



Policy 25 – Debt Management Policy

Adoption Date: November 2, 2012

Effective Date: November 2, 2012

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 Webb Creek Utility District of Sevier County, Tennessee (the "District"), the issuance process and the management of the District'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 District that this Debt Policy will signal to credit rating agencies, investors and the capital markets that the District is well managed and will always be prepared to meet its obligations in a timely manner. This Debt Policy fulfills the requirements of the State of Tennessee regarding the adoption of a formal debt management policy on or before January 1, 2012.

This Debt Policy provides guidelines for the District to manage its debt and related annual costs using both current and projected available resources while promoting understanding and transparency for ratepayers, businesses, financial institutions, investors and other interrelated parties.

In managing its debt, it is the District'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.

Goals and Objectives

Debt policies and procedures are tools that ensure that financial resources are adequate to meet the District's long-term capital planning objectives. In addition, this Debt Policy helps to ensure that financings undertaken by the District have certain clear and objective standards that allow the District to protect its financial resources in order to meet its long-term capital needs.

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This Debt Policy formally establishes parameters for issuing debt and managing a debt portfolio which considers the District's specific capital improvement needs, ability to repay financial obligations, and existing legal, economic and financial market conditions. Specifically, this policy is intended to assist in the following:

- To guide the District in policy and debt issuance decisions.
- To maintain appropriate capital assets for present and future needs.
- To promote sound financial judgment.
- To protect the District's credit rating.
- To ensure the District'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.

Definition of Debt

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

Authority and Approval

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

The District will adhere to any lawfully promulgated rules and regulations of the State and those promulgated under the Code. Bond anticipation notes, capital outlay notes, grant anticipation notes, land revenue anticipation notes will be submitted to the State of Tennessee Comptroller's Office and the Board of Commissioners prior to issuance or entering into the obligation. A plan for refunding debt issues will also be submitted to the Comptroller's Office prior to issuance. Capital or operating leases may be entered into by the District with details on the lease agreement to be forwarded to the Comptroller's Office as may be required.

All debt will be formally authorized by resolution of the Board of Commissioners as may be required by law.

Transparency

The District shall comply with legal requirements for notice and for public meetings related to debt issuance. All costs (including principal, interest, issuance, continuing, and one-time) shall be clearly presented and disclosed to the Board of Commissioners, ratepayers, and other stakeholders in a timely manner. The terms and life of each debt issue shall be clearly presented and disclosed to the Board of Commissioners, ratepayers, and other stakeholders in a timely manner. A debt service schedule outlining the retirement of the principal amount shall be clearly presented and disclosed to the Board of Commissioners, ratepayers, and other stakeholders in a timely manner.

The issuance of debt has various approvals and on occasion, written reports shall be 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 District shall provide the Tennessee Comptroller's office sufficient information on the debt to not only allow for transparency regarding the issuance, but also assuring that the Comptroller's office has sufficient information to adequately report or approve any formal action related to the sale and issuance of debt. The District will also make this information available to the Board of Commissioners, ratepayers and other stakeholders in a timely manner. The District will file its Audited Financial Statements and any Continuing Disclosure document prepared by the District or its Dissemination Agent as may be required, and shall make available the same to all interested parties in a timely manner.

Credit Quality and Credit Enhancement

The District's debt management activities will be conducted in order to maintain or receive the highest possible credit ratings. The District will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when clearly demonstrable savings can be shown shall an enhancement be considered. The District will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements:

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

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

Affordability

The District shall consider the ability to repay debt as it relates to the total budget resources, the wealth and income of the community, and other revenues available to service the debt. The District may consider debt ratios and other benchmarks compared to its peers when analyzing its debt including materials published by the nationally recognized credit rating agencies. The District's total outstanding debt obligation will be monitored and reported to the Board of Commissioners on an annual basis through various schedules included in both the Audited Financial Statements and Annual Budget. The Manager shall monitor the maturities, terms, and conditions of all obligations to ensure compliance. The Manager shall also report to the Board of Commissioners any matter that adversely affects the credit or financial integrity of the District.

Debt Structure

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

Term

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

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

Capitalized Interest

From time to time, certain financings may require the use of capitalized interest from the date of issuance until the District is able to realize beneficial use and/or occupancy of the financed project. Interest may be capitalized through a period permitted by law.

