

**RESOLUTION**

A RESOLUTION TO ADOPT A DEBT MANAGEMENT POLICY AS REQUIRED BY THE TENNESSEE STATE FUNDING BOARD.

WHEREAS, Tennessee Code Annotated §9-21-151(b)(1) authorizes the State Funding Board to develop model financial transaction policies for local governments; and

WHEREAS, the State Funding Board has adopted a statement on debt management and directed local governments and government entities that borrow money to draft their own debt management policies with certain mandatory provisions; and

WHEREAS, City Staff proposes a debt management policy that includes the mandatory provisions relative to transparency, professionals, and conflicts; and

WHEREAS, the City Manager recommends adoption of the Debt Management Policy.

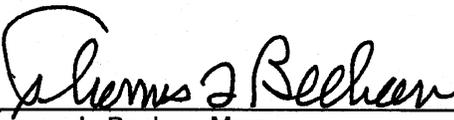
NOW, THEREFORE, BE IT RESOLVED BY THE COUNCIL OF THE CITY OF OAK RIDGE, TENNESSEE:

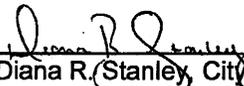
That the recommendation of the City Manager is approved and the attached Debt Management Policy is hereby adopted in accordance with the directives of the State Funding Board.

This the 14th day of November 2011.

APPROVED AS TO FORM AND LEGALITY:

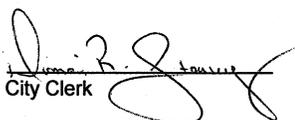
  
\_\_\_\_\_  
Kenneth R. Krushenski, City Attorney

  
\_\_\_\_\_  
Thomas L. Beehan, Mayor

  
\_\_\_\_\_  
Diana R. Stanley, City Clerk

I, Diana R. Stanley, duly appointed City Clerk of the City of Oak Ridge, Tennessee, certify this document to be a true, correct, and complete copy of Resolution No. 11-107-11 as adopted by the Oak Ridge City Council on November 14, 2011.

This the 29th day of August 2012.

  
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City Clerk

# **City of Oak Ridge, Tennessee Debt Management Policy**

## **Introduction**

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 Oak Ridge, Tennessee (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, ratepayers, businesses, 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

## **Definition of Debt**

All obligations of the City to repay, with or without interest, in installments and/or at a later date, some amount of money utilized for the purchase, construction, or operation of City resources. This includes but is not limited to tax-exempt or taxable bonds, capital outlay notes, other notes, capital leases, and loans of any type whether from an outside source such as a bank or from another internal fund.

## **Goals and Objectives**

Debt policies and procedures are tools that ensure that 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 that 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 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, and
- To evaluate debt issuance options.

### **Authority and Approval**

- 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").
- The City will adhere to any lawfully promulgated rules and regulations of the State and those promulgated under the Code. Bond anticipation notes, capital outlay notes, grant anticipation notes, and tax and revenue anticipation notes will be submitted to the State of Tennessee Comptroller's Office and the City Council prior to issuance or entering into the obligation. A plan for refunding debt issues will also be submitted to the Comptroller's Office prior to issuance. Capital or operating leases may be entered into by the City; with details on the lease agreement to be forwarded to the Comptroller's Office as may be required.
- All debt will be formally authorized by resolution of the City Council as may be required by law.

### **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 principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the City Council, citizens, and other stakeholders in a timely manner.
- The terms and life of each debt issue shall be clearly presented and disclosed to the City Council, citizens, and other stakeholders in a timely manner.
- A debt service schedule outlining the rate of retirement for the principal amount shall be clearly presented and disclosed to the City Council, citizens, and other stakeholders in a timely manner.
- The issuance of debt has 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 shall

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

- The City will file its Comprehensive Annual Financial Report and any Continuing Disclosure document prepared by the City or its Dissemination Agent as may be required, and shall make available the same to all interested parties.

### **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. City Management in conjunction with any professionals that the City may chose 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 shall an enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

- Insurance – The City may 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.
- Letters of Credit – The City may enter into a letter-of-credit (“LOC”) agreement when such an agreement is deemed prudent and advantageous. The City or its 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.

### **Affordability**

The City shall 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. The City's total outstanding debt obligation will be monitored and reported to the City Council on an annual basis through various schedules included in both the Comprehensive Annual Financial Report and Annual Budget. City Management shall monitor the maturities, terms, and conditions of all obligations to ensure compliance. City Management shall also report to the City Council any matter that adversely affects the credit or financial integrity of the City.

