

REGULAR MEETING
BOARD OF MAYOR AND ALDERMEN
DECEMBER 13, 2011

REFERENCE VIDEO DATED DECEMBER 13, 2011

The Board of Mayor and Aldermen of the City of Fayetteville, Lincoln County, Tennessee, met in open, public session at the regular meeting place of said Board in the Municipal Building of said City at 5:00 p.m. on December 13, 2011. Mayor John Ed Underwood, Jr., was present and presiding. The following named Aldermen were present:

Danny Bryant, Pat Fraley, Marty Pepper, Dorothy Small, Michael Stewart, and Thomas Young, Sr.

Also present were James S. Hereford, Jr., City Attorney, and James H. Lee, City Administrator.

The prayer was lead by Alderman Pepper and the pledge was lead by Alderman Small.

Approval of Minutes:

Motion was made by Dorothy Small, seconded by Danny Bryant, to approve the minutes of the November 2011 Meeting. Upon roll call, the following voted:

Aye

Danny Bryant, Thomas Young, Sr., Dorothy Small, Pat Fraley, Michael Stewart, and Marty Pepper

Nay

None

Mayor Underwood declared the Minutes approved.

Approval of Bills and Additional Bills:

Motion was made by Dorothy Small, seconded by Marty Pepper, to approve the bills and additional bills for payment. Upon roll call, the following voted:

Aye

Thomas Young, Sr., Dorothy Small, Pat Fraley, Michael Stewart, Marty Pepper, and Danny Bryant

Nay

None

Mayor Underwood declared the bills and additional bills approved.

Reports:

FPU Report:

Britt Dye, CEO of Fayetteville Public Utilities, stated that the water/waste water division repaired three (3) lines of service. Mr. Dye stated that they are working on bids for a new water plant. The gas department

has signed up twenty-four (24) new customers during the month of November. The telecom department has signed up eighty-six (86) new customers during the month of November.

Fire Report:

Fire Chief Danny Travis reported that the Fire Department had 74 calls for service with 48 medical calls, 6 motor accidents with injuries and 1 structure fire with a loss of Two Thousand, Eight Hundred Dollars (\$2,800.00). The Fire Department has also worked with one hundred two (102) children and twelve (12) adults on fire safety and hazards. Chief Travis introduced Brandon Gentry as a new firefighter.

Police Report:

Police Chief Doug Carver reported that there were 156 incidents with 83 arrests, 69 crashes and 31 citations for a total of 1,925 events.

Public Works:

Eddie Plunkett, Public Works Director, reported that 138 tons of leaves and 139 tons of residential trash were picked-up during the month of November. Mr. Plunkett stated that they are currently working on patching holes in the city streets. Mr. Plunkett explained that they will be closed on December 26, 2011, and January 2, 2012, for Christmas Day and New Years Day, respectively Monday trash routes will be picked up on Tuesday.

Recreation Report:

Rickey Honey, Recreation Director, stated that all park restrooms will be closed within the week due to winter. Mr. Honey explained that work is being done on the ball fields in preparation for the spring season. Mr. Honey thanked everyone who helped with the Christmas Parade.

Planning and Zoning Report:

Ryan Tyhuis, City Planner, reported that there were twenty-one (21) new additional notices of violation issued, with fourteen (14) compliance, two (2) contacted or granted extensions, four (4) brought before court or issued summons, two (2) fined or issued court cost, two (2) continuances granted, two (2) dismissed and one (1) case administratively closed. For the month of November, there were a total of eleven (11) building permits issued for approximately Sixty-Nine Thousand Dollars (\$69,000.00) in work to be done, with the fees being Eight Hundred Eight-Five Dollars (\$885.00).

Administrator's Report:

Mr. Lee stated that he is submitting various reports to the Census Bureau requesting for a recount to be done and once they receive this information the Census Bureau will make a decision if a recount is suitable. Mr. Lee explained that Tennessee Department of Transportation sending the contract to be signed for the signalization of the traffic lights. Mr. Lee discussed a grant program called "Safe School Sidewalks" for wider sidewalks to be installed around the city schools.

Funding for the Library Building:

Motion was made by Danny Bryant, seconded by Dorothy Small, to suspend the rules for the Board to have an informal discussion to fund the library building debt. Upon roll call the following voted:

Aye

Dorothy Small, Pat Fraley, Michael Stewart, Marty Pepper, Danny Bryant, and Thomas Young, Sr.

Nay

None

Mayor Underwood declared the motion approved.

A full and thorough discussion was held on the funding for the Friends of the Library for the library building debt.

Motion was made by Danny Bryant, seconded by Dorothy Small, to now continue the meeting under Robert's Rules of Order.

Aye

Pat Fraley, Michael Stewart, Marty Pepper, Danny Bryant, Thomas Young, Sr., and Dorothy Small

Nay

None

Mayor Underwood declared the motion approved.

Motion was made by Danny Bryant, seconded by Tom Young, to approve funding for the Friends of the Library for Thirty Thousand Dollars (\$30,000.00) to be paid towards the principal of the library building debt, this money will come from the reserves but the reserves will be reimbursed if and when the excess land has been sold, the money will be paid in accordance to the memorandum and the Friends of the Library are to be audited. Upon roll call the following voted:

Aye

Michael Stewart, Marty Pepper, Danny Bryant, Thomas Young, Sr., and Dorothy Small

Nay

Pat Fraley

Mayor Underwood declared the motion approved.

Motion was made by Danny Bryant, seconded by Marty Pepper to fund the Friends of the Library an additional Two Hundred Seventy Thousand Dollars (\$270,000.00) to be applied to the library building debt principal in accordance to the memorandum and an audit to be performed, but only after surplus property sells in order to fund the Friends of the Library rather than use the reserves.

