REPORT ON DEBT OBLIGATION
(Pursuant to Tennessee Code Annotated Section 9-21-151)

1. Public Entity:

Name: City of Kingsport, Tennessee

Address: 225 West Center Street
Kingsport, TN 37660-4285

General Obligation Public Improvement Bonds, Series 2012C

2. Debt Obligation:

- [✓] a. Bond
- [ ] b. CON
- [ ] c. BAN
- [ ] d. GAN
- [ ] e. TRAN
- [ ] f. CRAN
- [ ] g. Capital Lease
- [ ] h. Loan Agreement

Note: Enclose a copy of the executed NOTE FORM if applicable.

3. Security For Debt Obligation:

- [✓] a. General Obligation
- [ ] b. General Obligation+Revenue+Tax
- [ ] c. Revenue
- [ ] d. TIF
- [ ] e. Annual Appropriations

4. Purpose of Issue:

[✓]	a. General Government	50.40 %
[✓]	b. Education	16.07 %
[ ]	c. Highways and Streets	%
[ ]	d. Public Safety	%
[ ]	e. Solid Waste Disposal	%
[ ]	f. Industrial Park	%
[ ]	g. Manufacturing Facilities	%
[ ]	h. Health Facilities	%
[ ]	i. Airports	%
[✓]	j. Utilities	%
[✓]	i. Water	13.87 %
[✓]	ii. Sewer	19.66 %
[ ]	iii. Electric	%
[ ]	iv. Gas	%
[ ]	k. Refunding or Renewal	%
[ ]	l. Other _____ (specify)	%

5. Face Amount of Debt Obligation: $9,305,000.00

Premium/Discount: $323,960.20

6. Type of Sale:

- [✓] a. Competitive Public Sale
- [ ] b. Informal Bid
- [ ] c. Negotiated Sale
- [ ] d. Loan Program

7. Tax Status:

- [✓] a. Tax Exempt
- [ ] b. Tax Exempt - Bank Qualified
- [ ] c. Taxable

8. Dated Date: 06/22/2012

9. Issue Date (Closing Date): 06/22/2012

10. Ratings:

a. Moody's	Aa2
b. Standard & Poor's	AA-
c. Fitch	
d. Unrated	

11. Interest Cost:

2.755924 %

- [✓] a. TIC
- [ ] b. NIC
- [ ] c. Variable: Index _____ plus _____ bps
- [ ] d. Other _____

12. Recurring Costs:

a. Remarketing Agent (bps)	0
b. Liquidity (bps)	0
c. Credit Enhancements (bps)	0

CT-0253 (Rev. 12/11)

Note: This issue is part of a three series composite issue.

15. Itemized Description of the Cost of Issuance

(Round to Nearest Dollar)

		Name of Firm
a. Financial Advisor Fees*	$26,863.00	Raymond James I MK
b. Legal Fees:		
i. Bond Counsel	$24,506.00	Adams Reese
ii. Issuer's Counsel		
iii. Trustee's Counsel		
c. Paying Agent Fees and Registration Fees	$805.00	Regions Bank
d. Trustee Fees		
e. Remarking Agent Fees		
f. Liquidity Fees		
g. Rating Agency Fees	$13,253.00	Moody's / S&P
h. Credit Enhancement Fees		
i. Underwriter's Discount 1.16 %	$107,909.00	Hutchinson, Shockey, Erley & Co
i. Take Down		
ii. Management Fee		
iii. Risk Premium		
iv. Underwriter's Counsel		
v. Other Expenses		
j. Printing and Advertising Fees	$3,227.00	I-deal, theupsstore.com, RJMK
k. Issuer Fees		
l. Real Estate Fees		
m. Bank Closing Costs		
n. Other Costs	$596.00	CUSIP, FedEx, Miscellaneous
Total Costs	$177,159.00	

*If other costs are included, please itemize

Note: Enclose a copy of the DISCLOSURE DOCUMENT/ OFFICIAL STATEMENT if applicable. See Exhibit C

16. Description of Continuing Disclosure Obligations

(Use additional pages if necessary)

Individual Responsible for Completion: City Recorder/CFO

Date Annual Disclosure is due: June 30

The City will file its audit and financial information annually and notices of material events when and as described in its Continuing Disclosure Certificate attached as Appendix C to the Official Statement.

