RESOLUTION 20-31

A RESOLUTION TO ESTABLISH A DEBT AND FINANCIAL POLICY STATEMENT FOR THE CITY OF SPRING HILL

WHEREAS, the State of Tennessee, Comptroller of the Treasury requires that all Cities adopt a Debt Policy; and

WHEREAS, the City of Spring Hill, Board of Mayor and Aldermen previously adopted a Debt Policy via Resolution 11-121 to establish parameters by which debt obligations will be undertaken by the City; and

WHEREAS, the City of Spring Hill, Board of Mayor and Aldermen desire to amend the previously adopted policy to improve the decision making in planning, issuing, and managing debt obligations by providing clear direction as to the steps, substance, and outcomes desired, and greater stability over the long-term by use of consistent guidelines; and

WHEREAS, the City of Spring Hill, Board of Mayor and Aldermen has contracted with Cumberland Securities Company, Inc. for Financial Advisory Services to assist with the amendment of this policy; and

WHEREAS, the Budget and Finance Advisory Committee, Cumberland Securities Company Inc., and City Staff recommends the Amended Debt and Financial Policy Statement; and

NOW, THEREFORE BE IT RESOLVED, that the City of Spring Hill Board of Mayor and Aldermen hereby approves the Amended Debt and Financial Policy Statement, as it is attached and part of this Resolution herein.

Passed and adopted this 20th day of July, 2020.

Rick Graham, Mayor

ATTEST:

April Goad

April Goad, City Recorder

LEGAL FORM APPROVED:

Patrick Carter

Patrick Carter, City Attorney

City of
SPRING HILL
TENNESSEE
est. 1809

CITY OF SPRING HILL, TN

DEBT & FINANCIAL POLICY STATEMENTS

January 2011

Submitted:

Approved:

Amended via Resolution 20-31, July 20, 2020

Contents

Overview

The following financial policies adopted by Resolution 11-121 of the Board of Mayor and Aldermen ("BOMA") of Spring Hill, Tennessee on November 21, 2011(the "Resolution"), and later amended by Resolution 20-31 on July 20, 2020. ("Debt & Financial Policy Statements") establish the framework for the City of Spring Hill, Tennessee's (the "City") overall fiscal planning and management.

The financial policies set forth guidelines against which current budgetary performance can be measured and proposals for future programs can be evaluated. These publicly adopted financial policies are also intended to demonstrate to residents, the credit rating industry, municipal bond investors, auditors and the State Comptroller the City's commitment to sound financial management and fiscal integrity.

The financial policies also improve the City's fiscal stability by assisting City officials plan fiscal strategy with a consistent approach. Adherence to adopted financial policies promotes sound financial management, which can improve bond ratings, lower the cost of capital, manage interest rate risk exposure, and preserve financial flexibility. It is presumed that these policies are consistent with all laws and regulations, but such laws and regulations shall control in the event of a conflict or discrepancy.

1. The City will adopt and maintain these Financial Policy Statements to guide its decision making in the areas of budget, fund balance, capital improvement planning, debt management, investments and cash management. These financial policies can provide guidance during the preparation and deliberation of the City's annual budget and other policy decisions that impact the City's financial condition. The Financial Policy Statements will be reviewed annually during preparation of the budget.
2. The City will maintain a system of financial monitoring, control and reporting for all operations and funds held on behalf of the City.
3. The City will strive to synchronize its annual budget, capital improvement plan, BOMA-established goals and planning studies in a comprehensive manner reflected in the published budget, annual capital improvement plan and annual comprehensive financial report.
4. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health.
5. The City's accounting and financial reporting systems will be maintained in conformance with all federal and state laws, generally accepted accounting principles (GAAP) and standards of the Government Accounting Standards Boards (GASB) and Government Finance Officers Association (GFOA).
6. An annual audit will be performed by an independent public accounting firm.
7. The independent auditor will present the Comprehensive Annual Financial Report (CAFR) and discuss audit findings at a public meeting.

