DEBT MANAGEMENT POLICY AND PROCEDURES

CITY OF MEMPHIS

A City of Choice

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PURPOSE

The City of Memphis recognizes the foundation of any well-managed debt program is a comprehensive debt management policy. The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuing evaluation of and reporting on all debt obligations issued by the City, and to provide for the preparation and implementation necessary to ensure compliance and conformity with this policy and Federal, State, and local laws, rules, and regulations.

POLICY STATEMENT

Debt is a valuable source of capital project financing, and its use should be limited to projects that relate to the mission and strategic objectives of the City. The amount of debt incurred impacts the financial health of the City, its credit rating, and its cost of capital. The City will consider other funding opportunities (e.g., grants from federal, state and other sources; current revenues and fund balances; private sector contributions; public/private partnerships; etc.) when appropriate and advantageous to the City.

Under the governance and guidance of Federal and State laws and the City's Charter, ordinances and resolutions, the City will periodically enter into debt obligations to finance the construction, improvement or acquisition of infrastructure and other assets or to refinance existing debt for the purpose of meeting its governmental obligation to its residents. It is the City's desire and direction to ensure that such debt obligations are issued and administered in such fashion as to obtain the best long-term financial advantage to the City and its residents, while making every effort to maintain and improve the City's bond ratings and reputation in the investment community.

The issuance of debt to finance operating deficits is not permitted. However, the City may, pursuant to TCA §§9-21-801 et seq., issue Tax Anticipation Notes for the purpose of meeting appropriations for the then current fiscal year. The City may also issue Funding Bonds pursuant to TCA §§9-11-101 et seq. for the purpose of funding warrants, notes, or other indebtedness not evidenced by bonds which shall be outstanding at the close of the fiscal year immediately preceding authorization for issuance of such Funding Bonds.

GOALS AND OBJECTIVES

The primary goals of this policy are to provide the City with written guidelines to ensure quality debt management decisions concerning the amount, type, and structure of debt in the City's debt portfolio; promote consistency and continuity in the decision making process; demonstrate a commitment to long-term financial planning objectives; and ensure that debt management decisions comply with all laws related to debt issuance and are considered responsible by rating agencies, the investment community and taxpayers.

The guidelines outlined in this policy should be utilized as reference tools in making decisions involving the issuance and management of the City's debt. Specifically, this is intended to assist the City in the following:

- Establish clear criteria and promote prudent financial management for the issuance of all debt obligations to reflect responsibility, a good corporate image, and due care;
- Identify acceptable debt limits originating from legal, public policy, and financial and budgetary considerations;
- Maintain appropriate resources and funding capacity for present and future capital needs;
- Ensure the City's debt issuance conforms to all federal, state, and local laws; and
- Manage the City's exposure to interest rate and other inherent risks associated with certain debt instruments and derivative products.

CAPITAL IMPROVEMENT PROGRAM AND FINANCING SYSTEM

A sound debt management program begins with a well-devised Capital Improvement Program. A Capital Improvement Program, or CIP, is a short-range plan, usually four to ten years, which identifies capital projects and equipment purchases, provides a planning schedule and identifies options for financing the plan.

The City's CIP is a five year plan that is updated annually to reflect the latest priorities and to provide updated cost estimates and available revenue sources. The CIP process begins each October with the submission of projects by each division. Costs and priorities for the projects are developed through a planning process that includes the Capital Committee and the Budget Office.

The planning process identifies funding sources for each project and analyzes the conformance of planned financings with policy targets regarding the magnitude and composition of the City's indebtedness, and the economic and fiscal resources of the City to bear such indebtedness over the life of the debt. The affordability of the plan is evaluated in consultation with the various City divisions. Projects in the CIP are ranked using various criteria such as the availability of funds, importance to the overall mission of the division and strategic priorities of the Mayor and City Council.

Projects are reviewed by the administration based on need, impact of the area, quality of life in our neighborhoods and the general economic climate of the City. The Mayor submits the proposed CIP to the City Council for adoption. Adoption by the City Council allocates funds for the first year of the program with specific language on how to appropriate and spend capital funds contained in the CIP resolution.

