

**Ordinance #386  
Town of Ashland City**

**AN ORDINANCE TO ESTABLISH A DEBT POLICY**

**WHEREAS**, the purpose of this debt policy is to establish a set of parameters by which debt obligations will be undertaken by the Town of Ashland City, Tennessee. This policy reinforces the commitment of the Town and its officials to manage the financial affairs of the Town so as to minimize risks 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.

**WHEREAS**, although the Town continues to prefer to pay for capital projects on a current basis ("pay-as-you-go"), the goal of this policy is to establish criteria for the use of debt and 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 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, bonds, capital leases, and loans of any type (whether from an outside source such as a bank or from another internal fund).

**Approval of Debt:**

Pursuant to state law, 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's Board of Mayor and 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 Board of Mayor and Council; however, details on the lease agreement will be forwarded to the Comptroller's Office on the specified form within 45 days.

**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 newspaper, bulletin boards, and website.
- All costs (including principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the citizens and the Board of Mayor and Council at the next regular scheduled Council Meeting.
- The terms and life of each debt issue shall be clearly presented and disclosed to the citizens and the Board of Mayor and Council at the next regular scheduled Council Meeting.
- A debt service schedule outlining the rate of retirement for the principal amount shall be clearly presented and disclosed to the citizens and the Board of Mayor and Council at the next regular scheduled Council Meeting.

### **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 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.

### **Types and Limits of Debt:**

- The Town property tax is already in place for debt that may be issued that:
  - Matures in more than twelve fiscal years from the fiscal year of issuance, inclusive of renewals and extensions; or
  - Causes the aggregate amount of debt outstanding (including the proposed debt) to exceed \$1 million dollars.
- In the occurrence of a catastrophic event (i.e., tornado, earthquake, flood, or other natural disaster) the borrowing limit shall not be in effect during this type of event.
- The Town will seek to limit total outstanding debt obligations to fifty (50%) percent of the assessed value of the Town, excluding overlapping debt, enterprise debt, and revenue debt as determined by the annual audit.
- 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 Board of Mayor and Aldermen on an annual basis during the budget approval process by the City Recorder. 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 Board of Mayor and Council any matter that adversely affects the credit or financial integrity of the Town.
- The Town has issued Capital Outlay Notes in the past and is authorized to issue General Obligation bonds, Revenue bonds, Tax Increment Financing, loans, notes and other debt allowed by law, as it determines most appropriate.
- 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 will be thoroughly discussed in a public meeting and will be approved only if the Mayor and Board of Council determine such use is justified and in the best interest of the Town.
- The Town may use capital leases to finance short-term projects of 5 years or less.
- Bonds backed with a general obligation pledge often have lower interest rates than revenue bonds. The Town may use its General Obligation pledge with revenue bond issues (bonds which have a source of repayment other than property tax such as fees and charges from a water or sewer system) when the populations served by the revenue bond projects overlap or significantly are the same as the property tax base of the Town. The Board of Mayor and

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.

**Use of Variable Rate Debt:**

- The Town recognizes the value of variable rate debt obligations and that cities have greatly benefited 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 in the future may choose not to use variable rate debt.
- Prior to any reversal of this provision:
  1. A written management report outlining the potential benefits and consequences of use of such rates must be submitted to the Board of Mayor and Council; and
  2. The Board of Mayor and Council must adopt a specific amendment to this policy concerning the use of variable interest rates.

**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 Board of Mayor and Council; and
  2. The Board of Mayor and 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.

**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 Board of Mayor and Council in accordance with the notice requirements stated above.
- In case of 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.
- The City Recorder will file necessary disclosure documents, including disclosure of costs to the Comptroller's Office as required by law.

**Refinancing Outstanding Debt:**

The Town will refund debt when it is in the best financial interest of the Town to do so, and the City Recorder shall have the responsibility to analyze outstanding bond issues for refunding opportunities. The decision to refinance must be explicitly approved by the Board of Mayor and Aldermen, and all plans for current or advance refunding or debt must be in compliance with state laws and regulations.

The City Recorder will consider the following issues when analyzing possible refunding opportunities:

1. **Onerous Restrictions** – Elimination of onerous or restrictive covenants contained in existing debt documents, or to take advantage of changing financial conditions or interest rates.
2. **Economic Purposes** – 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 City Recorder if the refunding generates positive present value savings, and the City Recorder must establish a minimum present value savings threshold for any refinancing.
3. **Term** – Maintenance of the term of the originally issued debt; consideration of maturity extension, when necessary to achieve a desired outcome, provided such extension is legally permissible. The City Recorder may also consider shortening the term of the originally issued debt to realize greater savings.

### **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.

**Counsel:** If the Town chooses to hire an attorney other than the City Attorney, it shall enter into an engagement letter agreement with each lawyer or law firm representing the Town in a debt transaction.

**Financial Advisor:** 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 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.

**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 provided 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 City Recorder in advance of the pricing of the debt.

### **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, bond counsel, trustee, paying agent, liquidity or credit enhancement provider, and underwriter), 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.

**Review of Policy:**

This policy shall be reviewed annually by the Board of Mayor and 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 the opportunity for public input.

**Compliance:**

The City Recorder is responsible for ensuring substantial 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

**BE IT FURTHER ORDAINED**, that this policy shall become effective immediately upon its final passage and the publication of its caption in a newspaper of general circulation within the Town of Ashland City, Tennessee, the public welfare requiring it.

PASSED FIRST READING

10-11-11

PUBLIC HEARING HELD ON

11-8-11

PASSED SECOND READING

11-8-11

  
\_\_\_\_\_  
Gary Norwood, Mayor

ATTEST:

  
\_\_\_\_\_  
Phyllis Schaeffer, City Recorder

THE CAPTION OF THIS ORDINANCE WAS PUBLISHED IN THE ASHLAND CITY TIMES, A NEWSPAPER OF GENERAL CIRCULATION WITHIN THE TOWN OF ASHLAND CITY, TENNESSEE ON THE \_\_\_\_\_ DAY OF \_\_\_\_\_, 2011.