Operating Budget Policies

General

The City will use a long-term perspective to examine short term operations and capital planning to maintain stability in the City's finances, make the organization an efficient and effective provider of needed services, maintain good credit ratings and prepare for unforeseen emergencies.

1. The City of Spring Hill's fiscal year shall begin July 1.

2. A proposed Budget will be submitted to BOMA no later than April 15^{th} of the preceding fiscal year
3. The proposed budget will include revenues and expenditures detailed by fund, program and activity for three years (prior year, current year budget and estimated and the proposed budget year).
4. The BOMA will adopt a balanced operating budget using current revenues which may include use of Fund Balance. A balanced budget is one where revenues are equal to or exceed expenditures.
5. The budget process will incorporate a long-term perspective that will help assess the impacts of current and proposed operating and capital budgets in order to develop appropriate strategies to achieve the goals of financial stability, efficient operations, good credit ratings and preparedness for the unforeseen.
6. The City Administrator and Finance Director will project revenues and expenditures over time using assumptions about economic conditions, historical and current financial performance, major goals and projects and other relevant factors.
7. The budget will reflect the City's broad organizational goals. These broad goals are reflected in the master plans for transportation, land use, recreation, other studies and through information communicated during the preparation of the annual budget and capital improvement plan.
8. The budget document will include the City's financial policies, goals and budget calendar.
9. The budget will involve and promote effective communications with residents, including conducting a public hearing prior to the final approval of the budget.
10. The budget process is intended to weigh competing requests for City resources, within expected fiscal constraints.
11. The Finance Director will provide monthly financial updates relative to the established budget to the BOMA during the fiscal year. The Finance Department will also provide monthly statements of expenditures to department heads after closeout of each month.
12. Budget Amendments must be approved by the BOMA by ordinance. Generally, Budget Amendments will be considered annually at the conclusion of the fiscal year but may occur more frequently as situations dictate.

Revenue

1. The City will maintain diversified and stable revenues to shelter it from the impact of short-term fluctuations in any one revenue source. The City will strive to further broaden the revenue stream, to the extent possible, including the diversifying of the property tax base and local sales tax generators.
2. The BOMA will adopt a tax rate adequate to meet the financial obligations of the City each year.
3. Non-recurring revenues and other financing resources will not be used to finance ongoing operations with the exception of the use of approved grants or the use of Fund Balance under fund balance policies.
4. Revenue estimates will be conservative and based upon trend analysis, economic conditions and other factors.
5. The City will annually review its fees and other charges for service to ensure that revenues are meeting intended program goals and are keeping pace with inflation, other cost increases and any applicable competitive rate.
6. Grants will be spent for the purposes intended and will not be relied on for basic general fund services.
7. All potential grants will be carefully examined for matching requirements (both dollar and level-of-effort matches). The City will vigorously pursue grants for capital projects that fit long-range community improvements goals. The City will review grants for operating

programs on an individual basis to determine the suitability of accepting the grants from a sustainable long-term financial perspective.

8. The City will use appropriate methods to collect monies owed on property taxes, court judgments and other sources.

Expenditures

1. Current operating expenditures will be funded with current operating revenues, approved grants or under the approved policy for the use of fund balance.
2. The City will pursue goals of efficiency and effectiveness by balancing short term and longer-term community interests.
3. Where possible, performance measures and productivity indicators will be integrated into the budget.
4. Department Heads are charged with budgetary responsibility of managing expenditures of their departments. Department Heads are expected to manage total expenditures within the limit established by BOMA during the budget process for the fiscal year. The department head shall notify the City Administrator and Finance Director in writing as soon as possible when it is identified that total expenditures are expected to exceed the authorized limits of the adopted budget.
5. During the fiscal year, the Finance Director will monitor revenues and expenditures monthly to compare actual performance to budget. Regular monitoring is intended to provide an opportunity for actions to be taken to bring the budget back into balance.
6. The number of full-time authorized positions is set by the BOMA during the annual budget approval. Any additions to the number of full-time authorized positions must be approved by the BOMA.
7. The annual budget will include a line item for funding for unforeseen needs of an emergency and non-recurring nature. The target "Unforeseen Contingency" line item will be at a minimum of $200,000 until such time that the unassigned fund balance reaches its desired level (defined below in unassigned Fund Balance Policies).
8. Derivatives shall not be used.