## Debt Structure

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

### 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 shall 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.

Short-term debt may be used for certain projects and equipment financing as well as for operational borrowing; however, the City will minimize the use of short-term cash flow borrowings by maintaining adequate working capital and close budget management. Debt issued for operating expenses must be repaid within the same fiscal year of issuance or incurrence.

### 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 law.

### Debt Service Structure

General Obligation debt issuance shall 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 City Council, the City shall 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.

### 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 City Management and/or professionals, if any, with respect to the value of the call option.

### Original Issuance Discount/Premium

Debt with original issuance discount/premium will be permitted.

### Deep Discount Bonds

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

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

When the City determines that debt is appropriate, consideration of the security structure, duration, interest rate modes, zero coupon debt, and synthetic debt will be utilized to evaluate the type of debt to be issued.

#### Security Structure

- 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 shall 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.
- 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.
- Capital Leases – The City may use capital leases to finance projects assuming City Management and/or professionals, if any, determine that such an instrument is economically feasible.

#### Duration

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

2. *Capital Outlay Notes (“CONs”)*. CONs may be issued to finance capital infrastructure projects with an expected life up to twelve years.
  3. *Capitalized Leases*. Capitalized Leases may be issued to finance infrastructure projects or equipment with a capitalized lease life not greater than the expected useful life of the projects or equipment.
- Short-Term Debt – Short-term borrowing may be utilized for:
    1. Financing short economic life assets;
    2. The construction period of long-term projects;
    3. For interim financing; or
    4. For the temporary funding of operational cash flow deficits or anticipated revenues subject to the following policies:
      - *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 shall not mature more than 2 years from the date of issuance. BANs can be rolled in accordance with federal and state law. BANs shall mature within 6 months after substantial completion of the financed facility.
      - *Revenue Anticipation Notes (“RANs”) and Tax Anticipation Notes (“TANs”)*. RANs and TANS shall 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.
      - *Lines of Credit*. Lines of Credit shall be considered as an alternative to other short-term borrowing options. A line of credit shall only be structured to federal and state requirements.
      - *Interfund Loans*. Interfund Loans shall only be used to fund operational deficiencies among accounts or for capital projects to be paid from current fiscal year revenues. Such interfund loans shall comply with state regulations and limitations.
      - *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.

### Interest Rate Modes

Debt will be issued with either a fixed, variable, or zero interest-bearing rate.

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

- Variable Rate Debt – The targeted percentage of net variable rate debt outstanding shall not normally exceed 35% of the City's total outstanding debt and will take into consideration the amount and investment strategy of the City's operating cash.

An analysis by City Management and/or professionals, if any, shall 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. The City Council will be informed of any terms, conditions, fees, or other costs associated with the prepayment of variable rate debt obligations prior to entering into any variable debt obligation. Prior to entering into any variable rate debt obligation that is backed by insurance and secured by a liquidity provider or by a letter of credit provider, the City Council shall also be informed of the potential effect on rates as well as any additional costs that might be incurred should either the insurance or letter of credit fail, respectively. The City will annually include in its budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration

Bonds backed with a general obligations pledge often have lower interest rates than revenue bonds. The City may use its General Obligation pledge with revenue bond issues when the populations served by the revenue bond projects overlap or significantly are the same as the property tax base of the City. The City Council and management are committed to maintaining rates and fee structures of revenue supported debt at levels that will not require a subsidy from the City's General Fund.

#### Zero Coupon Debt

Zero Coupon Debt may be used if an analysis has been conducted by City Management and/or professionals, if any, and the risks and returns associated with the Zero Coupon Debt have been made. The analysis shall 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 City Council

#### 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 City Council.

#### Costs of Debt

- All costs associated with the initial issuance or incurrence of debt, management and repayment of debt (including interest, principal, and fees or charges) shall be disclosed prior to action by the City Council in accordance with the notice requirements stated above.

- In cases of variable interest or non-specified costs, detailed explanation of the assumptions shall be provided along with the complete estimate of total costs anticipated to be incurred as part of the debt issue.
- Costs related to the repayment of debt, including liabilities for future years, shall be provided in context of the annual budgets from which such payments will be funded (i.e. General Obligations bonds in context of the General Fund, Revenue bonds in context of the dedicated revenue stream and related expenditures, loans and notes).