It is the responsibility of the Deputy Director of Finance, within the context of the CIP, to oversee and coordinate the timing, process of issuance, and marketing of debt obligations required in support of the CIP. In this capacity, the Deputy Director of Finance shall make recommendations to the Director of Finance regarding necessary and desirable actions and shall keep him/her informed through regular and special reports as to the progress and results of current-year activities under the CIP.

DEBT AUTHORIZATION

The City's charter authorizes the City to issue general obligation bonds subject to adoption of a bond resolution by the City Council. Sections of the Tennessee Code Annotated and the Federal Tax Code may govern the issuance or structure of the City's debt.

DEBT LIMITATIONS AND AFFORDABILITY

G.O. Debt Limitation

Although there are no statutory limitations on the amount of general obligation debt the City can issue, the City shall conduct its finances so that the amount of general obligation debt outstanding does not exceed twelve percent (12%) of the City's taxable assessed valuation.

Limitations on General Fund Credit Support

As part of City's financing activities, non-ad valorem General Fund resources may be used to provide credit support for public or private projects that meet high priority City needs. Key factors that will be considered in determining whether or not the General Fund should be used to secure a particular debt obligation will include the following:

- Demonstration of underlying self-support, thus limiting potential General Fund financial exposure;
- Use of General Fund support as a transition to a fully stand-alone credit structure, where interim use of General Fund credit support reduces borrowing costs and provides a credit history for new or hard to establish credits; and
- General Fund support is determined by the Director of Finance to be in the City's overall best interest.

Limitations on the Issuance of Revenue-Secured Debt Obligations

The City shall seek to finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations the City in consultation with the appropriate City divisions will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on

ratepayers, property owners, City divisions, and other affected parties. The amount of revenue-secured debt obligations issued by the City will be limited by the economic feasibility of the overall financing plan as determined by the Director of Finance.

Pledge of Restricted Funds to Secure Debt

The City has the authority to make an irrevocable pledge of a security interest in an account created exclusively for the security of holders of City obligations. Before such funds are used to secure a prospective financing, guidelines regarding the use of such restricted funds shall be developed by the affected division and the Deputy Director of Finance, subject to approval by the Director of Finance, to ensure that the use of such funds does not violate restrictions on such funds and that underlying program commitments can be maintained in addition to meeting debt service obligations on debt secured by the restricted funds. The pledge and use of such restricted funds shall be subject to the approval of City Council.

Affordability

The City is aware of the need to gauge the effect of ongoing debt service on its budgets and fiscal priorities over time. As part of the debt management process, the City will consider generally accepted debt affordability standards in evaluating the timing and amount of debt that is issued. Long-term debt obligations incorporated in debt ratios include general obligation debt and general fund backed obligations such as capital leases. While other long-term liabilities such as unfunded pension liabilities are taken into account in determining the overall credit rating of the City, they may be excluded in these ratios unless they are owed to a third party over a predetermined schedule such as pension obligation bonds.

Affordability ratios may include but are not limited to:

- Debt as a percent of assessed valuation;
- Debt per capita; and
- Debt service as a percentage of operating budget.

DEBT STRUCTURE

The City shall establish all terms and conditions relating to the issuance of debt obligations and will invest all proceeds of such obligations pursuant to the terms of the authorizing resolution and the City's Investment Policy where applicable.

Rapidity of Long-Term Debt Repayment

Generally, borrowings by the City should be of a duration that does not exceed the economic life of the improvement that it finances and where feasible should be shorter than the projected economic life. The City shall strive to repay the principal amount of its long-term general obligation by at least fifty-five percent (55%) or greater within ten years. The City may

choose to structure debt repayment so as to wrap around existing obligations or to achieve other financial planning goals. If principal payment is deferred or backloaded then specific justification should be identified and presented to City Council at the time of its consideration of the authorizing debt resolution.