Fund Balance Policies

The City's Fund Balance (General Fund) is the accumulated difference between assets and liabilities within governmental funds. A sufficient fund balance allows the City to meet its contractual obligations, provide funds for new and existing programs established by BOMA, mitigate negative revenue implications of federal or state budget actions, mitigate economic downturns, fund disaster or emergency costs, provide funds for cash flow timing discrepancies and fund non-recurring expenses identified as necessary by BOMA.

This policy establishes limitations on the purposes for which Fund Balances can be used in accordance with Governmental Accounting Standards Board. The city's financial statements will report up to five components of Fund Balance: (1) Non-spendable Fund Balance; (2) Restricted Fund Balance; (3) Committed Fund Balance; (4) Assigned Fund Balance and (5) Unassigned Fund Balance.

Non-spendable Fund Balance

According to GASB, "Fund balance is only an approximate measure of liquidity." One reason is that some of the assets reported in governmental funds may be inherently non-spendable from the vantage point of the current period. There are assets that will never convert to cash (e.g., prepaid items and inventories of supplies); assets that will not convert to cash soon enough to affect the current period (e.g., non-financial assets held for resale, such as foreclosed properties); and resources that must be maintained intact pursuant to legal or contractual requirements (e.g., capital of a revolving loan fund). Accountants signal this practical constraint on spending by labeling the relevant portion of fund balance as non-spendable fund balance.

Restricted Fund Balance
Restricted fund balance represents that portion of fund balance that is subject to externally enforceable legal restrictions. Such restrictions typically are imposed by parties altogether outside the government such as creditors, grantors, contributors or other governments. Restrictions can also arise when the authorization to raise revenues is conditioned upon the revenue being used for a particular purpose (e.g., gas tax for road construction).

Committed Fund Balance
Committed fund balance represents that portion of fund balance whose use is constrained by limitations that the government imposes on itself at the highest decision-making level (BOMA) and remains binding unless removed in the same manner.

Assigned Fund Balance
Assigned Fund Balance describes that portion of fund balance that reflects a government's intended use of resources. Such intent can be established by the governing body, another body or official designated for that purpose.

There are two essential differences between committed fund balance and assigned fund balance. First, committed fund balance requires action by the highest level of decision-making authority (BOMA). Second, formal action is necessary to impose, remove or modify a constraint reflected in the committed fund balance, whereas less formality is necessary in the case of assigned fund balance.

Unassigned Fund Balance
The general fund will often have net resources in excess of what can properly be classified in one of the four categories described above. If so, that surplus is presented as unassigned fund balance.

Source: What Everyone Needs To Know about the New Fund Balance, Stephen J. Gauthier, GFOA

1. An adequate fund balance can provide a financial cushion against the shock of unanticipated circumstances and events, such as revenue shortfalls, unanticipated expenditures, natural disasters or other event.
2. Since there are practical and/or legal limitations on the use of non-spendable or restricted fund balances, they are not subject to the fund balance policies. The fund balance policies are relevant to the unrestricted fund balance, which includes the committed, assigned and unassigned fund balances.
3. The City will seek to achieve and maintain an unassigned fund balance between fifteen percent (15%) and thirty percent (30%) of General Fund operating revenues.
4. The following circumstances may justify a higher target level of fund balance:
    a. Significant volatility of operating revenues or expenditures;
    b. Potential drain on resources from other funds facing financial difficulties;
    c. Exposure to natural disasters;
    d. Reliance on a single corporate taxpayer or upon a group of corporate taxpayers in the same industry;
    e. Rapidly growing budgets;
    f. Rapid population growth;
    g. Significant demand for infrastructure and capital projects;

h. Significant exposure to variable rate debt;
i. Disparities in timing between revenue collections and expenditures.