City of Kingsport, Tennessee

$9,305,000 General Obligation Public Improvement Bonds, Series 2012C

Exhibit A

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
06/22/2012	-	-	-	-	-
10/01/2012	-	-	74,906.57	74,906.57	-
04/01/2013	-	-	136,193.75	136,193.75	-
06/30/2013	-	-	-	-	211,100.32
10/01/2013	-	-	136,193.75	136,193.75	-
04/01/2014	-	-	136,193.75	136,193.75	-
06/30/2014	-	-	-	-	272,387.50
10/01/2014	-	-	136,193.75	136,193.75	-
04/01/2015	570,000.00	2.000%	136,193.75	706,193.75	-
06/30/2015	-	-	-	-	842,387.50
10/01/2015	-	-	130,493.75	130,493.75	-
04/01/2016	580,000.00	2.000%	130,493.75	710,493.75	-
06/30/2016	-	-	-	-	840,987.50
10/01/2016	-	-	124,693.75	124,693.75	-
04/01/2017	595,000.00	3.000%	124,693.75	719,693.75	-
06/30/2017	-	-	-	-	844,387.50
10/01/2017	-	-	115,768.75	115,768.75	-
04/01/2018	610,000.00	4.000%	115,768.75	725,768.75	-
06/30/2018	-	-	-	-	841,537.50
10/01/2018	-	-	103,568.75	103,568.75	-
04/01/2019	635,000.00	3.000%	103,568.75	738,568.75	-
06/30/2019	-	-	-	-	842,137.50
10/01/2019	-	-	94,043.75	94,043.75	-
04/01/2020	655,000.00	2.250%	94,043.75	749,043.75	-
06/30/2020	-	-	-	-	843,087.50
10/01/2020	-	-	86,675.00	86,675.00	-
04/01/2021	675,000.00	3.000%	86,675.00	761,675.00	-
06/30/2021	-	-	-	-	848,350.00
10/01/2021	-	-	76,550.00	76,550.00	-
04/01/2022	695,000.00	3.000%	76,550.00	771,550.00	-
06/30/2022	-	-	-	-	848,100.00
10/01/2022	-	-	66,125.00	66,125.00	-
04/01/2023	375,000.00	3.000%	66,125.00	441,125.00	-
06/30/2023	-	-	-	-	507,250.00
10/01/2023	-	-	60,500.00	60,500.00	-
04/01/2024	385,000.00	3.000%	60,500.00	445,500.00	-
06/30/2024	-	-	-	-	506,000.00
10/01/2024	-	-	54,725.00	54,725.00	-
04/01/2025	400,000.00	3.000%	54,725.00	454,725.00	-
06/30/2025	-	-	-	-	509,450.00
10/01/2025	-	-	48,725.00	48,725.00	-
04/01/2026	410,000.00	3.000%	48,725.00	458,725.00	-
06/30/2026	-	-	-	-	507,450.00
10/01/2026	-	-	42,575.00	42,575.00	-

Information contained in this presentation is provided for illustrative and discussion purposes. Not FDIC Insured.
May Lose Value. No Bank Guarantee. Not a Deposit. Not Insured By Any Government Agency.

City of Kingsport, Tennessee

$9,305,000 General Obligation Public Improvement Bonds, Series 2012C

Exhibit A

Debt Service Schedule

Date	Principal	Coupon	Interest	Total P+I	Fiscal Total
04/01/2027	420,000.00	3.000%	42,575.00	462,575.00	-
06/30/2027	-	-	-	-	505,150.00
10/01/2027	-	-	36,275.00	36,275.00	-
04/01/2028	435,000.00	3.000%	36,275.00	471,275.00	-
06/30/2028	-	-	-	-	507,550.00
10/01/2028	-	-	29,750.00	29,750.00	-
04/01/2029	445,000.00	3.000%	29,750.00	474,750.00	-
06/30/2029	-	-	-	-	504,500.00
10/01/2029	-	-	23,075.00	23,075.00	-
04/01/2030	460,000.00	3.250%	23,075.00	483,075.00	-
06/30/2030	-	-	-	-	506,150.00
10/01/2030	-	-	15,600.00	15,600.00	-
04/01/2031	470,000.00	3.250%	15,600.00	485,600.00	-
06/30/2031	-	-	-	-	501,200.00
10/01/2031	-	-	7,962.50	7,962.50	-
04/01/2032	490,000.00	3.250%	7,962.50	497,962.50	-
06/30/2032	-	-	-	-	505,925.00
Total	$9,305,000.00	-	$2,990,087.82	$12,295,087.82	-