### **Refinancing Outstanding Debt**

City Management, in conjunction with professionals, if any, shall have the responsibility to analyze outstanding debt for refunding opportunities. The decision to refinance must be explicitly approved by City Council, and all plans for current or advance refunding of debt must be in compliance with state laws and regulations. City Management will consider onerous restrictions, restructuring for economic purposes, term, escrow saving, and arbitrage when analyzing possible refunding opportunities.

- Onerous Restrictions – Debt may be refinanced to eliminate onerous or restrictive covenants or restrictions contained in existing debt documents.
- Restructuring for Economic Purposes – The City may also refund debt when it is in its best 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, or any other reason approved by City Council in its discretion.
- Term of Refunding Issues – Normally, the City will refund debt equal to or within its existing term. However, City Management may consider maturity extension, when necessary to achieve desired outcomes, provided that such extension is legally permissible and it is approved by the City Council. City Management 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.
- Escrow Structuring – The City shall utilize the least costly securities available in structuring refunding escrows.
- Arbitrage – The City shall consult with persons familiar with the arbitrage rules to determine applicability, legal responsibility, and potential consequences associated with any refunding. The City shall 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.

### **Methods of Issuance**

City Management may consult with a professional regarding the method of sale of debt. Subject to approval by City Council, City Management will determine the method of issuance of debt on a case-by-case basis consistent with the options provided by prevailing State law.

### 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 shall 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.

In a competitive sale, a financial advisor shall not be permitted to bid on an issue for which they are, or have been providing, advisory services for the issuance, unless otherwise authorized by applicable law and regulation.

### Negotiated Sale

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

- State requirements on negotiated sales;
- 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;
- Size or structure of the issue which may limit the number of potential bidders;
- 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;
- Whether the debt is to be issued as variable rate obligations or perhaps as Zero Coupon Debt;
- Whether an idea or financing structure is a proprietary product of a single firm;
- In a publicly offered or privately placed, negotiated sale, a financial advisor, if any, shall not be permitted to privately place or underwrite an issue for which they are, or have been providing, advisory services for the issuance; and
- If there is an underwriter, the City shall require the underwriter to clearly identify itself in writing (e.g., in a response for 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 City in advance of the pricing of the debt.

### Private Placement

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

## **Professional Services**

As needed, the City may select professionals to assist in its debt issuance and administration processes. In selecting professionals, consideration should be given with respect to:

- Relevant experience with municipal government issuers and the public sector;
- 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;
- Experience and demonstrated success as indicated by its experience;
- The firm's professional reputation;
- Professional qualifications and experience of principal employees; and
- The estimated costs, but price should not be the sole determining factor.

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.

- Counsel: The City shall 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.
- Financial Advisor: The City shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions.

## **Conflicts**

- 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, liquidity or credit enhancement provider, 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.
- 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.

## **Compliance**

### **Continuing Annual Disclosure**

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 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 any SID on or before such date. The notices of certain enumerated events will be filed by the City with the MSRB through EMMA 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 each Continuing Disclosure Certificate. These covenants are made in order to assist underwriters in complying with SEC Rule 15c2-12(b) (the "Rule").

### **Arbitrage Rebate**

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

### **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 or as required by the Code.

### **Debt Policy Review**

The guidelines outlined herein are only intended to provide general guidance regarding procedures for 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.

The City Manager or his designee is responsible for ensuring substantial compliance with this Debt Policy.

References: TCA 9-21-151

## GLOSSARY

**Advisor** means an individual or firm with a deep knowledge in a specific area, engaged in the business of advising others. It can include a Financial, Swap, or Program Administrator.

**Arbitrage** is the profit made from investing inherently lower yielding tax-exempt debt proceeds in higher yielding taxable investments.

**Arbitrage Rebate** is a payment made by an issuer to the federal government in connection with an issue of tax-exempt bonds. The payment represents the amount, if any, of arbitrage earnings on bond proceeds and certain other related funds, except for earnings that are not required to be rebated under limited exemptions provided under the Internal Revenue Code.

**Backloading** refers to delaying repayment of principal until the end of the financing term. A standard or default structure for debt service is level debt service payments, similar to a standard home mortgage. Backloading should be considered only when beneficial to the overall amortization of debt, upon the occurrence of natural disasters, or when project revenues are not available during the early years of a project.

**Call Feature** (or Call Provision) of a bond grants the issuer the right to retire the debt, fully or partially, before the scheduled maturity date. Inclusion of a call feature benefits bond issuers by allowing them to replace an old bond issue with a lower-interest cost issue if interest rates in the market fall.