5. The Assigned Fund Balance consists of funds set aside by management and intended for a specific purpose or project. The City Administrator will communicate in writing to BOMA assigned fund balances, which will include the purpose of the assignment. Although the City Administrator may assign portions of the fund balance to designated purposes, any expenditure of fund balance is still subject to the provisions of: BOMA legislation, the purchasing policy, City Code and/or TCA.
6. If spending in designated circumstances has reduced unassigned fund balance below the targeted minimum level, it should be replenished until the balance is restored to the minimum level. The source of funds and the period over which the replenishment is to occur should be provided to the BOMA by the City Administrator and Finance Director.

Capital Improvement Plan Policies

In order to ensure proper planning, funding and implementation of the provision of public facilities and infrastructure, the replacement of expendable assets at the end of their useful lives, and provide for major maintenance and capital improvements for current assets, a Capital Improvements Plan (CIP) will be adopted by BOMA. It is a financial planning and management tool that establishes priorities, matches projects with their potential internal and external funding sources, ensures the orderly improvement or replacement of fixed assets and provides an estimate of the size and timing of future bond issues or loans.

1. On an annual basis, a Capital Improvement Plan (CIP) will be submitted to BOMA for approval. The CIP shall identify major projects. The CIP shall be submitted in conjunction with the proposed Budget.
2. The CIP will include a schedule for completion of each project, its general scope, estimated costs, identification of funding sources and financing requirements in future years.
3. The CIP will include projects and capital purchases which cost more than $10,000, either individually or in aggregate, with a life of at least three years.
4. The development and adoption of the CIP will consider the Comprehensive Plan, including the Major Thoroughfare Plan, Parks, Recreation and Greenway Plan, planning studies, comprehensive reports, , and other master plans. These long-range planning tools will help guide the selection and prioritization of projects in the CIP.
5. The City Administrator and department heads will use a database that will take into account the following factors:
    a. Appropriate technological solutions for project accounting, scheduling and reporting, which may include spreadsheets, project management software and customized databases;
    b. The roles of staff, including access, input and editing privileges for system users charged with compiling, analyzing, and reporting financial and management information;
    c. The process for controlling and managing project changes;
    d. Accountability and data integrity within the financial management system;
    e. Data accuracy;
    f. Triggers and protocols for identifying and addressing project cost overruns.
6. The designated project managers will regularly monitor capital projects' financial and development activities and recouping of funding from other sources, such as developer agreements. Any major deviations in cost, schedule or scope will be reported through the

chain-of-command. During the course of the project, the designated project manager will be responsible for tracking and initiating collection of any income and contributions to the project.

7. The project manager will close out the project, including necessary reporting regarding asset management, letters of credit or other sureties, any grant reporting requirements, collection of assessments related to third-party contracts and financial reporting.
8. Cash financing will be used when possible and economically prudent to conserve debt capacity.

Debt Policies

The debt policy serves as a public commitment by BOMA to manage the financial affairs of the City so as to minimize risks while still meeting the capital needs of the City. A debt management policy signals to the credit rating services that Spring Hill is using a disciplined approach to financing the City's capital needs.

This debt policy addresses two areas: (1) the strategy for planning, structuring and managing the City's debt portfolio and (2) the process for transaction execution, including how debt is sold and procurement of the third-parties who assist the City in structuring and marketing the obligations.

The overarching goal for Spring Hill is providing the highest quality of services to our residents at the lowest possible cost. To accomplish this, along with other strategies, the City strives to maintain and improve its current credit ratings from multiple rating services considering the demographics, capital needs, ability to budget and the maintenance of financial flexibility. This lowers the cost of borrowing and helps with long term planning of capital needs.