Yield Statistics

Bond Year Dollars	$98,801.38
Average Life	10.618 Years
Average Coupon	3.0263626%
Net Interest Cost (NIC)	2.8076903%
True Interest Cost (TIC)	2.7559240%
Bond Yield for Arbitrage Purposes	2.6275156%
All Inclusive Cost (AIC)	2.8385932%

IRS Form 8038

Net Interest Cost	2.6526785%
Weighted Average Maturity	10.438 Years

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City of Kingsport, Tennessee

$9,305,000 General Obligation Public Improvement Bonds, Series 2012C

Exhibit B Page 1 of 2

GENERAL PORTION

14. Repayment Schedule

	This Issue		Total Debt Outstanding	
Year	Cum. Principal Redeemed	% Total	Cum. Principal Redeemed	% Total
1	$ -	0.00%	$ 6,201,416.00	5.65%
5	$ 1,335,000.00	21.58%	$ 32,986,367.00	30.04%
10	$ 3,830,000.00	61.92%	$ 65,159,604.00	59.35%
15	$ 4,920,000.00	79.55%	$ 97,519,604.00	88.82%
20	$ 6,185,000.00	100.00%	$ 109,795,881.00	100.00%
25				
30				

City of Kingsport, Tennessee

$9,305,000 General Obligation Public Improvement Bonds, Series 2012C

Exhibit B Page 2 of 2

WATER AND SEWER PORTION

14. Repayment Schedule

	This Issue		Total Debt Outstanding	
Year	Cum. Principal Redeemed	% Total	Cum. Principal Redeemed	% Total
1	$ -	0.00%	$ 7,238,637.00	9.22%
5	$ 410,000.00	13.14%	$ 33,843,634.00	43.11%
10	$ 1,185,000.00	37.98%	$ 52,272,866.00	66.59%
15	$ 2,085,000.00	66.83%	$ 67,736,359.00	86.29%
20	$ 3,120,000.00	100.00%	$ 78,502,005.00	100.00%
25				
30				

City of Kingsport, Tennessee

$9,305,000 General Obligation Public Improvement Bonds, Series 2012C

Exhibit C #15

The final Official Statement can be found at:
http://emma.msrb.org/EP664898-EP518289-EP919500.pdf

City of Kingsport, Tennessee

$9,305,000 General Obligation Public Improvement Bonds, Series 2012C

Exhibit D #17

Debt Management Policy

CITY OF KINGSPORT
TENNESSEE

Debt Management Policy

Formally Adopted: November 15, 2011

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CITY OF KINGSPORT
DEBT MANAGEMENT POLICY

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 (defined herein as tax-exempt or taxable bonds, capital outlay notes, other notes, capital leases, interfund loans or notes and loan agreements); 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 Debt Policy formally establishes parameters for issuing debt and managing a debt portfolio which considers the City's specific capital improvement needs; ability to repay

financial obligations; and, existing legal, economic, and financial market conditions. Specifically, 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. In determining the debt applicable to the legal debt limit, the following types of debt are excluded:

- general obligation bonds payable out of the revenues of any public utility;
- all bonds payable out of special assessment proceeds; and,
- tax anticipation bonds and notes.

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 ("Legislative Body").

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.

Capital lease obligations, capital outlay notes or other debt instruments may be used as a medium-term method of borrowing for the financing of vehicles, computers, other specialized types of equipment, or other capital improvements.

IV. PROCEDURES FOR ISSUANCE OF DEBT

1) Authority

a) The City will only issue debt by utilizing the statutory authorities provided by Tennessee Code Annotated, as supplemented and revised ("TCA") and the Internal Revenue Code (the "Code").

b) The City will adhere to any lawfully promulgated rules and regulations of the State and those promulgated under the Code.