Aye

Marty Pepper, Danny Bryant, Thomas Young, Sr., Dorothy Small, and Michael Stewart

Nay

Pat Fraley

Mayor Underwood declared the motion approved.

MEMORANDUM

TO: Board of Mayor and Alderman of the City of Fayetteville, Tennessee

FROM: James S. Hereford, Jr., City Attorney

DATE: June 23, 2011

QUESTION: Whether the City of Fayetteville, Tennessee, may utilize taxpayer funds to help satisfy a debt incurred by a nonprofit charitable organization, The Friends of the Fayetteville-Lincoln County Public Library, for the purpose of assisting in the construction of the library's new facility?

OPINION: The City of Fayetteville, Tennessee, may disburse taxpayer funds to help in the satisfaction of the debt of The Friends of the Fayetteville-Lincoln County Public Library as long as the disbursement is for a "lawful municipal purpose". In other words, a statute, code section or ordinance that meets the requirements of Article II, § 29 of the Tennessee Constitution must authorize the disbursement in question.

ANALYSIS:

1. Requirement of Public Purpose

Under *Tenn. Code Ann. § 6-56-112*, all expenditures of money made by a municipality must be for a lawful municipal purpose. Under Article II, § 29, the General Assembly may provide for counties and municipalities "to impose taxes for County and Corporation purposes respectively." That provision has been construed to prohibit counties and cities from appropriating funds for anything besides county or public purposes. *See, e.g., Metropolitan Development and Housing Agency v. Leech*, 591 S.W.2d 427, 429 (Tenn. 1979) (appropriation of county funds to a municipal housing agency to improve blighted urban areas serves a legitimate county purpose under Article II, § 29); *Southern v. Beeler*, 183 Tenn. 272, 300, 195 S.W.2d 857 (1946).

In determining whether the expenditure of public funds is for a public purpose under Article II, § 29, courts have looked to the end or total purpose of such expenditure, and the mere fact that some individual may derive an incidental benefit from the activity does not deprive the activity of its public function, if its primary function is public. *See City of Chattanooga v. Harris*, 223

Tenn. 51, 442 S.W.2d 602 (1969) (a statute requiring cities to provide defense in suits against city policemen and firemen arising out of performance of their official duties and to indemnify them against any judgment rendered served a valid public purpose under Article II, § 29, even though it also conferred a personal benefit on the policemen and firemen). Otherwise stated, the test of a public purpose is whether the expenditure confers a direct benefit of reasonably general character to a significant part of the public, as distinguished from a remote or theoretical benefit. McQuillin, *Law of Municipal Corporations* § 39.19 (3rd. ed.1993). In addition, the judgment of the local government of a municipality, as expressed by its governing body, is generally considered by the courts to be prima facie evidence as to whether an object proposed is a legitimate corporate or public purpose. See *McCallie v. Mayor of Chattanooga, 40 Tenn. 317 (1859)* and *Adams v. Memphis & L.R.R., 42 Tenn. 645 (1866)*. [*8] See also Op. Tenn. Att'y Gen. 96-011 (February 6, 1996) (use of Metro funds to develop a sports stadium expressly authorized by state law serves a constitutional public purpose as required under Article II, § 29).

In this case, the City would disburse taxpayer funds to help in the satisfaction of the debt of a nonprofit charitable organization incurred for the purpose of assisting in the construction of the library's new facility. There is no question as to whether or not the library is a public facility held by its Trustees for the benefit of the public, the citizens of Fayetteville and Lincoln County, Tennessee. This purpose is clearly a valid municipal purpose under Article II, § 29.

The question then becomes whether use of city funds for this purpose is a "valid municipal purpose" within the meaning of *Tenn. Code Ann. § 6-56-112*. An examination of the legislative history of the statute reveals that the Senate Sponsor, Senator Henry, considered the statute to require that, whenever funds are disbursed by a municipality, "the disbursement ought to be able to be matched up with a specific code section or ordinance." Senate Session, March 31, 1993 (Tape S-46). In this case, I think it can be argued that, providing it otherwise falls within the statutory limits discussed below, the City's proposed use of funds for the disbursement to The Friends of the Fayetteville-Lincoln County Public Library is authorized under *Tenn. Code Ann. §6-54-111* as an appropriation of funds for the financial aid of a nonprofit charitable organization.

2. Authority of City to Disburse Funds

Cities are generally authorized to appropriate city funds for the financial aid of civic and charitable organizations under the limitations set forth in *Tenn. Code Ann. § 6-54-111*.

Tenn. Code Ann. § 6-54-111(a)(2)(A) defines a nonprofit charitable organization as:

“one in which no part of the net earnings inures or may lawfully inure to the benefit of any private shareholder or individual and that provides year-round services benefitting the general welfare of the residents of the municipalities.”

A determination should be made that The Friends of the Fayetteville-Lincoln County Public Library is, in fact, a nonprofit charitable organization as defined above.

The Charter of the City of Fayetteville provides that the Board of Mayor and Alderman has the power to “Expend the money of the city for all lawful purposes;”. See 2010 Tennessee Private Acts, Chapter 18, Article II., § 2 (7). Further, the Charter provides that the Board may “Provide and maintain charitable, educational, recreative, curative, corrective, detentive, or penal institutions, departments, functions, facilities, instrumentalities, conveniences and services;”. See 2010 Tennessee Private Acts, Chapter 18, Article II., § 2 (27).

CONCLUSION:

Thus, it would appear that under both the laws of the State of Tennessee and the Charter of the City of Fayetteville, Tennessee, the City of Fayetteville, Tennessee, may disburse taxpayer funds to help in the satisfaction of the subject debt of The Friends of the Fayetteville-Lincoln County Public Library.