Overview

1. Definitions & Terms:
    a. Short-Term Debt: Any debt or loan obligation that matures in 12 months or less.
    b. Long-Term Debt: Any debt or loan obligation that matures in more than 12 months
    c. General Obligation Debt: Any debt, whether Short-Term Debt or Long-Term Debt, that is secured by the unlimited ad valorem taxing power of the City. Includes only principal amount of debt, not the interest paid over time in debt service.
    d. Self-Supporting Debt: General Obligation Debt that is paid entirely by another source of revenue (e.g. water and/or sewer debt paid for by revenues of each system).
    e. Net Direct Debt: Shall refer to General Obligation Debt less Self-Supporting Debt.
    f. Revenue Debt: Any Short-Term Debt or Long-Term Debt that is secured only by specific revenues and not by the City's unlimited ad valorem taxing power.
    g. Debt Service: Shall consist of both annual principal and interest payments on outstanding Long-Term Debt.
    h. Variable Rate Debt: Any Short-Term Debt or Long-Term Debt whose rate is subject to change, including debt that is subject to a put.
2. Long-Term Debt shall not be used to finance current operations. The City will minimize the use of Short-Term Debt borrowings by maintaining adequate working capital and stringent budgeting.
3. The useful life of assets to be purchased or built with bonded debt proceeds shall not be less than the maturity of the underlying debt. The City will issue non-Self-Supporting Debt (i.e. Net Direct Debt of the City) with a maximum final maturity of twenty (20) years and will issue Self-Supporting Debt with a maximum final maturity of thirty (30) years.

4. An adopted capital improvements plan shall be the basis of determining borrowing, both as to the amount and the timing of debt sales.
5. The City will seek to structure its General Obligation Debt with level debt service payments over the life of each individual bond issue. As a rule, the City will not backload, use "wrap around" techniques or balloon payments to pursue new projects. Revenue Debt and Tax Increment debt, when utilized, may be structured to match new incomes derived from the construction of the project. When refunding opportunities, natural disasters or other external factors occur, the City may utilize non-level debt methods if it is in the City's best interest.
6. General Obligation bonds typically have lower interest rates than revenue bonds. The City may elect to use its General Obligation pledge with revenue bond issues when the populations served by the revenue bond projects overlaps or significantly are the same as the property tax base of the City. The BOMA will maintain rates and fee structures of revenue supported debt at a level where no subsidy from the City's General Fund is required.
7. The City will comply with all legal requirements for notice of public meetings related to debt issuance.
8. In the interest of transparency, all costs (whether interest, issuance, continuing or one-time) will be disclosed to BOMA, residents and stakeholders in a timely manner. The method for disclosure including documentation of compliance with this policy will be developed and maintained by the City Administrator's Office with assistance from the Finance Director.
9. The City will not use derivatives to manage its debt portfolio.

Debt Ratios

10. The Debt Service of the City (i.e. Net Direct Debt), less annual funds from the Committed Fund allocated to Debt Service, shall not exceed fifteen percent (15%) percent of the annual General Fund Revenues. 100% of Committed Fund Balance may be utilized for payment of Debt Service.
11.