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

2) Transparency

a) It is recognized that the issuance of debt must have various approvals, and on occasion, written reports provided by the State of Tennessee Comptroller's office, either prior to adoption of resolutions authorizing such debt, prior to issuance and/or following issuance. The City and/or its Financial Professionals (defined herein), if any, will ensure compliance with TCA, the Code and all applicable federal and State rules and regulations. Such State compliance will include, but not be limited to, 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 (including interest, issuance, continuing, and one-time), the terms and conditions of each debt issue along with a debt service schedule outlining the rate of retirement for the principal amount will be disclosed to the Legislative Body, citizens/members and other interested parties in a timely manner in the documents provided to the Legislative Body for approval, which are available for public review on request.

Additionally, the City will provide the Tennessee Comptroller's office sufficient information on the debt to not only allow for transparency regarding the issuance, but also to assure that the Comptroller's office has sufficient information to adequately report on or approve any formal action related to the sale and issuance of debt. The City will also make this information available to its Legislative Body, citizens and other interested parties.

b) The City will file its Audited Financial Statements and any Continuing Disclosure document prepared by the City or its Dissemination Agent with the MSRB through the operation of the Electronic Municipal Market Access system ("EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). To promote transparency and understanding, these documents should be furnished to members of the Legislative Body and made available electronically or by other usual and customary means to its citizens, taxpayers, rate payers, businesses, investors and other interested parties by posting such information on-line or in other prominent places.

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 Recorder, in conjunction with any professionals (including, but not limited to, financial advisors, underwriters, bond counsel, etc., individually or collectively referred to herein as "Financial Professionals") the City may choose to engage, will be responsible for maintaining relationships and communicating with one or more rating agencies.

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

1) Insurance

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

2) Letters of Credit

The City may enter into a letter-of-credit ("LOC") agreement when deemed prudent and advantageous. The City or its Financial Professionals, if any, may seek proposals from qualified banks or other qualified financial institutions pursuant to terms and conditions that are acceptable to the City.

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. The City may consider debt ratios and other benchmarks compared to its peers when analyzing its debt, including materials published by the nationally recognized credit rating agencies.

VII. DEBT STRUCTURE

The City will establish all terms and conditions relating to the issuance of debt and will invest all debt proceeds pursuant to the terms of its investment policy, if any. Unless otherwise authorized by the City, the following will serve as the general terms and conditions for determining structure:

1) **Term**

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 consideration of the ability of the City to absorb such additional debt service expense. The term of debt will be determined by, but not limited to, the economic life of the assets financed, conditions in the capital markets, the availability of adequate revenue streams to service the debt and the existing pattern of debt payable from such identifiable fund or enterprise activity, but in no event will the term of such debt exceed forty (40) years, as outlined in TCA.

2) **Capitalized Interest**

From time to time, certain financings may require the use of capitalized interest from the date of issuance until the City is able to realize beneficial use and/or occupancy of the financed project. Interest may be capitalized through a period permitted by federal law and TCA if it is determined by the Legislative Body that doing so is beneficial and is appropriately memorialized in the legislative action authorizing the sale and issuance of the debt.

3) **Debt Service Structure**

General obligation debt issuance will be planned to achieve relatively net level debt service or level principal amortization considering the City's outstanding debt obligations, while matching debt service to the useful economic life of facilities. Absent events or circumstances determined by its Legislative Body, the City will avoid the use of bullet or balloon maturities (with the exception of sinking fund requirements required by term bonds) except in those instances where such maturities serve to make existing overall debt service level or match specific income streams. Debt which is supported by project revenues and is intended to be self-supporting should be structured to achieve level proportional coverage to expected available revenues.

4) **Call Provisions**

In general, the City's debt should include a call feature no later than ten (10) years from the date of delivery of the bonds. The City will avoid the sale of long-term debt which carries longer redemption features unless a careful evaluation has been conducted by the City Recorder and/or Financial Professionals, if any, with respect to the value of the call option.

5) **Original Issuance Discount/Premium**

Debt with original issuance discount/premium will be permitted.

6) **Deep Discount Bonds**

Deep discount debt may provide a lower cost of borrowing in certain capital markets. The City Recorder and/or its Financial Professionals, if any, should carefully consider their value and effect on any future refinancing as a result of the lower-than-market coupon.

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.