Retail Package Stores:

Motion was made by Pat Fraley, seconded by Michael Stewart, to repeal the motion made on November 8, 2011, on Chapter 8, Section 111 and to keep the number of authorized retail package stores allowed to operate within the city limits to four (4). (Mr. Lee stated that to the City's knowledge no individuals have invested money for a new package store.) Upon roll call the following voted:

Aye

Thomas Young, Sr., Dorothy Small, Pat Fraley, Michael Stewart, and Marty Pepper

Nay

None

Abstain

Danny Bryant

Mayor Underwood declared the motion approved.

Strategic Plan for City of Fayetteville:

Motion was made by Dorothy Small, seconded by Pat Fraley, to adopt the Strategic Plan for the City of Fayetteville with an amended change under opportunities to say "Expanded uses of 200 plus acres Industrial Park". Upon roll call, the following voted

Aye

Thomas Young, Sr., Dorothy Small, Pat Fraley, Michael Stewart, Marty Pepper, and Danny Bryant

Nay

None

Mayor Underwood declared the motion approved.

Resolution R-11-11:

Resolution R-11-11, a resolution entitled "Resolution Adopting A Debt Management Policy For The City Of Fayetteville, Tennessee", was considered. Said Resolution is as follows:

CITY OF FAYETTEVILLE
Resolution No. R-11- 11

**RESOLUTION ADOPTING A DEBT MANAGEMENT POLICY
FOR THE CITY OF FAYETTEVILLE, TENNESSEE**

WHEREAS, the Tennessee State Funding Board (the "Funding Board") requires that each local government in the State of Tennessee adopt a debt management policy consistent with the Funding Board requirements; and

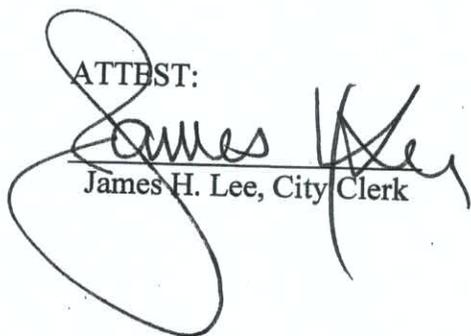
WHEREAS, the Board of Mayor and Aldermen (the "Governing Body") of the City of Fayetteville, Tennessee (the "City") has determined that debt management policy tailored to the needs of the Governing Body of the City can improve the quality of decisions, identify and disclose parameters relating to the structure and issuance of debt, identify policy goals, and provide a foundation for long-term financial planning, all of which are in the public interest of the City;

NOW, THEREFORE, BE IT RESOLVED by the Governing Body of the City that the debt management policy attached hereto as Exhibit A is hereby approved.

BE IT FURTHER RESOLVED that this Resolution and the debt management policy hereby approved shall take effect on January 1, 2012.

ADOPTED AND APPROVED this the 13 day of December, 2011.

ATTEST:


James H. Lee, City Clerk

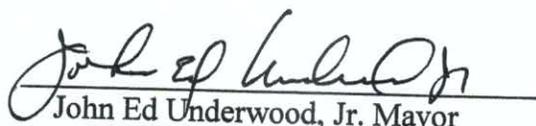

John Ed Underwood, Jr. Mayor

Exhibit A

City of Fayetteville, Tennessee

Debt Management Policy

Effective January 1, 2012

Debt Management Policy

Introduction

Debt management policies provide written guidance about the amount and type of debt issued by a state or local government, the issuance process, and the management of the debt portfolio. A debt management policy tailored to the needs of the Board of Mayor and Aldermen (the "Governing Body") of the City Fayetteville, Tennessee (the "City") can improve the quality of decisions, identify and disclose parameters relating to the structure and issuance of debt, identify policy goals, and provide a foundation for long-term financial planning, all of which are in the public interest of the City. Adherence to a debt management policy may signal to rating agencies and the capital markets that a government is well-managed and should meet its obligations in a timely manner.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. An effective debt management policy provides guidelines for a government to manage its debt program in line with those resources.

The debt program for the City includes (1) general obligation debt issued by the City for general City and City-school purposes and for which the City has pledged its full faith and credit for the payment of both principal and interest; and (2) bonds issued by the City to finance or refinance capital improvements to one or more of the utility systems operated by the Board of Public Utilities of the City of Fayetteville, Lincoln County, Tennessee ("FPU"), which bonds may be secured by revenues of the system for which improvements are being financed and/or the full faith and credit of the City.

This Debt Management Policy is intended to comply with the debt management policy requirements promulgated by the Tennessee State Funding Board.

Goals

The Governing Body is establishing a debt policy as a tool to ensure that financings undertaken by the Governing Body satisfy certain clear objective standards designed to protect the City's financial resources and to meet its long-term capital needs. The goals and objectives of this policy are:

1. To document responsibility for the oversight and management of debt related transactions;
2. To establish criteria and promote prudent financial management for the issuance of debt obligations and the evaluation of debt issuance options;
3. To identify legal and administrative limitations on the issuance of debt and ensure the legal use of the Governing Body's debt issuance authority;
4. To define the types and appropriate use of debt approved for use within the constraints established by Tennessee law;
5. To provide guidance for evaluating refunding candidates or alternative debt structures;

6. To provide support for the maintenance of strong credit ratings;
7. To enhance risk management practices; and
8. To increase transparency, reduce conflicts, and promote cooperation in the debt management process.

Debt Management Strategies

To achieve the goals set forth above, the Governing Body adopts the following debt management strategies and procedures.