Term

The term of any debt obligation or portion thereof used to fund a capital project shall not be greater than the useful life of the project. Generally, the final maturity of the indebtedness should be restricted to no more than thirty-one years after date of issuance unless otherwise specified in the authorizing resolution. The structure of each debt obligation shall at all times comply with federal, state, and local laws, rules, and regulations.

TYPES OF DEBT

There are many different types of debt instruments that are available to the City. Most of which require the approval of City Council by resolution or ordinance. The following are brief summaries of the various types of long-term and short-term financing instruments the City is authorized to consider.

General Obligation Bonds

The City may pledge its full faith, credit and unlimited taxing power as to all taxable property in the City or a portion thereof, if applicable, to the punctual payment of principal of and interest on bonds or notes issued to finance any public works project as defined in TCA §§9-21-105. When issuing general obligation bonds, the following must be considered:

- The resolution authorizing the issuance must contain certain information as provided in TCA §§9-21-205;
- Once the resolution is passed, a public notice must be published once in a newspaper of general circulation containing the initial resolution as required by TCA §§9-21-206; and
- General obligation bonds may not be sold for less than 98 percent of par value and accrued interest as required by TCA §§9-21-202.

Revenue Bonds

Revenue bonds are obligations payable from revenues generated from specifically designated sources. Revenue bonds are typically issued for capital projects which can be supported from project or enterprise related revenues.

Pursuant to TCA §§9-21-303 et seq., revenue bonds may not be sold for less than 97 percent of par value and accrued interest and may not have a term greater than 40 years.

Notes

Pursuant to Title 9, Chapter 21 of Tennessee Code Annotated, the City may issue the following types of notes: bond anticipation notes, capital outlay notes, grant anticipation notes, tax anticipation notes, and healthcare anticipation notes. Such notes are subject to the approval of the Office of State and Local Finance.

Lease/Lease Purchase Agreements and Aid and Assistance

Pursuant to TCA §§7-51-903 et seq., the City may enter into leases and lease purchase agreements. However, when the term of the lease or lease renewal for real property is greater than five years or when the lease or lease purchase is for tangible personal property such as equipment or machines of any term, the approval of City Council by resolution or ordinance is necessary.

Pursuant to TCA §§7-53-311 and 7-53-315, the City may inter into leases or lease-purchase agreements of projects, or otherwise aid or provide assistance for projects or portions of projects, with the approval of City Council by resolution or ordinance.

Such leases and lease purchase agreements, or other agreements to provide aid or assistance, are not subject to the approval of the Office of State and Local Finance.

Funding Bonds

Pursuant to TCA §§9-11-101 et seq., the City may issue Funding Bonds for the purpose of funding warrants, notes, or other indebtedness not evidenced by bonds which shall be outstanding at the close of the fiscal year immediately preceding authorization for issuance of such Funding Bonds.

Loan Obligations

The City may use loan obligations to fund capital projects. Such loan obligation may include but is not limited to a State Revolving Fund loan, a loan through the U. S. Department of Housing and Urban Development Section 108 Loan Guarantee Program, or a loan with a conduit issuer such as an Industrial Development Board.

Interfund Loans

Pursuant to TCA §§9-21-408 and TCA §§9-21-1104, the City is authorized to make interfund loans in accordance with procedures for issuance of notes under TCA Title 9, Chapter 21, Parts 5, 7, 8 or 11 and TCA §§9-21-604.

All such borrowings are to be considered temporary loans from one fund to another and should be used to assist the City in managing the availability of cash for activities authorized and approved by City Council. Furthermore, the eventual source of repayment for each borrowing should be clearly demonstrated at the time of the borrowing and such borrowing should not be made to the detriment of any function or project of the lending fund.

Interfund loans shall be evidenced by a formal loan agreement and are subject to the approval of City Council by resolution or ordinance and the approval of the Office of State and Local Finance as the designee of the Comptroller of the Treasury.

A State Form CT-0253 must be prepared for each interfund loan and presented to City Council with a copy to the Office of State and Local Finance.

Pension Obligation Bonds

Pension Obligation Bonds ("POBs") are financing instruments used to pay some or all of the unfunded pension liability of a pension plan.