1) **Security Structure**

a) **General Obligation Bonds**

The City may issue debt supported by its full faith, credit and unlimited ad valorem taxing power ("General Obligation Debt"). General Obligation Debt will be used to finance capital projects that do not have significant independent creditworthiness or significant on-going revenue streams or as additional credit support for revenue-supported debt, if such support improves the economics of the debt and is used in accordance with these guidelines.

b) **Revenue Debt**

The City may issue debt supported exclusively with revenues generated by a project or enterprise fund ("Revenue Debt"), where repayment of the debt service obligations on such Revenue Debt will be made through revenues generated from specifically designated sources. Typically, Revenue Debt will be issued for capital projects which can be supported from project or enterprise-related revenues.

c) **Capital Leases**

The City may use capital leases to finance projects assuming the City Recorder and/or Financial Professionals, if any, determine that such an instrument is economically feasible.

2) **Duration**

a) **Long-Term Debt**

The City may issue long-term debt when it is deemed that capital improvements should not be financed from current revenues or short-term borrowings. Long-term debt will not be used to finance current operations or normal maintenance. Long-term debt will be structured such that financial obligations do not exceed the expected useful economic life of the project(s) financed.

i. *Serial and Term Debt.* Serial and Term Debt may be issued in either fixed or variable rate modes to finance capital infrastructure projects;

ii. *Capital Outlay Notes ("CONs").* CONs may be issued for up to twelve (12) years to finance capital infrastructure projects; or

iii. *Capitalized Leases.* Capitalized Leases may be issued to finance infrastructure projects or equipment with an expected life not greater than the term of the lease.

b) Short-Term Debt

Short-term borrowing may be utilized for:

i. Financing short economic life assets;

ii. The construction period of long-term projects;

iii. Interim financing; or

iv. Temporary funding of operational cash flow deficits or anticipated revenues;

Subject to the following policies:

1. *Bond Anticipation Notes ("BANs") BANs,* including commercial paper notes issued as BANs, may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs will not mature more than 2 years from the date of issuance. BANs can be rolled in accordance with federal and state law. BANs will mature within 6 months after substantial completion of the financed facility.

2. *Revenue Anticipation Notes ("RANs") and Tax Anticipation Notes ("TANs").* RANs and TANS will be issued only to meet cash flow needs consistent with a finding by bond counsel that the sizing of the issue fully conforms to federal IRS and state requirements and limitations.

3. *Lines of Credit.* Lines of Credit will be considered as an alternative to other short-term borrowing options. A line of credit will only be structured to federal and state requirements.

4. *Interfund Loans.* Interfund Loans will only be used to fund operational deficiencies among accounts or for capital projects to be paid from current fiscal year revenues. Such interfund loans will be

approved by the State Comptroller's office and will only be issued in compliance with state regulations and limitations.

5. *Other Short-Term Debt.* Other Short-Term Debt including commercial paper notes, BANs, Capitalized Leases and CONs, may be used when it provides an interest rate advantage or as interim financing until market conditions are more favorable to issue debt in a fixed or variable rate mode. The City will determine and utilize the most advantageous method for short-term borrowing. The City may issue short-term debt when there is a defined repayment source or amortization of principal.

3) **Interest Rate Modes**

a) **Fixed Rate Debt**

To maintain a predictable debt service schedule, the City may give preference to debt that carries a fixed interest rate.

b) **Variable Rate Debt**

The targeted percentage of net variable rate debt outstanding (excluding (1) debt which has been converted to synthetic fixed rate debt and (2) an amount of debt considered to be naturally hedged to short-term assets in the Unreserved General and/or Debt Service Fund Balance) will not exceed twenty-five percent (25%) of the City's total outstanding debt and will take into consideration the amount and investment strategy of the City's operating cash.

The following circumstances may result in the consideration of issuing variable rate debt:

i. *Asset-Liability Matching;*

ii. *Construction Period Funding;*

iii. *High Fixed Interest Rates.* Interest rates are above historic averages;

iv. *Diversification of Debt Portfolio;*

v. *Variable Revenue Stream.* The revenue stream for repayment is variable and is anticipated to move in the same direction as market-generated variable interest rates or the dedication of revenues allows capacity for variability; and

vi. *Adequate Safeguard Against Risk.* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts

such structures could include, but are not limited to, interest rate caps and short-term cash investments in the City's General Fund.

An analysis by the City Recorder and/or its Financial Professionals, if any, will be conducted to evaluate and quantify the risks and returns associated with the variable rate debt including, but not limited to, a recommendation regarding the use of variable rate debt.