A. Funding Strategies

Debt is to be issued pursuant to the authority of and in full compliance with provisions, restrictions and limitations of the Constitution and laws of the State of Tennessee (the "State") (including Title 9, Chapter 21, Tennessee Code Annotated (the "Local Government Public Obligations Act" or "LGPOL") and Title 7, Chapter 34, Part 1, Tennessee Code Annotated (the "Revenue Bond Law") and various bond authorizations enacted by the General Assembly of the State), and pursuant to resolutions adopted by the Governing Body.

1. Debt may only be used to finance or refinance:
 - "public works projects", as defined in and permitted by the LGPOL,
 - "public works", as defined in and permitted by the Revenue Bond Law,
 - Such other projects as may be specifically authorized by other laws of the State, and
 - Any and all costs related thereto as may be permitted by the LGPOL, the Revenue Bond Law or such other laws of the State (including without limitation issuance costs, capitalized interest and the funding of debt service reserves)

The purpose of all debt must be authorized by the Governing Body.

2. Prior to the issuance of bonds, bond anticipation notes may be issued for the payment of capital costs of projects as authorized by a resolution of the Governing Body.
3. Debt shall be secured by and payable from the following sources of funds:
 - a. In the case of debt issued to finance non-utilities public works projects under the authority of the LGPOL, the full faith and credit of the City; and

b. In the case of debt issued to finance capital improvements to the utility systems operated by FPU under the authority of the LGPOL or the Revenue Bond Law, the revenues of the system being financed and/or the full faith and credit of the City.

B. Federal Tax Status

1. **Tax-Exempt Debt** — Based on the assumptions that tax-exempt interest rates are lower than taxable rates and that the interest savings outweigh the administrative costs, restrictions on use of financed projects, and investment constraints; the City will use its best efforts to maximize the amount of debt sold under this policy as tax-exempt.
2. **Taxable Debt** — The City will sell taxable debt when necessary to finance projects with a private use or uncontrolled purpose. The Governing Body encourages the financing team to blend the financing of taxable projects with the financing of tax-exempt projects whenever possible and economically advantageous.

C. Legal Limitations on the Use of Debt

1. No debt obligation, except for tax anticipation notes, shall be issued to fund the current operation of the City or any department thereof. Tax anticipation notes will not be issued except upon approval of the Governing Body and strict compliance with the applicable provisions of the LGPOL, including without limitation the provisions requiring that such notes mature no later than the end of the fiscal year in which they are issued.
2. The proceeds of any debt obligation shall be expended only for the purpose for which it was authorized by the Governing Body.
3. In accordance with the LGPOL, general obligation bonds may not be issued to finance public works projects unless and until:
 - the Governing Body has adopted and published an initial resolution authorizing the financing;
 - the initial resolution is published with a notice giving voters a 20-day right to protest the financing; and
 - if a protest is filed by 10% of voters, a referendum is held and the financing is approved by the voters.

In accordance with the LGPOL and the Revenue Bond Law, general obligation capital outlay notes and bonds secured solely by the revenues of a utility system may be issued without regard to these requirements.

4. Except for bond anticipation notes issued in anticipation of a state or federal loan, the City shall not issue any notes under the LGPOL without first seeking the approval of the Comptroller of the State, or his or her designee.

Types of Debt

Pursuant to the LGPOL and the Revenue Bond Law, the City is authorized from time to time to issue its negotiable bonds and notes. Each issuance of debt is authorized by a Resolution adopted by the Governing Body.

A. Long Term Bonds

The City may issue long term bonds under the LGPOL or the Revenue Bond Law to finance capital projects or refinance outstanding debt. These bonds may be structured as:

1. **Fixed Rate Bonds** — Bonds that have an interest rate that remains constant throughout the life of the bond.
2. **Variable Rate Bonds** — Bonds which bear a variable interest rate through the term thereof. Provision as to the calculation or change of variable interest rates shall be included in the authorizing resolution. Variable rate debt shall be subject to the following limitations:
 - a. The City will limit its exposure to long-term variable rate debt to the lesser of the following:
 - i. 25% of the total principal amount of outstanding long term debt payable from a particular funding source (ie. general fund, water and wastewater fund, natural gas fund, electric fund and telecommunications fund); or
 - ii. 50% of the cash balance maintained by such funding source (ie. general fund, water and wastewater fund, natural gas fund, electric fund and telecommunications fund), excluding capital projects funds or accounts funded with bond proceeds or grants, measured as of the end of the fiscal year preceding the issuance of the variable rate debt;
 - b. The City and/or FPU (as applicable) will annually include in the appropriate budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration; and
 - c. The City's Finance Director shall be responsible for monitoring the performance of the remarketing agent, if any, the name and ratings of any

letter-of-credit banks or liquidity facility providers, the expiration date of any letter-of-credit or liquidity facility, and the amount of any on-going fees associated with the variable rate debt.

B. Short Term Debt

The City may issue short term debt by resolution of the Governing Body or, in the case of Revenue Anticipation Notes (as described in Section 5 below), the Board of FPU. Debt issued in a short-term mode shall be of one of the following types:

1. **Bond Anticipation Notes (BANs)** — BANs are short term obligations authorized to be issued under the LGPOL and the Revenue Bond Law that will be repaid by proceeds of a subsequent long-term bond issue. BANs will not be issued unless and until all steps prerequisite to the issuance of the anticipated long term bonds have been taken.
2. **Capital Outlay Notes (CONs)** - CONs are short term notes (less than 12 year maturities), authorized by the LGPOL, secured by a pledge of the City's full faith and credit. CONs may be issued when the City wishes to finance capital projects over a relatively short period.
3. **Grant Anticipation Notes (GANs)** - GANs are short term notes, authorized by the LGPOL, secured as to interest by a pledge of the City's full faith and credit and as to principal by a pledge of the proceeds of an anticipated grant from a state or federal agency. GANs may be issued when the City wishes to finance capital projects in anticipation of a grant from a state or federal agency. The principal amount of the GANs shall not exceed the amount of the anticipated grant.
4. **Tax Anticipation Notes (TANs)** - TANs are short term notes, authorized by the LGPOL, secured by a pledge of taxes and other general fund revenues in the then current fiscal year of the City. TANs, if issued, will constitute direct obligations of the City backed by the full faith and credit of the City. All TANs will be paid in the same fiscal year in which they are issued.
5. **Revenue Anticipation Notes (RANs)** – RANs are notes of not more than five years in length, authorized by the Revenue Bond Law, secured solely by the revenues of one or more of FPU's utility systems. RANs may be approved solely by the Board of FPU, and may be refunded with long term bonds issued pursuant to the LGPOL or the Revenue Bond Law.