Variable Rate Debt Obligations

12. The City recognizes the value of variable rate debt obligations ("VRDO's") and has greatly benefitted from the use of these bonds in the financing of needed infrastructure. The changing economic climate, the failure of bond insurance companies to retain their credit ratings, the difficulty of obtaining letters of credit and other liquidity features and the failure of auction-rate variable instruments has required all municipal issuers to reassess the role that variables play in debt financing. The City will avoid over-reliance on variable rate debt due to the volatility seen in those credit markets. Variable rate debt shall not exceed tweny-five percent (25%) of the total debt.
13. The City will follow state legislative requirements and guidance from the credit rating agencies in adjusting this policy from time to time.
14. The City may use VRDO's with the purchase of assets with expected useful life of less than ten years, for construction financing on major multi-year projects and in other situations where fixed rate financing is not feasible.
15. In addition to the diversification of the VRDO debt portfolio of the City, the City's general practice is to budget variable rate debt service no less than five percent (5%) or at least one percent over the past twelve month's average if interest rates have exceeded four percent (4%). It is important to maintain strong unassigned Fund Balances to mitigate the potential negative exposure to market changes in variable rate debt. If interest rates are volatile, the City will budget interest costs using a larger safety factor.

16. The City may use third-party credit enhancement techniques when financial savings can be obtained, or unnecessary risk can be avoided. Diversification of risk will be a consideration in selecting third-party credit enhancement or liquidity providers.

Sale of Debt

17. The City will utilize a Municipal Advisor to review debt policies, evaluate the Capital Improvement Plan, examine the capacity of the City for additional debt, follow and understand market conditions, structure the bond offering to best fit those market conditions, prepare and lead staff through the credit rating agency process, obtain access to credit enhancements when needed and conduct the actual sale of the bonds. This is a "trust relationship" with the Municipal Advisor having fiduciary responsibilities to the City.
18. The Municipal Advisor shall fully disclose all existing client and business relationships between and among all professional participants in the debt issuance process to prevent any appearance of a conflict of interest. The Municipal Advisor shall refrain from entering into any future relationship that might give rise to a conflict of interest for the duration of the time period during which they serve the City.
19. Upon recommendation of the City Administrator and Finance Director, the Municipal Advisor will be selected by the BOMA after thorough review of the firm's credentials and experience in a merit-based process. The relationship between the City and its Municipal Advisor should be reviewed every three to five years.
20. Because of the importance of the Municipal Advisor to the City's ability to sell debt in the most efficient manner, the City will require the Municipal Advisor to maintain its independence and not serve as an underwriter or broker/dealer of the City's bonds throughout the time of their engagement.
21. Likewise, the City must employ Bond Counsel to render an opinion on the tax-exempt nature of the bonds and that all legal requirements for issuance of the debt have been correctly performed. Bond counsel will be selected by a merit-based process and the relationship will be reviewed at the time of issuance of new bonds. The City's Bond Counsel shall fully disclose all existing client and business relationships between any other transaction participants in the debt issuance process to prevent any appearance of a conflict of interest. The Bond Counsel shall refrain from entering into any future relationships that might give rise to a conflict of interest for the duration of the time period during which they serve the City.
22. Underwriters are required participants in negotiated bond sales. The primary role of the Underwriter in a negotiated sale is to market the City's bond to investors.
23. Underwriters of City bond transactions shall not serve as the Municipal Advisor to the City in the same debt transaction.. A Municipal Advisor cannot resign and become the Underwriter of a debt transaction. The Underwriter must not be selected until after a Municipal Advisor has been engaged for the debt transaction.
24. The Underwriter must have documented experience in underwriting in similar cities with financings of comparable size, structure and complexity. The Underwriter is to be selected in a fair process with the assistance of the Municipal Advisor. The relationship will be reviewed at each new issuance of debt by the City.
25. The Underwriter must disclose all relationships (including fees and payments) to any other transaction participant outside of the transaction. The Underwriter shall fully disclose all existing client and business relationships between any other transaction participants in the debt issuance process to prevent any appearance of a conflict of interest. The Underwriter shall refrain from entering into any future relationships that might give rise to a conflict of interest for the duration of the time period during which they serve the City.
26. The City reserves the right to approve the selection of the Underwriter's Counsel.