4) **Zero Coupon Debt**

Zero Coupon Debt may be used if an analysis has been conducted by the City Recorder and/or Financial Professionals, if any, of the risks and returns associated with the Zero Coupon Debt. The analysis will include, but not be limited to, a recommendation regarding the use of Zero Coupon Debt as the most feasible instrument considering available revenues streams, the need for the project and other factors determined by the Legislative Body.

5) **Synthetic Debt**

The City will not enter into any new interest rate swaps or other derivative instruments unless it adopts a Debt Derivative Policy consistent with the requirements of TCA and only after approval of the State Comptroller's office and affirmative action of the Legislative Body. To the extent the City has any current existing interest rate swaps or other derivative instruments, the City will monitor these agreements and any amendments consistent with the compliance report issued by the State Comptroller's Office at the time the agreements were previously authorized.

IX. REFINANCING OUTSTANDING DEBT

The City Recorder, in conjunction with the Finance Professionals, if any, will have the responsibility to analyze outstanding debt for refunding opportunities. The City Recorder will consider the following issues when analyzing possible refunding opportunities:

1) **Debt Service Savings**

Absent other compelling considerations such as the opportunity to eliminate onerous or restrictive covenants contained in existing debt documents, the City has established a minimum net present value savings threshold of at least three percent (3%) of the refunded debt principal amount. Refunding opportunities may be considered by the City using any savings threshold if the refunding generates positive net present value savings. The decision to take less than three percent (3%) net present value savings or to take the savings in any matter other than a traditional year-to-year level savings pattern must be approved by the Legislative Body.

2) **Restructuring for economic purposes**

The City may also refund debt when it is in its financial interest to do so. Such a refunding will be limited to restructuring to meet unanticipated revenue expectations, achieve cost savings, mitigate irregular debt service payments, release reserve funds, remove unduly restrictive bond covenants or any other reason approved by the Legislative Body in its discretion.

3) **Term of Refunding Issues**

Normally, the City will refund debt equal to or within its existing term. However, the City Recorder may consider maturity extension, when necessary to achieve desired outcomes, provided that such extension is legally permissible and it is approved by the Legislative Body. The City Recorder may also consider shortening the term of the originally issued debt to realize greater savings. The remaining useful economic life of the financed facility and the concept of inter-generational equity should guide these decisions.

4) **Escrow Structuring**

The City will utilize the least costly securities available in structuring refunding escrows. In the case of open market securities, a certificate will be provided by a third party agent, who is not a broker-dealer stating that the securities were procured through an arms-length, competitive bid process, that such securities were more cost effective than State and Local Government Obligations (SLGS), and that the price paid for the securities was reasonable within Federal guidelines. In cases where taxable debt is involved, the City Recorder, with the approval of bond counsel, may make a direct purchase as long as such purchase is the most efficient and least costly. Under no circumstances will an underwriter, agent or the Professional Advisors sell escrow securities involving tax-exempt debt to the City from its own account.

5) **Arbitrage**

The City will take all necessary steps to optimize escrows and to avoid negative arbitrage in its refunding. Any positive arbitrage will be rebated as necessary according to Federal guidelines.

X. METHODS OF ISSUANCE

The City Recorder may consult with a Finance Professional regarding the method of sale of debt. Subject to approval by the Legislative Body, the City Recorder will determine the method of issuance of debt on a case-by-case basis consistent with the options provided by prevailing State law.

1) **Competitive Sale**

In a competitive sale, the City's debt will be offered in a public sale to any and all eligible bidders. Unless bids are rejected, the debt will be awarded to the bidder providing the lowest true interest cost as long as the bid adheres to the requirements set forth in the official notice of sale.

2) **Negotiated Sale**

The City recognizes that some securities are best sold through a negotiated sale with an underwriter or group of underwriters. The City will assess the following circumstances in determining whether a negotiated sale is the best method of sale:

a) State requirements on negotiated sales;

b) Debt structure which may require a strong pre-marketing effort such as those associated with a complex transaction generally referred to as a "story" bond;

c) Size or structure of the issue which may limit the number of potential bidders;

d) Market conditions including volatility, wherein the City would be better served by the flexibility afforded by careful timing and marketing such as is the case for debt issued to refinance or refund existing debt;

e) Whether the debt is to be issued as variable rate obligations or perhaps as Zero Coupon Debt;

f) Whether an idea or financing structure is a proprietary product of a single firm;

g) In a publicly offered, negotiated sale, the Financial Advisor, if any, will not be permitted to resign as the Financial Advisor in order to underwrite an issue for which they are or have been providing advisory services; and

h) If there is no Financial Advisor, then the Underwriter in a publicly offered, negotiated sale will be required to provide pricing information both as to interest rates and to takedown per maturity to the Legislative Body (or its designated official) in advance of the pricing of the debt.

