CITY OF CLARKSVILLE
TENNESSEE

Debt Management Policy

Originally Adopted: February 2, 2012

Amended and Formally Adopted: September 7, 2017

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CITY OF CLARKSVILLE
DEBT MANAGEMENT POLICY

I. 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 Clarksville [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.

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 not subject to a debt limitation, but 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 excluding overlapping debt, enterprise debt and revenue debt, unless otherwise directed by the Mayor and City Council.

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, unless bond covenants require a higher percentage, then the bond covenants will control the percentage.

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. All debt must be formally authorized by resolution of the City Council.

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 Mayor, City Council, citizens/members and other interested parties in a timely manner in the documents provided to the City Council 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 City Council, 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 City Council 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 Chief Financial Officer, 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 City Council, or appropriate utility board and approved by City Council that doing so is beneficial and is appropriately approved 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.. 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) Balloon Debt

Absent events or circumstances determined by its City Council, 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. If the City intends to issue balloon debt, it will submit a request for approval of Balloon Debt to the Office of State and Local Finance as defined by Public Chapter 766, Acts of 2014 and it will make sure to additionally comply with its Balloon Debt Management Plan, as attached in Exhibit A.

5) 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 Chief Financial Officer and/or Financial Professionals, if any, with respect to the value of the call option.

6) Original Issuance Discount/Premium

Debt with original issuance discount/premium will be permitted.

7) Deep Discount Bonds

Deep discount debt may provide a lower cost of borrowing in certain capital markets. The Chief Financial Officer 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 Chief Financial Officer 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 and land acquisition; or

iii. *Capitalized Leases.* Capitalized Leases may be issued to finance infrastructure projects or equipment with an expected life equal to or 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 will 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, (2) an amount of debt considered to be naturally hedged to short-term assets in the Unreserved General and/or Debt Service Fund Balance and (3) debt issued during construction period funding) will not exceed forty percent (40%) 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. The City recognizes there are inherent risks associated with the use of variable interest rate debt and will attempt to mitigate these risks by including an interest rate assumption for outstanding variable rate debt in its budget. Prior to entering into any variable rate debt obligation, the City Council will be informed of any terms, conditions, fees, or other costs associated with the prepayment of variable rate debt obligations and an analysis by the Chief Financial Officer 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 Chief Financial Officer 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 Chief Financial Officer, in conjunction with the Finance Professionals, if any, will have the responsibility to analyze outstanding debt for refunding opportunities. The Chief Financial Officer 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 City Council.

2) Balloon Debt

If the City intends to issue balloon debt to refund balloon debt, it will submit a request for approval of Balloon Debt to the Office of State and Local Finance as defined by Public Chapter 766, Acts of 2014 and it will make sure to additionally comply with its Balloon Debt Management Plan, as attached in Exhibit A.

3) 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.

4) Term of Refunding Issues

Normally, the City will refund debt equal to or within its existing term. However, the Chief Financial Officer 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. The Chief Financial Officer 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.

5) 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 Chief Financial Officer, 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.

6) 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 Chief Financial Officer may consult with a Finance Professional regarding the method of sale of debt. Subject to approval by the City Council, the Chief Financial Officer 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) 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 (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 Chief Financial Officer is responsible for ensuring substantial compliance with this Debt Policy.

EXHIBIT A: BALLOON DEBT MANAGEMENT PLAN

CITY OF CLARKSVILLE
TENNESSEE

I. INTRODUCTION

This Balloon Debt Management Plan (the "Debt Plan") is a written guideline to manage, reduce, and mitigate existing balloon indebtedness on the City. The City, in the past, has issued balloon indebtedness as defined by Public Chapter 766, Acts of 2014 ("Balloon Debt"). The purpose of this Debt Plan is to improve the quality of management and legislative decisions for the City regarding the structure of its current and future debt issuances consistent with the City's Debt Management Policy's goals and to do what is in the best interests of the City and its taxpayers and ratepayers.