**Capital** has several meanings and it is used in many business contexts. In general, capital is accumulated assets or ownership. More specifically: capital is the amount of cash and other assets owned by a business and can include accounts receivable, equipment, and land/buildings of the business; capital can represent the accumulated wealth of a business, represented by its assets less liabilities; and capital can also mean stock or ownership in a company.

**Capitalized Interest** is the interest used to finance the construction of a long-term asset that an entity builds for itself (such as a building). This interest is added to the cost of the long-term asset, so that the interest is not recognized in the current period as interest expense. Instead it is a fixed asset, and is included in the depreciation of the long-term asset, and therefore appears on the income statement as depreciation expense, rather than interest expense.

**Conduit Entity** means a governmental entity or agency that borrows money to lend to another entity, and not to finance a project for itself. Examples of conduit issuers are health and education boards, economic development boards, and public building authorities.

**Conflicts of Interest** occur in situations where parties in a transaction have multiple interests or relationships that could possibly corrupt the motivation to act. The presence of a conflict of interest indicates the potential for divided loyalty and does not automatically indicate wrong doing.

**Issuance Costs** fees and expenses of professionals and service providers and other similar fees and expenses, whether or not payable at the time the debt is incurred. “Costs” also means recurring and nonrecurring fees and expenses during the life of the debt.

**Counsel** means a legal advisor or attorney, whether an individual or a firm, representing a client. It can include Bond, Disclosure, Issuer, Swap, Tax, or Underwriters Counsel.

**Counterparty** means the other party or participant in an agreement or contract; usually it refers to the other party in an Interest Rate (or swap) Agreement.

**Debt** means indebtedness lawfully issued, executed or assumed by a public entity. Debt is created when a public entity agrees to pay over time to someone else, in exchange for receiving an upfront payment or loan or for acquiring an asset. “Security” refers both to debt that can be transferred or delivered to another party, as well to property or assets pledged as collateral for a debt. Common instruments or evidence of debt are:

- **Bonds** - debt instruments issued for a period of one year or longer, usually for permanent financing.
- **Notes** - debt instruments issued for a short period of time, often for interim financing. Notes may be rolled to bonds. Examples are Capital Outlay Notes, Tax and Revenue Anticipation Notes, Bond Anticipation Notes, and Grant Anticipation Notes.
- **Capital leases** (or a lease purchase) - written agreements allowing the use of property in exchange for payment of funds.
- **Loans** - debt agreements usually with a financial institution such as a local bank or an organized loan program such as the Tennessee Municipal Bond Fund or the State Revolving Loan Program. Loans are also internal loans between funds within the entity or seller financed loans.

**Debt Service** means a series of payments including interest (the amount or fee earned or paid for use of money or credit, calculated on the amount of principal) and principal (the amount of money borrowed or credit provided) required on a debt over time. The rate of interest can be variable or fixed.

**Derivative (Financial)** is a contract between two parties that specifies conditions—in particular, dates and the resulting values of the underlying variables—under which payments, or payoffs, are to be made between the parties

**Engagement Letter** is a written agreement to perform services in exchange for compensation and are traditionally used by certain professional service firms, particularly in the fields of finance, accounting, law and consulting to define the specifics of the business relationship. Engagement letters are signed by the consenting parties and serve the same purpose as a traditional contract.

**Federal Compliance Issues** means the ongoing responsibilities of a public entity after issuing debt. If the debt is sold as being “federally tax-exempt,” then the entity will have to comply with federal tax law. If the debt is a “security” for federal securities laws, then the public entity is subject to anti-fraud provisions and possibly is subject to continuing disclosure obligations.

**Finance Transactions** mean both debt obligations and derivatives. A derivative is a financial product deriving value from a separate security. This term refers to many different products. "Derivative" includes an Interest Rate Agreement as defined in Tennessee Code Annotated Section 9-22-103 and other transactions as identified by the State Funding Board.

**Governing Body** means the group of individuals with the authority to make decisions for a public entity, often referred to as the "legislative body." Governing bodies are subject to the Tennessee Open Meetings Law (requiring public notice and recording of minutes). Members are the individuals serving on the governing body.

**Guidelines** means the document adopted by the Tennessee State Funding Board providing statutorily required guidance on Interest Rate and Forward Purchase Agreements. The current version became effective November 1, 2009. The Guidelines are available on the internet at <http://tn.gov/comptroller/lf/pdf/SFB%20Guidelines%2010-9%20Final.pdf>

**Hedge** is an investment position intended to offset potential losses that may be incurred by a companion investment. A hedge can be constructed from many types of financial instruments, including stocks, ETFs, insurance, forward contracts, swaps, options, many types of over-the-counter and derivative products, and futures contracts.