The City may undertake interfund borrowings, in which amounts on deposit in one City fund are lent to another fund, in the form of any of the notes listed above. All such interfund borrowings shall be approved by the Governing Body

and, to the extent required by the LGPOL, shall be preceded by receipt of the approval of the State Comptroller.

Short-term debt may be structured as fixed rate or variable rate instruments. Unless the City expects that the interest on the short-term debt is to be paid from long-term bond proceeds (e.g. bond anticipation notes), the City will annually include in the appropriate budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration. Given its short-term nature, there is no limitation on the amount of short-term debt that may be issued at variable rates.

C. Loans from Public Building Authorities

The City may enter into loan agreements with one or more public building authorities, pursuant to Sections 12-10-101 et seq., Tennessee Code Annotated, in lieu of issuing bonds or notes under the LGPOL or the Revenue Bond Law. The policies set forth herein for bonds issued under the LGPOL or the Revenue Bond Law shall be equally applicable to loan agreements entered into with a public building authority except that all loan agreements may be entered into pursuant to a negotiated sale. The City shall not enter into loan agreements with public building authorities in lieu of issuing its own debt, unless the Governing Body determines that the City cannot reasonably accomplish its financing objectives through the issuance of its own debt.

D. Loans from State or Federal Agencies

The City may incur debt in the form of loans from State or federal agencies for any purpose authorized by the laws of the State, upon approval by resolution of the Governing Body. Loans are evidenced by a loan agreement between the City and the lending agency.

Provisions Related to Debt for Utility Systems Operated by FPU

The following provisions are applicable to debt issued for the benefit of the utility systems operated by FPU, and supersede any contrary provisions otherwise set forth in this Policy.

A. Approval

Debt issued to finance capital improvements to one or more of the utility systems operated by FPU shall be approved by the Governing Body, except for RANs, which may be issued upon the approval of the Board of FPU, a copy of which approval will be sent to the Finance Director. Prior to approval of utility debt by the Governing Body, the Board of FPU shall adopt a resolution recommending the Governing Body's approval of the debt.

B. Source of Security and Payment

All debt issued for the benefit of FPU shall be payable from the revenues of the utility system being financed. The City may elect to additionally secure such debt with a full faith and credit pledge of the City, if the Governing Body determines that it is in the City's best interest to do so.

C. Responsibility of Chief Financial Officer of FPU

With respect to debt incurred for the benefit of FPU, the CEO/General Manager and the Manager of Finance and Office Services shall also be responsible for each requirement of the Finance Director under this policy. Such FPU officers and the Finance Director shall coordinate their activities to avoid duplication of effort and to ensure compliance with the terms of this Policy.

Debt Management Practices

A. Structure

The Governing Body shall establish by resolution all terms and conditions relating to the issuance of debt.

1. Term

Any debt (including refunding debt) shall have a weighted average maturity not greater than the weighted average expected life of the assets financed by such debt. In addition, the final maturity of any bond debt should not be longer than the expected life of the longest lived asset financed thereby.

2. Capitalized Interest

Interest on a debt issue may be financed (capitalized) through a period permitted by federal law and the authorizing resolution of the Governing Body if it is determined that doing so is consistent with the financial objectives of the City.

3. Debt Service Structure

Debt issuance shall be planned to achieve, in conjunction with other outstanding City debt service, a debt service schedule that – over the long term – is approximately level or declining. This policy shall be applied separately to debt payable from a particular funding source (ie. general fund, water and wastewater fund, natural gas fund, electric fund and telecommunications fund).

4. **Call Provisions**

The City will strive to issue all of its debt with a call feature occurring no later than the end of the tenth year after delivery of the bonds. In any event, call features should be structured to provide the maximum flexibility relative to cost. The City will avoid the sale of long-term non-callable bonds absent careful evaluation by the Governing Body with respect to the value of the call option.

B. Refinancing Outstanding Debt

1. **Purposes**

Bonds will be considered for refunding when the refunding generates results in aggregate net present value savings to the City. In determining whether a refunding is advisable, the Governing Body shall take into account, among other factors, the level of savings, the call date and final maturity date of the refunded bonds, and projected interest rates relative to historical interest rate levels. The Finance Director shall have the responsibility to periodically analyze outstanding bond issues to determine whether bonds can be refunded for debt service savings.

The City may also consider refunding bonds if necessary due to a change in private/public use of a project that would cause a need to change the tax status of the bonds.

The City may also consider refunding bonds to restructure outstanding debt service; provided that the costs of such restructuring shall be presented to the Governing Body and the Governing Body must expressly determine by resolution that the restructuring is in the City's best interest.

The City may also consider refunding bonds to restructure revenue bonds in order to free the City from burdensome restrictions or covenants.

2. **Term of Refunding Issues**

The Governing Body will refund bonds within the term of the originally issued debt, unless otherwise expressly approved by resolution of the Governing Body.

3. **Escrow Structuring**

In structuring refunding escrows, the City shall only utilize investments permitted under applicable law. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the City from its own account.