Revenue Securitization

Revenues are said to be secured when the right to receive such revenues is sold to investors at a discounted price in exchange for an upfront, lump-sum payment. The current value of the receivable is determined by applying a discount rate to the projected revenue stream.

Tax Increment Financing

Tax Increment Financing ("TIF") is a method to use future gains in taxes to finance current improvements which theoretically will create the conditions for those future gains.

DERIVATIVE PRODUCTS

Derivative products can be important interest rate management tools that, when used properly, can increase the City's financial flexibility, provide opportunities for interest rate savings, alter the pattern of debt service payments, create variable rate exposure, change variable rate payments to fixed rate, and otherwise limit or hedge variable rate payments.

This policy will govern the City's use of financial derivative products, such as swaps, swaptions, caps, floors, collars, etc. ("derivatives"). The failure by the City to comply with any provision of this policy will not invalidate or impair any derivative agreement.

Purpose of Derivatives

Derivatives may be used for the following purposes only:

1. To achieve significant savings as compared to a product available in the bond market. Significant savings shall be calculated after adjusting for (a) applicable fees, including takedown, remarketing fees, credit enhancement and legal fees, and (b) options that may be available. Examples may include synthetic fixed rate debt and synthetic variable rate debt. Alternatively, significant savings are deemed to occur if the use of derivatives helps to achieve diversification of a particular bond offering;

2. To enhance investment returns within prudent risk guidelines;

3. To prudently hedge risk in the context of a particular financing or the overall asset/liability management of the City's debt. Examples may include buying interest rate caps and entering into delayed start swaps;

4. To incur variable rate exposure within prudent guidelines, such as selling interest rate caps or entering into a swap in which the City's payment obligation is floating rate; and

5. To achieve more flexibility in meeting overall financial objectives than can be achieved in conventional markets. An example may include a swaption with an up-front payment.

Legality

The City must receive an opinion from a nationally recognized law firm that the agreement relating to the derivative is a legal, valid and binding obligation of the City and entering into the transaction complies with applicable law.

No Speculation

Derivatives shall not be used for purposes outside of prudent risks that are appropriate for the City.

Methods of Soliciting and Procuring Derivatives

In general, the City should procure derivatives by competitive bidding. The City shall determine which parties and the number of parties it will allow to participate in a competitive transaction. The City may allow one or more bidders in addition to the winning bidder to participate in the transaction if the City deems such participation to be in its best interests.

Notwithstanding the above, the City may procure derivatives by negotiated methods in the following situations:

The City may enter into a derivatives transaction on a negotiated basis if the City makes a determination that due to the size or complexity of a particular derivative transaction, a negotiated transaction would result in the most favorable pricing. In this situation, the City should attempt to price the derivative based upon an agreed-to methodology relying on available pricing screens to obtain inputs to a mathematical model. If appropriate, the City should use a financial advisory firm to assist in the price negotiations.

The City may enter into a derivatives transaction on a negotiated basis if it determines, in light of the facts and circumstances, that doing so will promote its interests by encouraging and rewarding innovation or the substantial commitment of time and resources by a counterparty.

Regardless of the method of procurement, the City shall obtain an independent finding that the terms and conditions of any derivative entered into reflect a fair market value of such derivative as of the date of its execution.

Aspects of Risk Exposure Associated with Such Contracts

Before entering into a derivative, the City shall evaluate all the risks inherent in the transaction. These risks to be evaluated should include counterparty risk, termination risk, rollover risk, basis risk, tax event risk and amortization risk.

The City shall endeavor to diversify its exposure to counterparties. To that end, before entering into a transaction, it should determine its exposure to the relevant counterparty or counterparties and determine how the proposed transaction would affect the exposure. The exposure should not be measured solely in terms of notional amount, but rather how changes in interest rates would affect the City's exposure ("Value at Risk"). The Value at Risk should be based on all outstanding derivative transactions of the City. The City may also elect to take into account the exposure of the City and any related entities to a particular counterparty.

