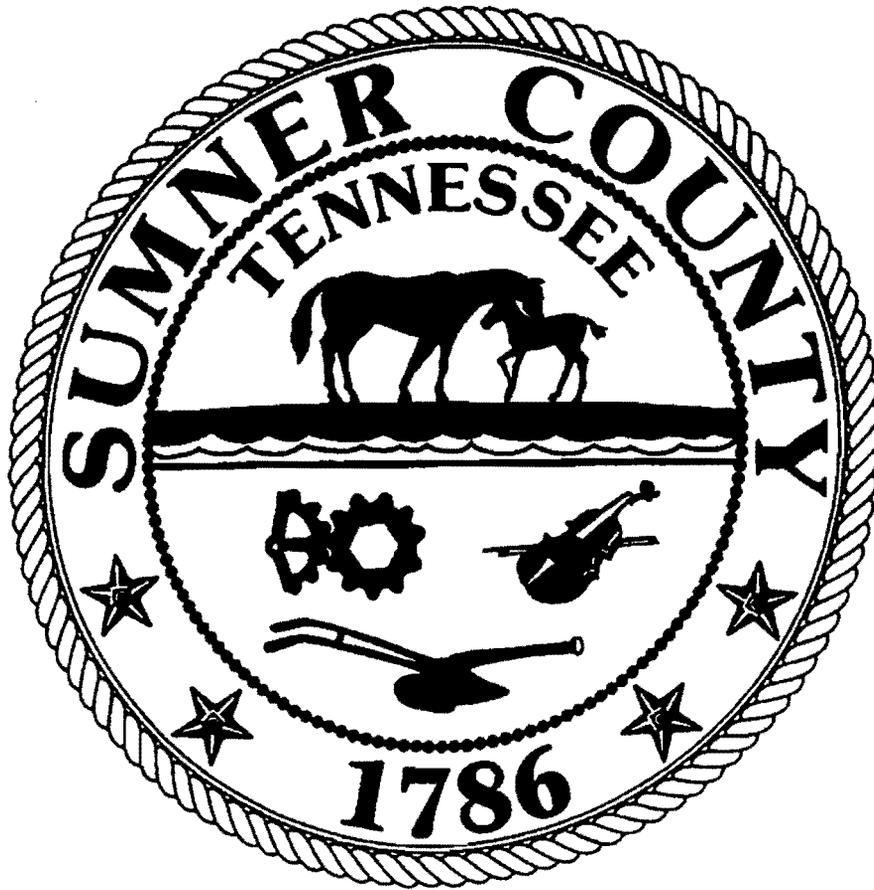


# Sumner County, Tennessee



## Debt Management Policy

**Goal:**

To provide management with appropriate guidelines and direction to assist in making sound debt management decisions, and 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. Address additional requirements for new debt
5. Address initial and ongoing federal compliance issues and updating of debt management policy

These objectives are outlined below.

**1. Enhance decision process transparency by way of an Annual Debt Report, Annual Budgets, and a Specific New Issue Report**

Responsibilities for analysis and reporting shall be with the Director of Finance and the Sumner County Financial Management Committee.

To insure transparency of decisions, an annual debt payment report 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 promptly respond to record requests from any citizen of Tennessee.

**Annual Debt Report**

An annual debt payment report shall be submitted to the county legislative body each year; this report shall be incorporated into Sumner County's annual budget document.

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 the most recent year's respective debt fund balance);
- Calculation of net debt per capita from last official census (net debt/population);
- Documentation of the most recent debt rating; and
- Reports will reflect estimated fund balance.

## **Annual Budgets**

Annual debt budgets shall be adopted by the county legislative body, which shall comply with legal notice and filings requirements pursuant to state statutes.

## **Specific New Issue Report**

The estimated cost of any new debt issuance will be available for inspection by the public and the county commission prior to the commission's approval of the 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.

Prior to the issuance of any new debt, the Director of Finance shall review the most updated county debt policy to ensure compliance.

## **2. Hiring outside professionals**

- From time to time, the county may hire legal counsel, a financial advisor or an underwriter to assist in issuance of debt. These professionals shall be selected by the Sumner County Financial Management Committee based on competence and integrity.
  - Financial Advisor: Sumner 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 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. In a publically offered, negotiated sale, the underwriter 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 clearly disclose the 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 executive and are open records.
- Professionals, involved in a debt transaction, who are hired or compensated by the county shall be required to disclose to the county any 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 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 the asset is intended to be used 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. However, the Sumner County Commission shall be advised by the Director of Finance of known potential risks and associated costs. 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 include not only interest charges but also the fees associated with the transaction.
- A preliminary estimate of the costs of issuance will be prepared prior to a new issue and shall be reviewed by the Sumner County Commission at the time of debt approval.

## **5. Initial and Ongoing Federal Compliance Issues and Updating Debt Policy**

### **Regulatory Compliance**

- The Director of Finance shall monitor initial regulatory compliance.
- The Director of Finance shall regularly monitor all outstanding debt issuances for ongoing regulatory compliance.
- The Director of Finance shall promptly report any regulatory issues to the Financial Management Committee for appropriate action.

### **Updating of Policy**

On an ongoing basis, the Sumner County Financial Management Committee will review the debt management policy for necessary amendments. Any necessary amendments shall be presented to the Sumner County Commission for approval.