C. Methods of Sale

General obligation bonds issued to finance new projects shall be sold through a competitive bid process. Revenue bonds, notes and refunding bonds may be sold through either a competitive bid process or through a negotiated sale. Loan agreements shall be entered into directly with the lending agency or authority.

1. **Competitive** — In a competitive sale, the City's bonds shall be awarded to the bidder providing the lowest true interest cost as long as the bid adheres in all material respects to the requirements set forth in the official notice of sale.
2. **Negotiated** — In a negotiated sale, the underwriter(s) will be chosen prior to the sale and the interest rate and underwriter's fees will be negotiated prior to the sale. The factors to be considered for a negotiated sale include the following:
 - Volatility of market conditions
 - Size and complexity of the bond sale
 - Credit strength
 - In the case of a refunding, timing and interest rate sensitivity
 - Whether the bonds are structured in a manner that is not conducive to competitive sale (e.g. variable rate bonds)

D. Underwriter Selection (Negotiated Transaction)

1. **Selection Criteria** — The City shall select, or provide for the selection of, the underwriter(s) for a proposed negotiated sale. The selection criteria shall include but not be limited to the following:
 - Ability and experience in managing similar transactions;
 - Prior knowledge and experience with the City;
 - Capital adequacy;
 - Quality and experience of personnel assigned to the City's engagement;
 - Financing ideas presented; and
 - Underwriting fees.
2. **Underwriter's Discount** — The City will evaluate the proposed underwriter's discount in comparison to other issues in the market. All fees will be determined prior to the sale date; a cap on expenses and

underwriter's counsel, if any, will be established and communicated to all parties by the City.

3. **Evaluation of Underwriter Performance** — The City Administrator and Finance Director will evaluate each bond sale after completion to assess the following: costs of issuance including the underwriter's compensation, and the pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis.

E. Credit Quality

The City's debt management activities will be conducted to maintain the highest credit ratings possible, consistent with City's financing and public policy objectives. The Finance Director will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the City's debt. Full disclosure of operations and open lines of communication shall be maintained with the rating agencies. The Finance Director shall prepare and make presentations to the rating agencies, as needed, to assist credit analysts in making an informed decision.

F. Credit Enhancements

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

1. **Bond 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. For competitive sales, the City may either purchase bond insurance or make the issue eligible for bond insurance and allow the purchaser of the bonds to determine whether bond insurance will be used, and to pay for such bond insurance.

2. **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 will prepare and distribute a request for qualifications to qualified banks or other qualified financial institutions which includes terms and conditions that are acceptable to the City.

3. **Liquidity**

For variable rate debt requiring liquidity facilities to protect against remarketing risk, the City will evaluate:

- Alternative forms of liquidity, including direct pay letters of credit, standby letters of credit, and line of credit, in order to balance the protection offered against the economic costs associated with each alternative;
- Diversification among liquidity providers, thereby limiting exposure to any individual liquidity provider; and
- All cost components attendant to the liquidity facility, including commitment fees, standby fees, draw fees, and interest rates charged against liquidity draws.

G. Use of Structured Products

No interest rate agreements or forward purchase agreements will be considered unless (1) a policy defining the use of such products is approved by the Governing Body before the transaction is considered, and (2) such policy and such agreements are adopted and entered into in accordance with the restrictions and limitations set forth in applicable law.

H. Risk Assessment

The City will evaluate each transaction to assess the types and amounts of risk associated with that transaction, considering all available means to mitigate those risks. The City will evaluate all proposed transactions for consistency with the objectives and constraints defined in this Policy. The following risks should be assessed before issuing debt:

1. **Change in Public/Private Use** — The change in the public/private use of a project that is funded by tax-exempt funds could potentially cause a bond issue to become taxable.

2. **Default Risk** — The risk that debt service payments cannot be made by the due date.
3. **Liquidity Risk** — The risk of having to pay a higher rate to the liquidity provider in the event of a failed remarketing.
4. **Interest Rate Risk** — The risk that interest rates will rise, on a sustained basis, above levels that would have been set if the issued had been fixed.
5. **Rollover Risk** — The risk of the inability to obtain a suitable liquidity facility at an acceptable price to replace a facility upon termination or expiration of a contract period.
6. **Credit Risk** — The risk that an issuer of debt securities or a borrower may default on his obligations by failing to repay principal and interest in a timely manner.
7. **Fee Risk** — The risk that on-going fees may increase beyond what is initially expected.

I. Continuing Disclosure

To the extent that any of the City's debt issues are subject to disclosure agreements required by U.S. Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-12"), the Finance Director will ensure that the City remains in compliance with such agreements. Specifically, the Finance Director will provide certain financial information and operating data by specified dates, and will provide notice of certain enumerated events with respect to the bonds, all as described in Rule 15c2-12.

J. Transparency

The City shall comply with the Tennessee Open Meetings Act, providing adequate public notice of meetings and specifying on the agenda when matters related to debt issuance will be considered. Additionally, in the interest of transparency, all costs (including interest, issuance, continuing, and one-time) shall be disclosed to the Governing Body and citizens in a timely manner. In order to comply with the requirements of the preceding sentence, an estimate of the costs described above will be presented to the Governing Body along with any resolution authorizing debt.

Within four weeks of closing on a debt transaction, the debt service schedule and the State Form CT-0253 shall be available at the office of the Finance Director for review by members of the Governing Body and the public.

K. Professional Services

Contracts for professional services related to debt shall be awarded on the basis of recognized competence and integrity, as required by Section 12-4-106, Tennessee Code Annotated. All professionals engaged to assist in the process of issuing debt shall be required to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by the City. This includes "soft" costs or compensations in lieu of direct payments.