Counterparty Credit Standards

Many derivative products create for the City a continuing exposure to the creditworthiness of financial institutions that serve as the City's counterparties on derivative transactions. To protect its interests in the event of a credit problem, the City will take a three-tiered approach.

Use of highly rated and experienced counterparties

Standards of creditworthiness, as measured by the credit ratings, will determine eligible counterparties. Differing standards may be employed depending on the term, size and interest-rate sensitivity of a transaction, types of counterparty, and potential for impact on the City's credit ratings. In addition, eligible counterparties should have demonstrated experience in successfully executing derivative transactions.

Collateralization on Downgrade

If a counterparty's credit rating is downgraded below a specified threshold, the City will require that its exposure to the counterparty be collateralized as per an ISDA Credit Support Annex.

Termination

If a counterparty's credit is downgraded below a second (lower) threshold, the City may exercise a right to terminate the transaction prior to its scheduled termination date. The City will seek to require, whenever possible, that terminations triggered by a counterparty credit downgrade will occur on the side of the bid-offered spread which is most beneficial to the City, and which would allow the City to go back into the market to replace the downgraded party with another suitable counterparty at no out-of-pocket cost to the City.

Long-Term Implications

In evaluating a particular transaction involving the use of derivatives, the City shall review long-term implications associated with entering into derivatives, including costs of borrowing, historical interest rate trends, variable rate capacity, credit enhancement capacity, opportunities to refund related debt obligations and other similar considerations.

Reporting in Financial Statements

The City shall reflect the use of derivatives on its financial statements in accordance with generally accepted accounting principles.

SHORT-TERM DEBT AND INTERIM FINANCING VARIABLE-RATE SECURITIES

When appropriate, the City may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. The decisions to issue such securities must be reviewed and approved by the Director of Finance before City Council is requested to approve their issuance.

Lines and Letters of Credit

Where their use is judged to be prudent and advantageous to the City, the City has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide the City with access to credit under terms and conditions as specified in such agreements. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by City Council.

Bond Anticipation Notes

Where their use is judged to be prudent and advantageous to the City, the City may choose to issue Bond Anticipation Notes as a source of interim construction financing. The sale of such notes requires the approval of City Council and the Director of State and Local Finance.

Tax Anticipation Notes

Pursuant to TCA §§9-21-801 et seq., the City may issue Tax Anticipation Notes for the purpose of meeting appropriations for the then current fiscal year in anticipation of the collection of taxes and revenues of that fiscal year in amounts not exceeding sixty percent (60%) of such appropriation. The sale of such notes requires the approval of City Council and the Director of State and Local Finance and such notes must mature prior to the end of the fiscal year in which they were issued.

Commercial Paper

The City may choose to issue tax-exempt or taxable commercial paper as a source of interim construction financing for projects contained in the City's CIP.

REFUNDING OF CITY INDEBTEDNESS

The Deputy Director of Finance in consultation with the City's financial advisor(s), has the responsibility to analyze outstanding bond issues for refunding opportunities that may be presented by underwriting and/or financial advisory firms. The City will, during periods of low interest rates, take advantage of the rate changes by refunding previously issued bonds.

The savings target for each type of permitted refunding is provided below; however, because the level of risk will vary depending on the specific structure of the transaction and market conditions at the time of issuance, the Director of Finance has the discretion to prescribe different levels of target savings to optimize the City's financial objectives.

Advance Refundings

The City may issue advance refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, prudent, and net present value savings equals or exceeds three and one half percent (3.5%) or one million dollars ($1,000,000). The present value savings will be net of all costs related to the refunding. If net present value savings are less than the savings target, the Director of Finance may consider the option value of each maturity of the refunding candidates. If estimated savings for a maturity exceeds seventy percent (70.0%) of the estimated option value of that maturity, the Director of Finance may opt to refund that maturity.