They City maintains the right to modify this Debt Plan 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 and such exceptions or changes are consistent with TCA and any rules and regulations promulgated by the State.

The City's Chief Financial Officer is responsible for ensuring substantial compliance with this Debt Plan.

II. Policy Statement

Generally, it is in the best interest of the citizens to maintain a debt portfolio utilizing individual debt issues in a manner that minimizes interest paid, the real cost of debt, and other related costs as well as repaying principal as rapidly as possible to create financial flexibility and future debt capacity.

This Debt Plan formally established parameters for structuring debt and managing a debt portfolio that considers:

- Current and future capital improvement needs of the City
- Ability to repay financial obligations
- Impact on future debt capacity and revenues available for operations
- Existing legal, economic, and financial market conditions

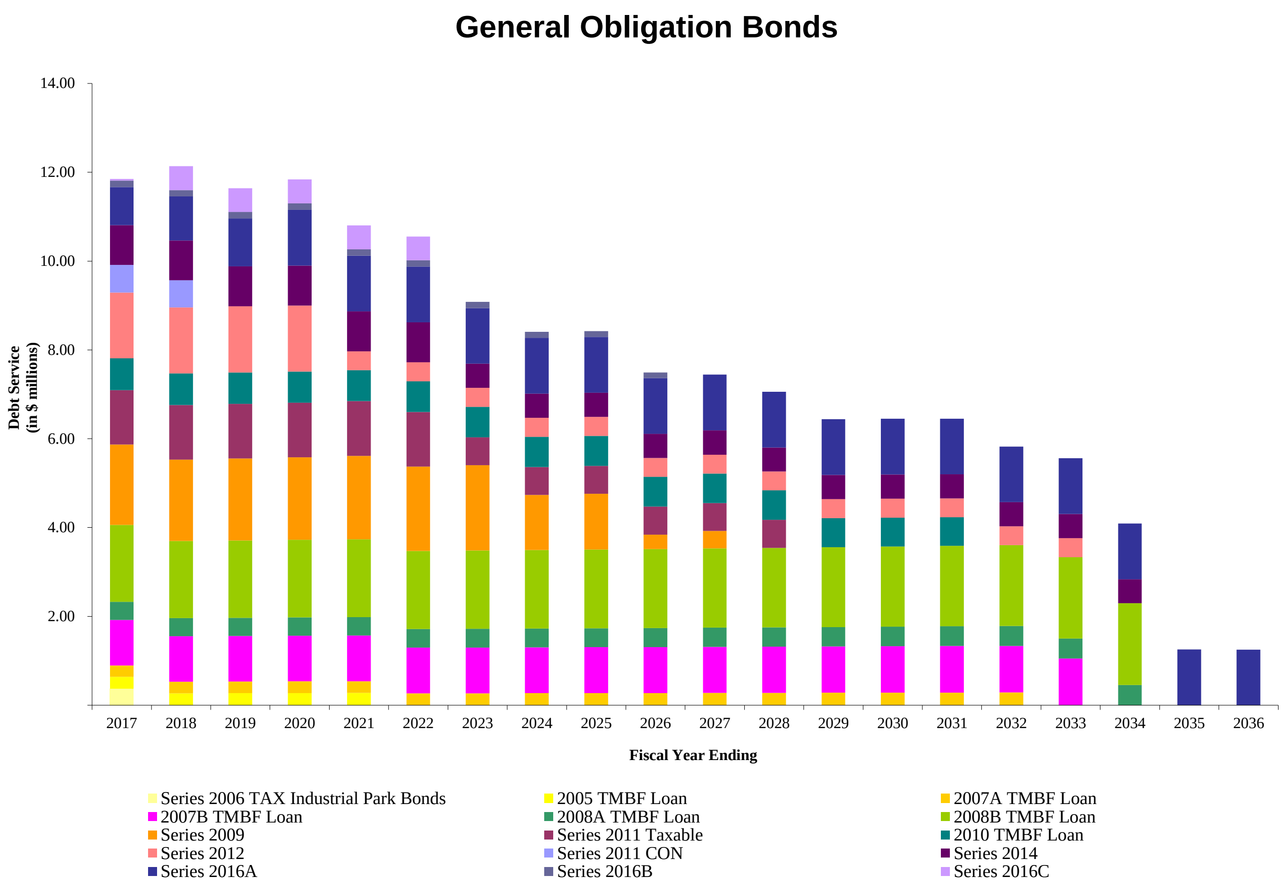
Specifically, the intent of this Debt plan is to assist the City in the following:

- To guide the City in debt issuance decisions with the goal to issue future debt that is structured with level principal payments or level debt amortization, or in the case of revenue generating or revenue supported debt, proportional to the revenues pledged for repayment
- Except when facts and circumstances so dictate, establish a City policy to issue new money debt that is not balloon indebtedness as defined by Section 9-21-134, TCA and evaluates projects as to their scope, feasibility costs, useful life of the financed asset and capacity to repay the debt, and
- To manage and mitigate the City's current outstanding balloon indebtedness (as defined by Public Chapter 766, Acts of 2014).

III. Current Debt Background

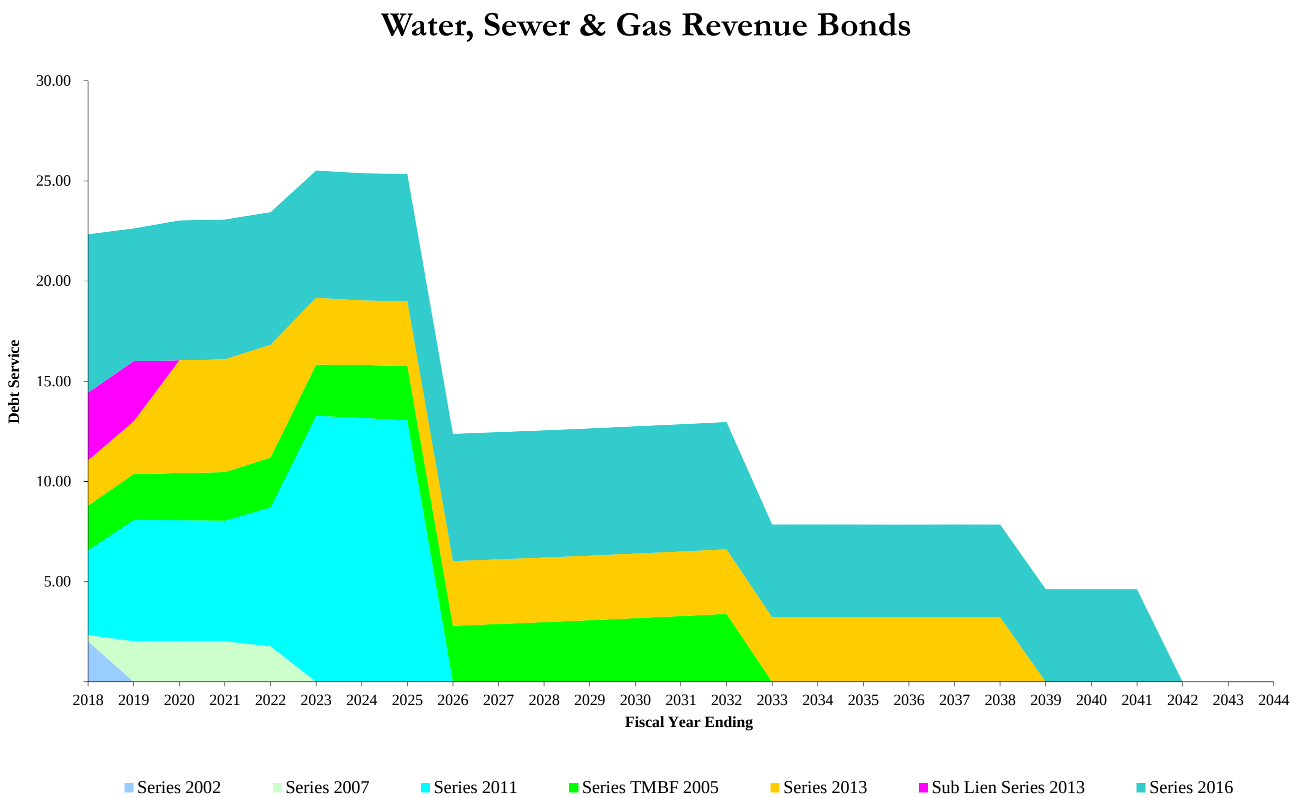
Consistent with the City's Debt Management Policy, the City has issued debt in the form of General Obligation Bonds or Revenue Debt (via Water, Sewer & Gas Revenue Bonds and Electric System Revenue Bonds). An overview of the City's General Obligation Debt, Water, Sewer & Gas Revenue Debt and Electric System Revenue Debt as of June 30, 2016 is below