1. **Counsel** — 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 serves as counsel to the City regarding City matters generally.
2. **Bond Counsel** — Bond counsel for each debt transaction is contracted by the Mayor of the City, as advised by the Finance Director, City Administrator and City Attorney, and serves to assist the City in such debt issue.
3. **Financial Advisor** — If the City chooses to engage a financial advisor for a debt transaction, the City shall enter into a written contract with the financial advisor on terms and conditions approved by the Finance Director, City Administrator and City Attorney. The financial advisor shall not be permitted to bid on or underwrite an issue for which they are or have been providing advisory services.
4. **Underwriter** — If there is an underwriter for a debt issue, the underwriter must clearly identify itself to the City in writing (e.g., in a response to a request for proposals or in promotional materials provided to the City) 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 Finance Director in advance of the pricing of the debt.

L. Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the City shall be required to disclose 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, 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.

Debt Administration

A. Planning for Sale

1. The Finance Director will present to the members of the Governing Body the purpose of the financing, the proposed structure of the financing, the proposed method of sale for the financing, members of the proposed financing team, and an estimate of all the costs associated with the financing.
2. In the case of a proposed refunding, proposed use of credit enhancement, or proposed use of variable rate debt, the Finance Director will present the rationale for using the proposed debt structure, an estimate of the expected savings associated with the transaction (if applicable) and a discussion of the potential risks associated with the proposed structure.
3. If required by Rule 15c2-12, the Finance Director, the bond counsel, financial advisor, if any, along with other members of the financing team will prepare a Preliminary Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.

B. Post Sale

1. The Finance Director will maintain for review by members of the Governing Body and the public a report, such as State Form CT-0253, describing the transaction and setting forth all the estimated costs associated with the transaction.
2. The Finance Director will obtain a closing memorandum with written instructions on transfer and flow of funds.
3. The Finance Director, the bond counsel, financial advisor, if any, along with other members of the financing team will prepare an Official Statement describing the transaction and the security for the debt that is fully compliant with all legal requirements.

4. Any proceeds of bonds, notes or other indebtedness will be invested pursuant to applicable State law.

Federal Tax Post-Issuance Compliance Policies and Procedures

In order to issue tax-exempt debt obligations ("Tax-Exempt Obligations"), the interest on which is excluded from gross income of the holders of such debt obligations, the City must comply with federal tax rules regarding expenditure of proceeds, use of financed property, investment of proceeds in compliance with arbitrage rules, retention of records and filings with the Internal Revenue Service pursuant to Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"). The provisions set forth below set forth the City's policies for compliance with Sections 141-150 of the Code and related rules and regulations.

A. Expenditure of Proceeds

Expenditure of proceeds as set forth below will be reviewed and managed by the Finance Director and City Administrator as needed to ensure compliance with the requirements with each tax certificate executed in connection with Tax-Exempt Obligations. In connection with such review and management, the Finance Director and City Administrator will undertake the following with respect to the expenditure of proceeds of Tax-Exempt Obligations:

1. Establish forms and procedures for documenting expenditures of the proceeds, including a description of the property financed with each expenditure.
2. Only permit proceeds to be expended for capital expenditures, working capital if accompanied by an opinion of nationally recognized bond counsel, refunding of Tax-Exempt Obligations and other debt obligations used for the foregoing purposes, and costs of issuance of Tax-Exempt Obligations.
3. Not permit amounts to be expended to pay capitalized interest on Tax-Exempt Obligations except during the actual construction period of financed property unless accompanied by an opinion of nationally recognized bond counsel.
4. Restrict reimbursement of costs that were paid prior to the issuance of the Tax-Exempt Obligations to costs paid subsequent to, or not more than 60 days prior to, the date a "declaration of intent" to reimburse the costs was adopted by the Governing Body or as is otherwise approved by bond counsel.
5. Prepare a "final allocation" of proceeds to uses, which will be made and retained with the records of the Tax-Exempt Obligations, not later than 18

months after the placed-in-service date of the financed property (and in any event not later than 5 years and 60 days after the issuance of the issue).

6. Monitor the expenditure of proceeds of the Tax-Exempt Obligations against any tax certificate expectations.
7. Monitor the expenditure of proceeds of the Tax-Exempt Obligations against the schedule for the arbitrage rebate exception or exceptions identified in the tax certificate related to such issue of Tax-Exempt Obligations.

B. Use of Property Financed with Tax-Exempt Obligations

Use of property financed with Tax-Exempt Obligations, when completed and placed in service, will be reviewed by the Finance Director and City Administrator on at least an annual basis.

The City will not do any of the following with respect to the financed property without prior discussion with bond counsel regarding potential effect of such action on the tax exemption of the Tax-Exempt Obligations that financed or refinanced such property:

1. Enter into a management, service or incentive payment contract with any non-governmental person or entity (including the federal government) (a "Non-Governmental Person").
2. Enter into a lease with any Non-Governmental Person.
3. Sell or otherwise transfer such property to any Non-Governmental Person.
4. Grant special legal entitlements with respect to such property to any Non-Governmental Person.
5. Enter into an "output contract", as defined in Section 1.141-7 of the Treasury Regulations promulgated under the Code, that has the effect of transferring the benefits of owning the financed facility and the burden of paying debt service on the pertinent Tax-Exempt Obligation to a Non-Governmental Person.

C. Investment of Proceeds

Investment of proceeds of Tax-Exempt Obligations in compliance with the arbitrage bond rules and rebate of arbitrage will be supervised by the Finance Director and City Administrator.