27. The Underwriter's Counsel must disclose all relationships (including fees and payments) to any other transaction participant outside of the transaction. The Underwriter's Counsel shall fully disclose all existing client and business relationships between any other transaction participants in the debt issuance process to prevent any appearance of a conflict of interest. The Underwriter's Counsel shall refrain from entering into any future relationships that might give rise to a conflict of interest.
28. The City will sell its debt using the method of sale that is most likely to achieve the lowest cost of borrowing while in compliance with federal and state law. This analysis takes into account bond structure, underlying security, credit ratings and other factors pertaining to the bond issue that may impact the ability for the efficient sale of debt.
29. The City's preferred method of sale is through competitive bid. However, when advised by the Municipal Advisor that a negotiated sale may be the most advantageous (refinancing or unusual structures of debt), the City may enter into negotiated or private placement of bonds. Any sale of bonds must conform to Tennessee law.
30. The City will provide through its website copies of annual budget documents, comprehensive annual financial reports, official statements of debt issues and other financial and operating information in a timely fashion. In addition, the following material events will trigger disclosure of any information pertaining to the City's debt issues:
    a. Principal and interest payment delinquencies;
    b. Non-payment related defaults;
    c. Unscheduled draws on debt service reserves reflecting financial difficulties;
    d. Unscheduled draws on credit enhancements reflecting financial difficulties;
    e. Substitution of credit or liquidity providers, or their failure to perform;
    f. Adverse tax opinions or events affecting the tax-exempt status of the security, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;
    g. Modifications to rights of security holders;
    h. h. Bond calls, if material, and tender offers;
    i. Defeasances;
    j. Release, substitution or sale of property securing repayment of the securities, if material;
    k. Rating changes;
    l. Bankruptcy, insolvency, receivership or similar event of the obligated person;
    m. The consummation of a merger, consolidation or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
    n. Appointment of a successor or additional trustee or the change of name of a trustee, if material;
    o. Incurrence of a financial obligation (which includes a debt obligation, a derivative instrument entered into connection with, or pledged as security or a source of payment for, an existing or planned debt obligation, or a guarantee of debt obligation or derivative instrument) of the Issuer, if material, or agreement as to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Issuer, any of which affect security holders, if material; and

       Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation (as described above) of the Issuer, any of which reflect financial difficulties.

Refunding Debt

The Finance Director, in conjunction with Financial Professionals, if any, shall have the responsibility to analyze outstanding Debt for refunding opportunities. The Finance Director will consider the following issues when analyzing possible refunding opportunities:

31. <u>Debt Service Savings</u>
Current Refunding: Current refunding opportunities may be considered by the City using any savings threshold if the refunding generates positive net present value savings.

Advance Refunding: To the extent allowed by law, and 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 (3.00%) of the advance refunded debt principal amount. The decision to take less than three percent (3.00%) net present value savings for an advance refunding or to take the savings in any manner other than a traditional year-to-year level savings pattern must be approved by the Legislative Body.

32. <u>Restructuring for economic purposes</u>
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 remove unduly restrictive bond covenants or any other reason approved by the Legislative Body in its discretion.

33. <u>Term of Refunding Issues</u>
Normally, the City will refund debt equal to or within its existing term. However, the City 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 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.

34. <u>Escrow Structuring</u>
The City shall 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, 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 shall an underwriter, agent or any Financial Professionals sell escrow securities involving tax-exempt debt to the City from its own account.

Municipal Advisor

Investment Policies

The funds of the City will be invested in accordance with state law, including Tennessee Code Annotated (TCA) 6-56-106, which sets out authorized investments for Tennessee municipalities and within the parameters of this policy.

1. The City's investments shall be managed in such manner as to attain a market average rate of return throughout all economic cycles. Preserving and protecting the capital will always be first priority followed by liquidity and yield.
2. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they are from securities defaults or erosion of market value.
3. Investments decisions should not incur unreasonable investment risks in order to obtain current investment income.
4. The standard of prudence to be applied shall be the "prudent investor rule", which states "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital as well as the probably income to be derived."
5. The prudent investor rule shall be applied in the context of managing the overall portfolio.
6. The City Recorder, Finance Director, and City Administrator are designated as the investment officers of the City and are granted the authority to make investment decisions jointly within the parameters of the policy.
7. The investment officers will monitor the content of the investment portfolio, the available markets and the relative values of the qualifying investments, and will have privileges of adjusting the portfolio accordingly. No investments will be considered that are not described in the investment policy.