1.) General Obligation Bonds



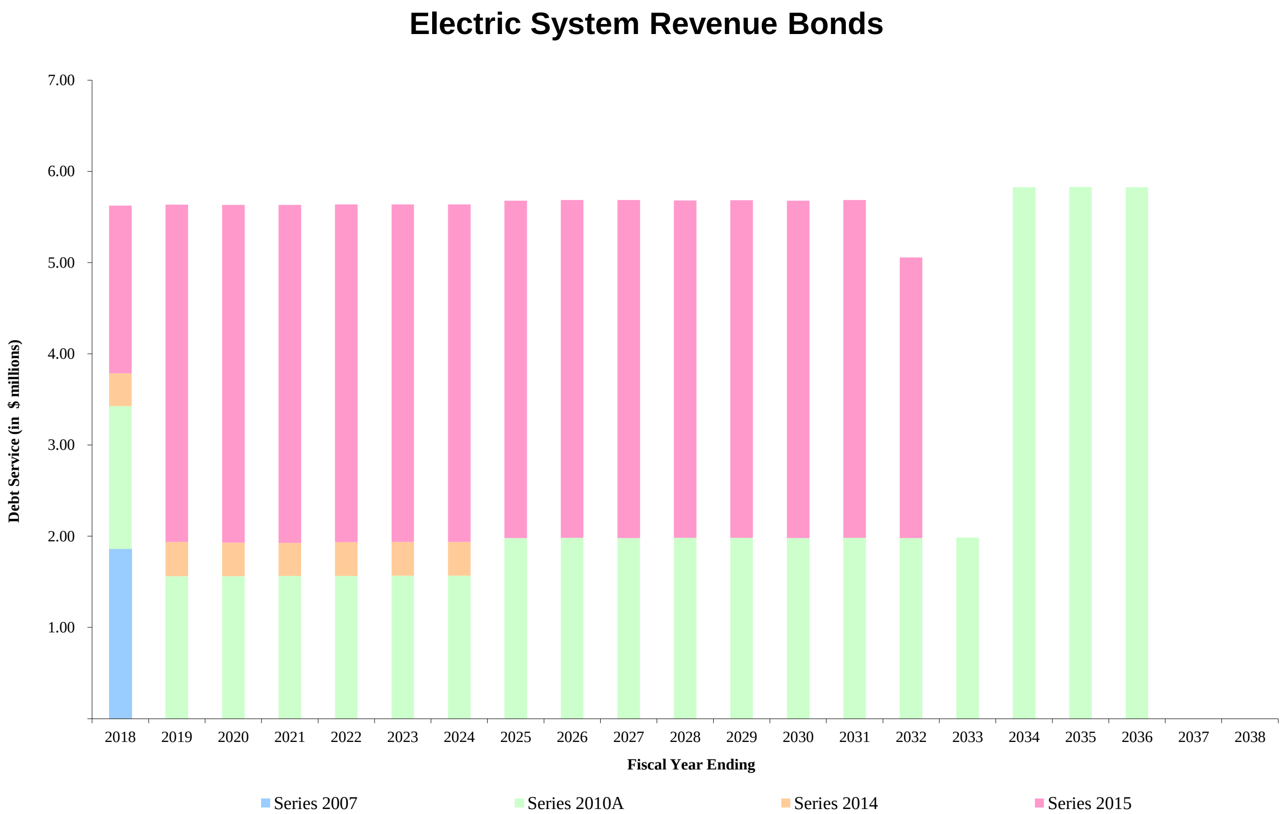
- The City's General Obligation bonds debt service is downward sloping. Debt service averages \$11.8MM annually through FY2020, \$10.6MM in FY 2021-2022, \$8.6MM in FY2023-2025, \$6.9MM FY2026-2031, \$5.1MM 2032-2034 and \$1.2MM in 2035-2036.
- Max annual debt service occurs in FY2018 and is approximately \$12.1 MM
- An average of \$2.4 million annually until FY34 is supported by tax increment from the Capital Projects Revenue District (CPRD) and an average of \$356,000 is reimbursed by E-911 annually through FY22.