**Interest Rate Swaps** is a financial derivative instrument in which two parties agree to exchange interest rate cash flows, based on a specified notional amount from a fixed rate to a floating rate (or vice versa) or from one floating rate to another. Interest rate swaps are commonly used for hedging.

**Interfund Loan** is, most simply, a borrowing between city funds, with or without an interest component. One fund swaps cash with another fund for some specified purpose, such as capital, operating or cash flow. The fund that received the cash repays it over time.

**Lender** means an individual or firm who loans a borrower money.

**Letter of Credit** is a binding document that a buyer can request from his bank in order to guarantee that the payment for goods will be transferred to the seller. Basically, a letter of credit gives the seller reassurance that he will receive the payment.

**Line of Credit** is an arrangement between a financial institution, usually a bank, and a customer that establishes a maximum loan balance that the bank will permit the borrower to maintain. The borrower can draw down on the line of credit at any time, as long as he or she does not exceed the maximum set in the agreement.

**Liquidity Provider** is an underwriter or a market maker that is a sizable holder of a given security or that facilitates the trading of the security. Core liquidity providers ideally bring greater price stability and distribute securities to both retail and institutional investors

**Maturity** in the financial realm is a date at which a financial agreement comes to a close. For example, debt maturity is the date on which a liability becomes due for payment.

**Open Market Securities** are debt securities that are traded in the bond secondary markets.

**Paying Agent** means an individual or firm that transfers the periodic interest and principal payments from the public entity to the investors.

**Private Placement** is the sale of securities to a relatively small number of select investors as a way of raising capital. Investors involved in private placements are usually large banks, mutual funds, insurance companies and pension funds. Private placement is the opposite of a public issue, in which securities are made available for sale on the open market.

**Professionals** means individuals or firms advising or offering to provide professional services to a public entity with respect to a finance transaction. Examples of professionals are:

**Public Entity** is a governmental organization or unit that has a legal existence and is authorized to borrow money or enter into debt. It includes the State, state agencies, local governments, local government instrumentalities, and any other authority, board, district, instrumentality, or entity created by the State, a state agency, local government, a local government instrumentality, or any combination of the above. It does not include legal entities without debt authority, such as a county school board; however, a special school district with debt authority is included.

**Refinancing** (or Refunding) is paying off an existing loan with the proceeds from a new loan, usually of the same size, and using the same property as collateral.

**Registrar** means the individual or firm responsible for maintaining a record or list of owners or investors in debt (sometimes referred to as holders of the debt).

**Remarketing Agent** means the firm responsible for reselling to new investors debt instruments that have been "tendered" for purchase by their holders. The remarketing agent is also usually responsible for resetting the interest rate for variable rate debt instruments.

**Risk** refers to the uncertainty (downside) involved in a debt transaction, including investment, business, credit, market, liquidity, operations, tax, and basis risks.

**Schedule** means the plan listing the amount and when debt service will be paid.

**Serial Debt** bonds have a series of maturity dates rather than a single maturity date.

**State Agency Loan Program** refers to programs offered by the state or state agencies, such as the State Revolving Loan Program offered by the Tennessee Local Development Authority or the Qualified School Construction Bond program offered by the Tennessee State School Bond Authority.

**State Funding Board** means the state entity whose members are the Governor, the Commissioner of Finance and Administration, the Comptroller, the State Treasurer, and the Secretary of State. The State Funding Board is created by Tennessee Code Annotated Section 9-9-101.

**Takedown** refers to how the bonds are retired over time.

**Term Debt** is a debt that is paid in one lump sum upon maturity.

**Underwriter** means the firm that buys new debt for reselling to the public for a profit. The underwriter may acquire the debt either through negotiation or by award on the basis of competitive bidding.

**Verification Agent** usually means a certified public accountant or other independent third party that determines that the cash flow from investments purchased with proceeds of a refunding debt issue, along with other money, will be sufficient to pay the refunded bonds.

**Zero Coupon Bond** (also called a discount bond or deep discount bond) is a bond bought at a price lower than its face value, with the face value repaid at the time of maturity. It does not make periodic interest payments, or have so-called "coupons," hence the term zero-coupon bond. When the bond reaches maturity, its investor receives its par (or face) value. Examples of zero-coupon bonds include U.S. Treasury bills and U.S. savings bonds.