

# HARTSVILLE/TROUSDALE COUNTY, TENNESSEE

# DEBT MANAGEMENT POLICY



**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

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

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Responsibilities for analysis and reporting shall be with the County Mayor/Executive and the county's budget committee.

To ensure 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 by June of each year, generally 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 Trousdale County Charter and State Open Records Law.

## **Transparency:**

The County 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.

## **Definition of Debt:**

All obligations of the County 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 County resources. This includes but is not limited to the following: capital outlay notes (CON), revenue bonds, bond anticipation notes, grant anticipation notes, tax anticipation notes, general obligation refunding bonds, revenue refunding bonds, inter-fund loans, capital leases, and loans of any type.

## **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 in the annual budget process. Short-term debt may be used for certain projects and equipment financing as well as for operational borrowing; however, the County will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and close budget management.

## **Legal Requirements - Notices**

The County shall comply with all legal requirements for notice and for public meetings related to debt issuance.

## **Costs**

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.

## **Types and Debt Limitation**

The County's total outstanding debt obligation will be monitored and reported to the County Commission by the County Mayor/Executive. The County Mayor/Executive shall also monitor the maturities and terms and conditions of all obligations to ensure compliance and report to the County Commission any matter that adversely affects the credit or financial integrity of the County.

The County will seek to structure debt with level or declining debt service payments over the life of each individual bond issue or loan.

As a general rule, the County 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 County 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 County.

### **New Debt Issuance**

Any new 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 proposed debt. These records will be available for public and county commission inspection prior to the commission approval of the debt issuance.

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

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- 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 require the underwriter to 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 publically 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.

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### **3. Conflict of interest issues**

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- 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/executive 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.

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

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- 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 contact the State loan pool to solicit a quote from the pool, as well as local banks.
- Repayment schedules should use the straight-line method of repayment (debt retirement similar to a conventional home loan). Any other repayment schedule must be approved by the comptroller's office in writing and fully disclose the additional interest cost compared to straight-line repayment.
- 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. The county will maintain a reasonable fund balance in the general debt service fund 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 including not only interest charges but also the fees associated with the transaction.
- State Form CT- 0253 will be prepared prior to a new issue reflecting a preliminary estimate of cost of issuance and this form will be reviewed by the county commission at the time of debt approval.

##### **Amendment of Policy**

The county commission will review the debt policy at a minimum on an annual basis to insure timely updates to the policy.