Prior to the issuance of any advance refunding bonds, the City shall engage an experienced bond counsel to ensure that the proposed advance refunding meets all federal tax compliance issues. Bond counsel shall verify the following:

- The proposed advance refunding meets federal tax requirements regarding the number of permitted advance refundings;
- The proposed advance refunding meets federal tax requirements that may be imposed on the redemption date of the refunded bonds;
- The proposed advance refunding complies with federal tax requirements which allow for the proceeds and replacement proceeds of an issue to be invested temporarily in higher yielding investments without causing the advance refunding bonds to be arbitrage bonds; and
- The proposed advance refunding will not enable the City to exploit the difference between tax-exempt and taxable interest rates to obtain a financial advantage nor will it overburden the tax-exempt bond market in a way that might be considered abusive.

If avoidable, the City shall not purchase zero-coupon State and Local Government Securities post-closing to blend down the escrow yield.

Forward Refundings

The City may issue forward refunding bonds when advantageous, legally permissible, prudent, and net present value savings equals or exceeds three and one half percent (3.5%) or one million dollars ($1,000,000). The present value savings will be net of all costs related to the refunding. If net present value savings are less than the savings target, the Director of Finance may consider the option value of each maturity of the refunding candidates. If estimated savings for a maturity exceeds seventy percent (70.0%) of the estimated option value of that maturity, the Director of Finance may opt to refund that maturity.

Synthetic Refundings

The City may use alternative refunding instruments such as swaps, derivatives, and hedges when advantageous, legally permissible, prudent, and net present value savings equals or exceeds four and one half percent (4.5%) or one million dollars ($1,000,000). The present value savings will be net of all costs related to the refunding. If net present value savings are less than the savings target, the Director of Finance may consider the option value of each maturity of the refunding candidates. If estimated savings for a maturity exceeds seventy-five percent (75.0%) of the estimated option value of that maturity, the Director of Finance may opt to refund that maturity.

Current Refundings

The City may issue current refunding bonds (as defined for federal tax law purposes) when advantageous, legally permissible, prudent, and net present value savings equal or exceed $100,000. The present value savings will be net of all costs related to the refunding.

Restructuring of Debt

The City may choose to refund outstanding indebtedness when existing bond covenants or other financial structures impinge on prudent and sound financial management. Savings requirements for current, synthetic, forward or advance refundings undertaken to restructure debt may be waived by the Director of Finance upon a finding that such a restructuring is in the City's overall best financial interests.

Open Market Purchase of City Securities

The City may choose to defease its outstanding indebtedness through purchases of its securities in the open market when market conditions make such an option financially feasible as determined by the Director of Finance.

FINANCIAL CONSULTANTS AND SERVICE PROVIDERS

All professional service providers will be selected by the Director of Finance.

The Deputy Director of Finance shall be responsible for establishing a solicitation and selection process for securing professional services that are required to develop and implement the City's debt program. Goals of the solicitation and selection process shall include encouraging participation from qualified service providers, both local and national, at competitive prices. The selection process may allow for special consideration for minority and women owned business enterprises.

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

- **Bond Counsel:** The City shall enter into an engagement letter agreement with each lawyer or law firm representing the City in a debt transaction.

- **Disclosure Counsel:** The City shall enter into an engagement letter agreement with a nationally recognized disclosure counsel firm or firms to act as disclosure counsel to the City to assist the City in preparing all of its primary offering and reoffering documents, continuing disclosure undertakings and bond purchase agreements,and to assist the City in developing policies and procedures regarding its primary and secondary market disclosure obligations, including continuing disclosure compliance obligations.

- **Financial Advisor:** If the City chooses to hire financial advisors, the City shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions.

- **Underwriters:** If there is an underwriter, the City 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 City 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 City. 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 Director of Finance in advance of the pricing of the debt.

- **Other Service Providers:** The Deputy Director of Finance shall periodically solicit providers of other services necessary to carry out the debt issuance activities of the City (including but not limited to swap advisor, swap counsel, trustee, paying agent, counterparty, and remarketing agent) and, in selecting such additional service providers, shall evaluate the cost and perceived quality of service of the proposed service provider.

Conflict of Interest

Professionals involved in a debt transaction hired or compensated by the City shall be required to disclose to the City 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 City to appreciate the significance of the relationships.

