

# **Debt Management Policy**

## **Franklin County, Tennessee**

Formally Adopted December 5, 201

Revised December 3, 2012, April 15, 2013 & January 21, 2020

**Goal/Mission:** To provide management with appropriate guidelines and direction to assist in making sound debt management decisions. To further demonstrate strong financial management practices for our county citizens, outside investors, and credit agencies.

### **Objectives:**

1. Enhance decision process transparency and identify all expenditures of principal, interest, and annual costs along with issue specific transaction costs
2. Address hiring outside professionals
3. Address any potential conflict of interest issues
4. Additional requirements for new debt

### **1. Enhance transparency of decisions by way of Annual Debt Report, Annual Budgets, and Specific New Issue Report**

Responsibilities for analysis and reporting shall be with the Finance Director & County Mayor.

To insure transparency of decisions, an annual debt payment reports and annual debt service budgets, as well as specific issuance debt reports (i.e. those required by state law) shall be prepared and available for public review and comment. County officials will comply with State of Tennessee Open Record laws and respond to record requests from any citizen of Tennessee promptly.

## **Annual Debt Report**

An annual debt payment report shall be submitted to the county legislative body each year. The report will be presented with the annual debt budget.

The annual report shall consist of but not be limited to:

- Budget summary and detailed budget as required by the Comptroller's office.
- Net Debt Calculation (Total Principal outstanding less most recent year respective debt fund balance).
- Calculation of Net Debt per capita from last official census (net debt/population).
- Documentation of the most recent debt rating.
- Reports will reflect estimated fund balance

## **Annual Debt Budgets**

Annual Debt Budgets shall be adopted by the county legislative body and comply with legal notice and filings requirements per the Franklin County, Tennessee and State Open Records Law.

## **New Debt Issuance**

Unless specifically disallowed by this policy, the County 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 County Commission. Types of debt authorized include, but are not necessarily limited to:

- a. General obligation bonds, notes and loan agreements
- b. Revenue bonds, notes and loan agreements
- c. Revenue and tax bonds, notes and loan agreements
- d. Interfund loans
- e. Leases

The County authorizes the issuance of debt by both competitive sale and by negotiated sale as permitted by and in full compliance with applicable Tennessee state statutes.

The County authorizes the use of debt to finance capital projects, to refinance existing debt, or 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.

Any new material debt issuance shall 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. Also, any new material debt issuance shall comply with Federal Form 8038 as well as any other federally required forms that detail all associated costs for the issuance of the debt. These records will be available for public and county commission inspection as prescribed by applicable Tennessee state statutes and regulations implemented by the State Funding Board.

Franklin County does not consider operating leases as material debt issuances as they are paid from allocated annual budgets and are generally small leases for copiers, postage machines, etc., that span over the maximum of five (5) years. All operating leases are approved by the legislative body prior to contractual obligation. Capital Leases shall be reported to EMMA as compliant with SEC 15c2-12, within the required timeline.

## **2. Hiring of Professionals for Debt Issuance**

- From time to time the county may hire legal counsel, a financial advisor or underwriter to assist in issuance of debt.
- Financial Advisor: The County shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions. Whether in a negotiated or competitive sale, the financial advisor shall **not** be permitted to bid on, privately place or underwrite an issue for which they are providing advisory services for the issuance. The county will utilize the most current definition of “financial advisor”, as determined by the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board, when determining what exactly defines a financial advisor.

- Underwriter: If there is an underwriter, the county shall consider the engagement of an underwriter for a negotiated sale, the County will take the following criteria into account:
  - a. Reputation
  - b. Experience
  - c. Professional qualifications and licenses
  - d. Capital adequacy and financial wherewithal indicating an ability to fulfill financial commitments to the County
  - e. Financing plans, ideas and analysis
  - f. Cost including underwriter's compensation and all other cost associated with a financing transaction

As well the underwriter shall clearly identify itself in writing (e.g. in a response to a request for proposal or in promotional materials provided to the issuer) 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's. 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 in advance of the pricing of the debt.

- All professionals involved with the cost of issuance of debt shall disclose the estimated cost of their respective services including "soft" costs or compensations in lieu of direct payments to the county commission prior to the issuance of the debt.

### **3. Conflict of Interest Issues**

- It is required that all professionals related to the debt issue will enter into a written engagement letter related to their proposed services, cost, and any potential conflict of interest. These letters will be signed by the county mayor and are open records.
- 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 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 county to appreciate the significance of the relationships. No engagement letter is required for any lawyer who is an employee of the county or lawyer or law firm which is under a general appointment or contract to serve as counsel to the county. The county does not need an engagement letter with counsel not representing the county, such as underwriters' counsel.

- 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.

#### **4. Additional Requirements for New Debt**

- All leases will be reviewed by the county attorney prior to execution of the lease, in order to determine if the instrument is a capital or operating lease. No county official that is not authorized by State statute should execute a capital lease on behalf of the county. Since capital leases are typically the least used and most expensive means of financing, the county commission should fully understand the cost of the asset and borrow cost imputed, as well as, whether they intend to use the asset through the end of its useful life.
- In accordance with State statute, no repayment schedule of debt will extend past the useful life of the asset that the funds are being issued for. The most current, adopted county's capital asset policy will be referenced for asset useful lives.
- If borrowing using capital outlay notes, the county should solicit a minimum of three rate and issuance cost quotes and select the lowest and best offer. The county will include local banks in their solicitation when available.

- Repayment schedules should use the straight-line method of repayment (debt retirement similar to a conventional home loan).
- When considering bonded debt, the county will compare the proposed repayment schedule with the straight-line method noted and will determine whether the new debt has an advanced repayment schedule, straight-line or back loaded schedule.
- The county commission may utilize variable rate debt in the county's overall debt management plan, if at the present time variable rate debt is presented it is the most advantageous for Franklin County, Tennessee. The county will maintain a reasonable fund balance in the debt service funds to safeguard against interest rate and liquidity risks.
- In the case of refinancing, an analysis report shall be provided which fully explains the reasons for the refinancing and the net savings and costs of the refinancing which will include not only interest charges but also the fees associated with the transaction.
- As approved in the annual Continuing Budget Resolution and the annual Appropriation Resolution, Tax Anticipation Notes (TAN) shall be allowed for, following all prescribed guidelines and regulations of the Tennessee Code Annotated 9-21-801. It shall be the policy of Franklin County to utilize existing county funds for a TAN if possible in order to reduce interest cost.