2.) Water, Sewer & Gas Revenue Bonds



- The City's Water, Sewer & Gas Revenue Bonds is generally downward sloping. DS payments average $23.8MM through FY2025 and drops by $13MM in FY 2026
- Depending on available revenues at the time, Water, Sewer & Gas Bonds could be issued as level debt as defined by Public Chapter 766, Acts of 2014. The Water, Sewer & Gas System could implement a rate increase(s) if needed to fund any future capital needs to comply with Public Chapter 766, Acts of 2014 if approved by City Council

3.) Electric Revenue Bonds



- The City's Electric System payments are level over the next 16 years.
- Max annual debt service is estimated at $5.7 million
- Depending on available revenues at the time, additional Electric Revenue Bonds could be issued as level debt as defined by Public Chapter 766, Acts of 2014. The Electric System could implement a rate increase(s) if needed to fund any future capital needs to comply with Public Chapter 766, Acts of 2014 if approved by Power Board

IV. Future Debt

When considering whether to issue level debt service, level principal amortization or balloon debt (as defined by Public Chapter 766, Acts of 2014) for future projects, the City will take into account both the total cost of the debt being considered at that time, along with the impact that the structure will have on the City's ability to issue level debt service or level principal amortization in the future. The City will seek to ensure that there will be sufficient revenues available to pay for any debt being considered in addition to all of its existing outstanding debt service. If warranted, the City will follow the procedures below for issuing new money or refunding debt as balloon indebtedness.

1) Refunding of Debt:

Any refunding of balloon debt (as defined by Public Chapter 766, Acts of 2014) or a partial refunding of an outstanding debt series that, by definition, becomes balloon debt will continue to adhere to the City's Debt Management Policy under Section IX. Refinancing Outstanding Debt. In addition, should the refunding adhere to Section IX of the City's Debt Management Policy or results in:

- refunding debt that continues to match existing debt service patterns given the underlying security and payment provisions pledged for each individual issue,
- does not increase the average life of bonds being refunded, and
- does not extend the final maturity, then

the City will submit a plan of refunding and a request for balloon indebtedness as required by TCA. The City will only adopt a refunding bond resolution authorizing the refunding and balloon indebtedness after receiving State approval for its plan of balloon indebtedness.

2) New Debt:

Debt that is either not level or not level principal payments may be used if the Mayor and Chief Financial Officer conclude that it is in the best interest of the City and its tax and rate payers in coordination with its Financial Professionals (as needed) will determine by analyzing the structure's impact on:

- the City's taxes and rate structures,
- future debt capacity,
- long term capital planning objectives,
- credit ratings
- cost of capital, and
- perseverance of the City's financial and management flexibility

Upon the determination balloon indebtedness (as defined by Public Chapter 766, Acts of 2014) is in the public's best interest, the City will submit a plan of balloon indebtedness for review and approval to the Direct of State and Local Finance. The City Council will only adopt a bond resolution authorizing balloon indebtedness after receiving approval for its plan of balloon indebtedness.