No such relationship shall be permitted which could compromise the firm's ability to provide the highest quality level of independent advice or service which is solely in the City's best interests or which could reasonably be perceived as a conflict of interest.

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 or professional conduct.

METHOD OF SALE

Competitive Sale

The City, as a matter of policy, shall issue its debt obligations through a competitive sale unless the Director of Finance determines that such a sale method will not produce the best results for the City. In such instances where the City deems the bids received through a competitive sale process as unsatisfactory or does not receive bids, it may, at the election of the City Council, enter into negotiation for sale of the securities.

Negotiated Sale

When determined appropriate by the Director of Finance, the City may elect to sell its debt obligations through a negotiated sale. Such determination may be made on an issue by issue basis, for a series of issues, or for part or all of a specific financing program.

The City may use the negotiated sale process if the City makes a determination that due to the size or complexity of a particular transaction, a negotiated sale would result in the most favorable pricing. If appropriate, the City should use a financial advisory firm to assist in the negotiations.

The City may also use the negotiated sale process if it determines, in light of the facts and circumstances, that doing so will promote its interests by encouraging and rewarding innovation or the substantial commitment of time and resources by an underwriting firm.

Regardless of the reason for selecting the negotiated sale process, the City shall obtain an independent finding that the terms and conditions of the sale reflect a fair market value of such debt as of the date of its execution.

Private Placement

When determined appropriate by the Director of Finance, the City may elect to sell its debt obligations through a private placement or limited public offering. Selection of a placement agent shall be made pursuant to selection procedures developed by the Deputy Director of Finance.

Use of Technology in Bond Sale Process

The City shall encourage the use of electronic bidding systems, electronic dissemination of disclosure information and other technological methods whenever the use of such technology is expected to reduce sale costs and enhance market participation in City financings.

CREDIT RATINGS AND ENHANCEMENTS

The City seeks to maintain the highest possible credit ratings that can be achieved for debt instruments without compromising the City's policies and objectives. Ratings are reflections of the general fiscal soundness of the City and the capabilities of its management. By maintaining the highest possible credit ratings, the City can issue its debt at a lower cost of capital.

Rating Agency Relationships

The Deputy Director of Finance is responsible for maintaining relationships with the rating agencies that currently assign ratings to the City's various debt obligations. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with debt issuances.

Use of Rating Agencies

The Director of Finance shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

The City shall strive to maintain a rating of at least "AA" on its general obligation debt. A lower rating standard may be accepted for indirect or conduit obligations, subject to approval of the Director of Finance.

Use of Credit Enhancement

The City shall seek to use credit enhancement (letters of credit, bond insurance, etc.) when such credit enhancement proves cost-effective. Selection of credit enhancement providers

shall be subject to the approval of the Director of Finance in consultation with the City's financial advisor.

The City will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

Bond Insurance

The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on insured bonds versus uninsured bonds.

Debt Service Reserve Funds

When required, a reserve fund may be used to strengthen the underlying credit of the debt.

Minimum Debt Service Fund Balance

The City shall strive to maintain a Debt Service Fund ("DSF") undesignated fund balance equal to or greater than 1/12 or eight percent (8%) of DSF expenditures.

POST ISSUANCE COMPLIANCE

Transparency

The City 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, City Council, and other stakeholders in a timely manner.

Report on Debt Obligation

TCA §§9-21-151 requires all municipalities to submit, or cause to be submitted, a report of debt obligation to the governing body of the public entity, with a copy to the comptroller of the treasury or the comptroller's designee within 45 days of the issuance, regardless of whether the issuance had to be approved by the Director of State and Local Finance. The designated form for this purpose is Form CT-0253. The form should be completed by the City or its financial advisor then presented to City Council with a copy to the Director of State and Local Finance. The City shall retain a copy of the form for its records.

Investment Policy

The City has adopted a comprehensive Investment Policy. The investment of all debt proceeds shall comply with the City's Investment Policy where applicable and will not enable the City to exploit the difference between tax-exempt and taxable interest rates to obtain a financial advantage that might be considered abusive.

