

City of Kingsport, Tennessee

Debt Management Policy

Formally Adopted: November 15, 2011

I. Introductory Statement

This Debt Management Policy (the “Debt Policy”) is a written guideline with parameters that affect the amount and type of debt that can be issued by the City of Kingsport (the “City”), the issuance process and the management of the City’s debt. The purpose of this Debt Policy is to improve the quality of management and legislative decisions and to provide justification for the structure of debt issuances consistent with the Debt Policy’s goals while demonstrating a commitment to long-term capital planning.

It is also the intent of the City that this Debt Policy will signal to credit rating agencies, investors and the capital markets that the City is well managed and will always be prepared to meet its obligations in a timely manner. This Debt Policy fulfills the requirements of the State of Tennessee regarding the adoption of a formal debt management policy on or before January 1, 2012.

This Debt Policy provides guidelines for the City to manage its debt and related annual costs within both current and projected available resources while promoting understanding and transparency for our citizens, taxpayers, rate payers, businesses, vendors, investors and other interested parties.

In managing its debt, it is the City's policy to:

- Achieve the lowest cost of capital within acceptable risk parameters
- Maintain or improve credit ratings
- Assure reasonable cost access to the capital markets
- Preserve financial and management flexibility
- Manage interest rate risk exposure within acceptable risk parameters

II. Goals and Objectives

Debt policies and procedures are tools that ensure financial resources are adequate to meet the City's long-term capital planning objectives. In addition, the Debt Policy helps to ensure that financings undertaken by the City have certain clear, objective standards which allow the City to protect its financial resources in order to meet its long-term capital needs.

The policies outlined in this document are intended to assist in the following:

- To guide the City and its managers in policy and debt issuance decisions
- To maintain appropriate capital assets for present and future needs
- To promote sound financial management
- To protect the City's credit rating
- To ensure the City's debt is issued legally under applicable state and federal laws
- To promote cooperation and coordination with other parties in the financing
- To evaluate debt issuance options

III. General Policies

Long-term borrowing will not be used to finance current operating expenditures.

The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements and capital assets.

The City is subject to debt limitations imposed by the City Charter. The total bonded indebtedness of the City shall not exceed twenty percent (20%) of the assessed value of the taxable property of the City according to the most recent complete assessment.

As a goal, the City will maintain its net general obligation bonded debt at a level not to exceed ten percent (10%) of the assessed valuation of taxable property of the City unless otherwise directed by the Board of Mayor and Aldermen.

Revenues and rates for self supporting activities will be maintained to annually pay their operating expenses and one hundred and five percent (105%) of annual debt service for the tax-backed revenue bonds, general obligation bonds or other debt issued to finance their capital improvements.

IV. Procedures for the Issuance of Debt

1. Authority

The City will only issue debt by utilizing the statutory authorities provided by Tennessee Code Annotated and the Internal Revenue Code.

All debt must be formally authorized by resolution of the City's Legislative Body.

2. Transparency

The City will ensure compliance with all legal requirements regarding adequate public notice of all meetings of the City related to consideration and approval of debt. In the interest of transparency, all costs, the terms and conditions of each debt issue along with a debt service schedule will be disclosed to the Legislative Body, citizens and other interested parties in a timely manner.

V. Credit Quality and Credit Enhancement

The City's debt management activities will be conducted in order to maintain or receive the highest possible credit ratings possible. The City will consider the use of credit

enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case.

VI. Affordability

The City will consider the ability to repay debt as it relates to the total budget resources, the wealth and income of the community and its property tax base and other revenues available to service the debt.

VII. Debt Structure

The City will establish all terms and conditions relating to the issuance of debt. All capital improvements financed through the issuance of debt will be financed for a period not to exceed the useful economic life of the improvements and in no event will the term of such debt exceed forty (40) years.

VIII. Debt Types

When the City determines that debt is appropriate, the following criteria will be utilized to evaluate the type of debt to be issued:

- General Obligation Bonds
- Revenue Debt
- Capital Leases
- Long-term debt
- Short-term debt
- Fixed rate debt
- Variable rate debt

IX. Refinancing Outstanding Debt

The City will analyze outstanding debt for refunding opportunities. Absent other compelling considerations, the City has established a minimum net present value savings threshold of at least three percent (3%) of the refunded debt principal amount.

X. Methods of Issuance

The City may issue debt using:

- Competitive sale
- Negotiated sale
- Private placement

XI. Professionals

The City may select financial professionals to assist in its debt issuance and administration processes based on relevant experience, professional reputation, and demonstrated success.

XII. Compliance

The City will file annual financial information and maintain records required by federal law. The City will also maintain records related to the issuance of the debt for the required time period.

XIII. Debt Policy Review

This Debt Policy should be reviewed from time to time as circumstances, rules and regulations warrant. The City maintains the right to modify this Debt Policy as needed.