3) **Private Placement**

From time to time, the City may elect to privately place its debt. Such placement will only be considered if this method is demonstrated to be advantageous to the City.

XI. PROFESSIONALS

1) Financial Professionals

As needed, the City may select Financial Professionals to assist in its debt issuance and administration processes. Selection of the Financial Professionals will be based on, but not limited to, the following criteria:

a) Relevant experience with municipal government issuers and the public sector;

b) Indication that the firm has a broadly based background and is therefore capable of balancing the City's overall needs for continuity and innovation in capital planning and debt financing;

c) Experience and demonstrated success as indicated by its experience;

d) The firm's professional reputation;

e) Professional qualifications and experience of principal employees; and

f) Consideration should be given to the estimated costs, but price should not be the sole determining factor.

2) Miscellaneous

a) Written Agreements

i. Any Financial Professionals engaged by the City will enter into written agreements including, but not limited to, a description of services provided and fees and expenses to be charged for the engagement.

ii. The City will enter into an engagement letter agreement with each lawyer or law firm representing the City in a debt transaction. (No engagement letter is required for any lawyer who is an employee of the City or lawyer or law firm which is under a general appointment or contract to serve as counsel to the City. The City does not need an engagement letter with counsel not representing the City, such as Underwriters' counsel.)

iii. The City will require all Financial 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.

iv. Financial Advisor: If the City chooses to hire financial advisors, the City will 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 will 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.

v. Underwriter: If there is an Underwriter, the City will 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 will be required to provide pricing information both as to interest rates and to takedown per maturity to the Legislative Body in advance of the pricing of the debt.

b) Conflict of Interest

i. Financial Professionals involved in a debt transaction hired or compensated by the City will 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 advisors, swap advisors, bond counsel, swap counsel, trustee, paying agent, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure will include that information reasonably sufficient to allow the City to appreciate the significance of the relationships.

ii. Financial 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.

XII. COMPLIANCE

1) <u>Continuing Annual Disclosure</u>

Normally at the time debt is delivered, the City will execute a Continuing Disclosure Certificate in which it will covenant for the benefit of holders and beneficial owners of the publically traded debt to provide certain financial information relating to the City by not later than twelve months after each of the City's fiscal years, (the "Annual Report) and provide notice of the occurrence of certain enumerated events. The Annual Report (and audited financial statements, if filed separately) will be filed with the MSRB through the operation of the Electronic Municipal Market Access system ("EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the City is unable to provide the Annual Report to the

MSRB and any SID by the date required, notice of each failure will be sent to the MSRB and the SID on or before such date. The notices of certain enumerated events will be filed by the City with the MSRB and any SID. The specific nature of the information to be contained in the Annual Report or the notices of significant events is provided in Continuing Disclosure Certificate. These covenants are made in order to assist the Underwriter in complying with SEC Rule 15c2-12(b) (the "Rule").

2) **Arbitrage Rebate**

The City will also maintain a system of record keeping and reporting which complies with the arbitrage rebate compliance requirements of the Code.

3) **Records**

The City will also maintain records required by the Code including, but not limited to, all records related to the issuance of the debt including detailed receipts and expenditures for a period up to 6 years following the final maturity date of the debt.

XIII. DEBT POLICY REVIEW

1) **General Guidance**

The guidelines outlined herein are intended to provide general direction regarding the future issuance of debt. The City maintains the right to modify this Debt Policy and may make exceptions to any of its guidelines at any time to the extent that the execution of such debt achieves the goals of the City, as long as such exceptions or changes are consistent with TCA and any rules and regulations promulgated by the State.

This Debt Policy should be reviewed from time to time as circumstances, rules and regulations warrant.

2) **Designated Official**

The City Recorder is responsible for ensuring substantial compliance with this Debt Policy.