under a general appointment or contract to serve as counsel to the Town. The Town does not need an engagement letter with counsel not representing the Town, such as underwriters’ counsel.)*
- **Financial Advisor²:** If the Town chooses to hire financial advisors, the Town shall enter into a written agreement with each person or firm serving as financial advisor or 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.

1

The requirement for an engagement letter does not apply to any lawyer who is an employee of the Town or any lawyer or law firm under a general appointment as counsel to the Town and not serving as bond counsel for the transaction.
If bond counsel for a debt transaction does not represent the Town in that transaction, the Town will enter into a fee payment letter agreement with such lawyer or law firm specifying:

- a. The party represented in the debt transaction; and
- b. The Town’s obligation with respect to the payment of such lawyer or law firm’s fee and expenses.

2

For new issues of debt which constitutes a “security” for which the Time of Formal Award (as defined in Rule G-34(a)(ii)(C)(1) occurs after November 27, 2011, the Municipal Securities Rulemaking Board has prohibited broker, dealer or municipal securities dealer serving as a financial advisor to an issuer for a particular issue from switching roles and underwriting the same issue. Policies must be adjusted to comply with amended Rule G-23 as it applies to securities, including exceptions to the prohibition.

- **Underwriter:** If there is an underwriter the Town shall require the Underwriter to clearly identify itself in writing (*e.g.*, in a response to a request for proposals or in promotional materials proved to an issuer) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the Town 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 Town. 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.

(l). Conflicts:

- Professionals involved in a debt transaction hired or compensated by the Town shall be required to disclose to the Town 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, liquidity or credit enhancement provider, 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 Town 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.

(m). Review of Policy:

This policy shall be reviewed at least annually by the Town Council with the approval of the annual budget. Any amendments shall be considered and approved in the same process as the initial adoption of this Policy, with opportunity for public input.

(n). Compliance:

The City Recorder is responsible for ensuring compliance with this policy.

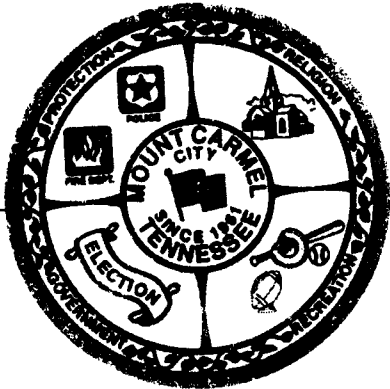
TCA References: TCA 7, Part 9 – Contracts, Leases, and Lease Purchase Agreements
TCA 9, Part 21 – Local Government Public Obligations Law

SECTION 2. This ordinance shall take effect immediately upon final passage.

Gary Lawson
GARY LAWSON, Mayor

ATTEST:

Marian Sandidge
MARIAN SANDIDGE, City Recorder



APPROVED AS TO FORM:

Joe May
JOSEPH E. MAY, TOWN ATTORNEY

FIRST READING	AYES	NAYS	OTHER
ALDERMAN EUGENE CHRISTIAN	X		
ALDERMAN LEANN DEBORD	X		
ALDERMAN FRANCES FROST			absent
ALDERMAN KATHY ROBERTS			absent
ALDERMAN THOMAS WHEELER	X		
VICE-MAYOR CARL WOLFE	X		
MAYOR GARY LAWSON	X		
TOTALS	5	0	2

PASSED FIRST READING: November 22, 2011

SECOND READING	AYES	NAYS	OTHER
VICE-MAYOR EUGENE CHRISTIAN	X		
ALDERMAN LEANN DEBORD	X		
ALDERMAN FRANCES FROST	X		
ALDERMAN KATHY ROBERTS			absent
ALDERMAN THOMAS WHEELER	X		
VICE-MAYOR CARL WOLFE	X		
MAYOR GARY LAWSON	X		
TOTALS	6	0	1

PASSED SECOND READING: December 27, 2011

PUBLICATION AFTER PASSAGE:
DATE: January 11, 2012
NEWSPAPER: *Kingsport Times-News*

Order Confirmation

<u>Ad Order Number</u>	<u>Customer</u>	<u>Payor Customer</u>
0001005293	TOWN OF MOUNT CARMEL	TOWN OF MOUNT CARMEL
<u>Sales Rep.</u>	<u>Customer Account</u>	<u>Payor Account</u>
Unassigned	59632	59632
<u>Order Taker</u>	<u>Customer Address</u>	<u>Payor Address</u>
sedwards	P O BOX 1421, , MT CARMEL TN 37645 USA	P O BOX 1421, , MT CARMEL TN 37645 USA
<u>Ordered By</u>	<u>Customer Phone</u>	<u>Payor Phone</u>
<u>Order Source</u>	615-357-7311	615-357-7311
<u>PO Number</u>	<u>Customer Fax</u>	<u>Customer EMail</u>

PUBLIC NOTICE
The Town of Mount Carmel, Tennessee, on December 27, 2011, passed the following ordinance:
Ordinance 11-367. An Ordinance Establishing a Debt Policy for the Town of Mount Carmel, Tennessee.

PUB1T: 01/11/12

<u>Tear Sheets</u>	<u>Proofs</u>	<u>Affidavits</u>	<u>Payment Method</u>
0	0	1	

Invoice Text:

Blind Box Materials

<u>Net Amount</u>	<u>Tax Amount</u>	<u>Total Amount</u>	<u>Payment Amt</u>	<u>Amount Due</u>
\$22.06	\$0.00	\$22.06	\$0.00	\$22.06

<u>Ad Number</u>	<u>Ad Type</u>	<u>Ad Size</u>	<u>Pick Up Number</u>
0001005293-01	LL Legal Liner	1.0 X 11 Li	

Order Notes/Information
RUN DATE 1/11/12, af,