All proceeds of each Tax-Exempt Obligation will be deposited and maintained in a separate account or accounts. The investment of Tax-Exempt Obligations proceeds shall comply with the following:

1. Investments will be purchased only in market transactions at fair market value.
2. Calculations of rebate liability will be performed periodically as set forth in the tax certificate by outside consultants unless the City is eligible for an exception to rebate liability with respect to the Tax-Exempt Obligations.
3. Rebate payments, if required, will be made with Form 8038-T no later than 60 days after (a) each fifth anniversary of the date of issuance and (b) the final retirement of the Tax-Exempt Obligations. Compliance with rebate requirements will be reported to the bond trustee, if any, and the issuer.
4. The City will identify the date for first rebate payment at time of issuance if rebate payments are expected.

D. Records

Management and retention of records related to Tax-Exempt Obligations will be supervised by the Finance Director and City Administrator.

1. Records will be retained for the life of the Tax-Exempt Obligations plus any refunding bonds plus six years. Records may be in the form of documents or electronic copies of documents, appropriately indexed to specific bond issues and compliance functions.
2. Retain records pertaining to the issuance of Tax-Exempt Obligations including the transcript of documents executed in connection with the issuance of the Tax-Exempt Obligations and any amendments, and copies of rebate calculations and records of payments including Form 8038-T.
3. Retain records pertaining to expenditures of proceeds of Tax-Exempt Obligations including requisitions, trustee statements (if any) and final allocation of proceeds.
4. Retain records pertaining to use of property include all agreements reviewed for nonexempt use and any reviewed documents relating to unrelated business activity.
5. Retain records pertaining to investments include GIC and hedge documents under the Treasury regulations, records of purchase and sale of

other investments, and records of investment activity sufficient to permit calculation of arbitrage rebate or demonstration that no rebate is due.

E. Identification of Violations

The Finance Director and City Administrator shall be responsible for identifying any violations of federal tax requirements relating to any Tax-Exempt Obligations and shall consult with bond counsel as to best method for the timely correction of any identified violations either through available remedial actions or through the IRS's Voluntary Closing Agreement Program.

Review of the Policy

The debt policy guidelines outlined herein are only intended to provide general direction regarding the future use and execution of debt. A violation of the Governing Body's debt policy shall in no way be interpreted as a violation of law and shall have no bearing on the validity of debt issued by the Governing Body. The Governing Body maintains the right to modify these guidelines (except to the extent these guidelines are mandated by applicable state law or regulation) and may make exceptions to any of them at any time to the extent that the execution of such debt achieves the Governing Body's goals. Any exceptions to these policies shall be expressly acknowledged in the resolution authorizing the pertinent debt issue. In the event of a conflict between the terms of a debt resolution and this policy, the terms of the debt resolution shall control.

This policy will be periodically reviewed by the Finance Director. The Finance Director may at any time present recommendations for any amendments, deletions, additions, improvements or clarifications.

Adoption of the Policy

The Governing Body adopted this Policy on December 13, 2011, effective January 1, 2012.

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Motion was made by Dorothy Small, seconded by Michael Stewart, to approve Resolution R-11-11. Upon roll call, the following voted:

Aye

Dorothy Small, Pat Fraley, Michael Stewart, Marty Pepper, Danny Bryant, and Thomas Young, Sr.

Nay

None

Mayor Underwood declared the motion approved.

Excess Property and Survey Fees of the BioSolid Field:

Motion was made by Danny Bryant, seconded by Michael Stewart, to declare the BioSolid Field on Wilson Parkway as excess property, to spend up to Five Thousand Dollars (\$5,000.00) to have the property surveyed and to have that Five Thousand Dollars (\$5,000.00) reimbursed back to the reserve fund if and when the property sells. Upon roll call, the following voted:

Aye

Pat Fraley, Michael Stewart, Marty Pepper, Danny Bryant, Thomas Young, Sr., and Dorothy Small

Nay

None

Mayor Underwood declared the motion approved.

New Weapons for Police:

Motion was made by Marty Pepper, seconded by Michael Stewart, to approve the purchase of new weapons for the Police Department, not to exceed Seventy-Three Thousand Dollars (\$73,000.00). Upon roll call, the following voted:

Aye

Michael Stewart, Marty Pepper, Danny Bryant, Thomas Young, Sr., Dorothy Small, and Pat Fraley

Nay

None

Mayor Underwood declared the motion approved

HazMat Trailer for the Fire Department:

Motion was made by Michael Stewart, seconded by Marty Pepper, to purchase a HazMat Trailer for the Fire Department, not to exceed Six Thousand Dollars (\$6,000.00). Upon roll call, the following voted:

Aye

Marty Pepper, Danny Bryant, Thomas Young, Sr., Dorothy Small, Pat Fraley, and Michael Stewart

Nay

None

Mayor Underwood declared the motion approved.

Stone Bridge Park Channel Repair:

Motion was made by Danny Bryant, seconded by Tom Young, to approve the project of placing a liner in the Stone Bridge Park Channel for up to Seventy-Three Thousand Dollars (\$73,000.00) which will be taken from the General Obligation bond created by Resolution R-09-02 passed on March 2009. Upon roll call, the following voted:

Aye

Danny Bryant, Thomas Young, Sr., Dorothy Small, Pat Fraley, Michael Stewart, and Marty Pepper

Nay

None

Mayor Underwood declared the motion approved.

Reappointment to the Board of Zoning Appeals:

Motion was made by Marty Pepper, seconded by Dorothy Small, to reappoint Toddy Layne to the Board of Zoning Appeals. Upon roll call, the following voted:

Aye

Thomas Young, Sr., Dorothy Small, Pat Fraley, Michael Stewart, Marty Pepper, and Danny Bryant

Nay

None

Mayor Underwood declared the motion approved.

Adjustment and Appeal Board:

Mayor Underwood informed the Board that he will be recommending five (5) people for the Adjustment and Appeal Board, which will be brought before the Board at January's meeting.

Motion was made, seconded, and unanimously adopted to adjourn.

Mayor

Clerk