Authorized Investments

The investment officers will diversify instruments to avoid unreasonable risks inherent in over investing in specific instruments, individual institutions or maturities. The instruments to be used as follows:

1. Treasury Bills, Notes and Bonds of the United States or other obligations guaranteed as to principal and interest by the full faith and credit of the United States or any of its agencies or Federal Home Loan Bank or Federal Farm Credit Bureau securities. May be used for up to 100 percent (100%) of the portfolio.
2. Repurchase agreements for obligations of the United States or its agencies.
3. Certificates of deposit in financial institutions, with preference to those financial institutions with branches located in Spring Hill, and recognized as state depositories pursuant to TCA Section 9-4-107; provided, however, certificates of deposit shall be collateralized in accordance with the provisions of Tennessee Code Annotated.
4. Local Government Investment Pool; up to 100 percent (100%) of the portfolio.

In addition to the above, proceeds of bonds, notes and other obligations issued by municipalities, reserves held in connection therewith and the investment income therefrom, may be invested in obligations that:

1. Are rated in either of the two (2) highest rated categories by a nationally recognized rating agency of such obligation;
2. Are direct general obligations of a state of the United States, or a political subdivision or instrumentality thereof, having general taxing powers; and
3. Have a final maturity on the date of investment of not to exceed forty-eight (48) months or that may be tendered by the holder to the issuer thereof, or an agent of the issuer, at not less than forty-eight-month intervals.

All investments of the City will meet the maturity standards prescribed in state law, including TCA Section 6-56-106.

Investment Risk Management

1. In order to minimize custodial credit risk, all deposits with financial institutions are required to be secured in one or a combination of the following ways:
    a. FDIC coverage;
    b. By designated collateral securities under a collateral agreement with the institution; or
    c. By the institution's participation in the Tennessee collateral pool.
2. Interest rate risk will be managed through limiting maturities on investments. The following limits will apply to original maturities on investments:
    a. No greater than 25% of the total portfolio may be invested for periods longer than 1 year at any one time.
    b. No amounts may be invested with maturities for periods greater than 3 years.

Cash Management Policies

1. The City recognizes that effective cash management is an integral component of sound financial management. Therefore, it is the policy of the City that funds deemed idle, based on projected cash flow, shall be invested in a manner that seeks to maximize their productivity until such time as they are needed for the operations of the City. Investments shall be at the highest rates obtainable at the time of investment, within the limitations of the law and the City's investment policy. The City's investment portfolio shall be designed and managed in accordance with the responsibility of ensuring the public's trust and shall also be consistent with state and local laws.
2. Responsibility for the management of the City's investment portfolio is delegated to the Finance Director by the City Administrator. The Finance Director will establish and maintain written procedures for the operation of the cash management and investment program consistent with this policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director.
3. The City may invest funds with depositories having offices located in the corporate limits of the City. If required services are not available with the local depository branch, the City may utilize services from the nearest branch to the corporate city limits. Any financial institution in which the City has funds shall provide such financial data to the Finance Director as may be in the form of audited financial statements or financial condition of the institution. Such data may be in the form of audited financial statements or Federal Deposit Insurance Corporation regulatory reports. Any refusal to provide such information to the City may be cause for termination of the banking relationships or contracts with such institution.
4. The City requires full collateralization of all City deposits as required in State statute. The City prefers financial institutions participate in the State Treasurer's collateralization pool. The City will allow FDIC coverage to be considered in calculating full collateralization.

5. The City chooses not to use derivative financial structures in the management of the City's investment portfolio.