Tax-Exempt Status Compliance

The purpose of this section is to establish policies and procedures in connection with tax-exempt bonds issued by the City ("TEBs") so as to ensure that the City exercises due diligence in complying with Section 148 of the Code, and all applicable regulations to preserve the tax-exempt status of the TEBs, as well as to provide for the timely identification of and expeditious remediation of any violation.

The City shall consult with bond counsel and other advisors, as needed, throughout the bond issuance process to review any additional requirements necessary or appropriate so that the TEBs will continue to qualify for tax-exempt status. The City's current procedures regarding arbitrage rebate compliance and private use compliance are set forth below. Notwithstanding anything herein to the contrary, the Director of Finance may adopt and maintain policies and procedures on tax-exempt compliance.

Arbitrage Rebate Compliance

Arbitrage rebate compliance is a critical and serious matter which may affect the tax-exemption of the interest on bonds issued by the City. Therefore the City will comply with all arbitrage rebate requirements as established by the Internal Revenue Service. To assist the City in its effort, the City shall seek the service of a firm with extensive arbitrage rebate compliance and related experience. The firm shall provide the City with arbitrage rebate compliance services tailored to the specific needs of the City including rebate analysis for general obligations and revenue bonds with parity debt service reserve funds for multiple issues.

The Deputy Director of Finance in consultation with certain professional service providers shall be responsible for:

- For advance refunding escrows, ensure that no 0% Securities of State and Local Government Securities are used when avoidable. If unavoidable, confirm that all scheduled purchases are made on the scheduled date;

- Seek the services of an arbitrage compliance service provider to annually or biennially calculate and report the City's cumulative rebate liability, if any; and

- Maintain special records required by safe harbor under Section 1.148-5 of the Code for investment contracts or defeasance escrows, where applicable.

Private Use Compliance

The Deputy Director of Finance in consultation with certain professional service providers shall be responsible for:

- Monitoring the use of tax-exempt bond proceeds to ensure compliance with covenants and restrictions set forth in tax certificates;
- Conferring at least annually with other personnel given charge of certain facilities financed with TEBs to identify and discuss any existing or planned use of such facilities to ensure that the use of such facilities are consistent with all covenants and restrictions set forth in relating tax certificates;
- Consulting with bond counsel and other legal counsel and advisors in the review of any change in use of any facility financed with TEBs to ensure compliance with all covenants and restrictions set forth in the related tax certificates; and
- Consult with bond counsel and other legal counsel or advisors to determine a course of action to remediate all nonqualified bonds, if such counsel advises that a remedial action is necessary.

Continuing Disclosure

The Director of Finance will adopt and maintain policies and procedures on primary and secondary disclosure compliance after consultation with disclosure counsel to the City in order to comply with applicable federal securities laws and regulations (the "Disclosure Policies and Procedures").

Document Retention

The City shall retain all documents relating to a debt transaction for three years beyond the final maturity of the debt or any subsequent refunding debt. A retention date shall be placed on all transaction folders to ensure compliance with the City's retention policy.

Each transaction folder shall contain the following as applicable:

- Final versions of debt issuance documents including the official statement or private placement memorandum;
- Copy of resolutions authorizing the debt issuance;
- Applicable IRS and state forms such as 8038-G, 8038-B, and CT-0253;
- CPA verification reports;
- All final debt service schedules;

- Final closing documents;
- Liquidity agreements;
- Investment contract information;
- Bond proceeds expenditure reports;
- Any relevant correspondence with the arbitrage consultant, bond counsel, or other advisors;
- Rebate calculation and yield restriction reports; and
- Any documents required under the Disclosure Policies and Procedures.

POLICY REVIEW

The guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt obligations and derivative products. The City reserves the right to modify the guidelines contained herein and make exceptions to any of them at any time to the extent that doing so achieves City goals. Any such modification should be submitted to City Council for its consideration and approval.

This policy is subject to review no less than annually.

This policy was adopted by City Council on February 19, 2002 and amended on November 4, 2003, December 6, 2011, May 21, 2013, December 3, 2013, and _____, 2016.