Debt Service Structure

Debt issuance shall be planned to achieve relatively net level debt service or level principal amortization considering the District's outstanding debt obligations while - matching debt service to the useful economic life of facilities. Absent events or circumstances determined by the Board of Commissioners, the District shall avoid the use of bullet or balloon maturities (with the exception of sinking fund requirements required by term bonds) except in those instances where such maturities serve to make existing overall debt service levels appropriate or match specific income streams. Debt which is supported by project revenues and is intended to be self-supporting should be structured to achieve level proportional coverage to expected available revenues. The District may consider possible future debt issuance structures when determining the overall debt service structure of the District.

Call Provisions

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

Original Issuance Discount/Premium

Debt with original issuance discount/premium will be permitted.

Deep Discount Bonds

Deep discount debt may provide a lower cost of borrowing in certain capital markets. The Manager and/or professionals, if any, should carefully consider their value and effect on any future refinancing 8S a result of the lower than market coupon.

Types and Limits of Debt

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

Security Structure

Revenue Debt -The District 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

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for capital projects which can be supported from project or enterprise -related revenues.

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

Duration

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

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

2. Capital Outlay Notes ("CONs"). CONs may be issued to finance capital infrastructure projects with an expected life up to twelve years.

3. Capitalized Leases. Capitalized Leases may be issued to finance infrastructure projects or equipment with a term not greater than its expected useful life.

Short-Term Debt -Short-term borrowing may be utilized for:

1. Financing short economic life assets;
2. The construction period of long-term projects;
3. For interim financing; or
4. For the temporary funding of operational cash flow deficits or anticipated revenues subject to the following policies:

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

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

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

o Other Short-Term Debt. Other Short-Term Debt 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

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mode. The District will determine and utilize the most advantageous method for short-term borrowing. The District may issue short-term debt when there is a defined repayment source or amortization of principal.

Negotiated Sale

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

- State requirements on negotiated sales;
- Debt structure which may require a strong pre-marketing effort such as those associated with a complex transaction generally referred to as a "story" bond;
- Size or structure of the issue which may limit the number of potential bidders;
- Market conditions including volatility wherein the District would be better served by the flexibility afforded by careful timing and marketing such as is the case for debt issued to refinance or refund existing debt;
- Whether the debt is to be issued as variable rate obligations or perhaps as Zero Coupon Debt;
- Whether an idea or financing structure is a proprietary product of a single firm;
- In a publicly offered or privately placed negotiated sale, a financial advisor shall not be permitted to privately place or underwrite an issue for which they are, or have been providing, advisory services for the issuance; and
- If there is an underwriter, the District shall require the underwriter to clearly identify itself in writing (e.g., in promotional materials provided to) as an underwriter and not as a financial advisor from the earliest stages of its relationship with the District 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 District. 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 District in advance of the pricing of the debt.

Private Placement

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

Professional Services

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

- Relevant experience with municipal utility issuers and the public sector;
- Indication that the firm has a broadly based background and is therefore capable of balancing the District's overall needs for continuity and innovation in capital planning and debt financing;
- Experience and demonstrated success as indicated by its experience;
- The firm's professional reputation;
- Professional qualifications and experience of principal employees; and
- The estimated costs, but price should not be the sole determining factor.

The District shall require all professionals engaged in the process of issuing debt to clearly disclose all compensation and consideration received related to services provided in the debt issuance process by both the District and the lender or conduit issuer, if any. This includes "soft" costs or compensation in lieu of direct payments.

- **Counsel:** The District shall enter into an engagement letter agreement with each lawyer or law firm representing the District in a debt transaction. No engagement letter is required for any lawyer who is an employee of the District or lawyer or law firm which is under a general appointment or contract to serve as counsel to the District. The District does not need an engagement letter with counsel not representing the District, such as underwriters' counsel.
- **Financial Advisor:** The District shall enter into a written agreement with each person or firm serving as financial advisor for debt management and transactions.
- **Professionals involved in a debt transaction hired or compensated by the District** shall be required to disclose to the District existing client and business relationships between and among the professionals to a transaction (including but not limited to financial advisor, swap advisor, bond counsel, swap counsel, trustee, paying agent, liquidity or credit enhancement provider, underwriter, counterparty, and remarketing agent), as well as conduit issuers, sponsoring organizations and program administrators. This disclosure shall include that information reasonably sufficient to allow the District to understand the significance of the relationships.

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- Professionals who become Involved in the debt transaction as a result of a bid submitted in a widely and publicly advertised competitive sale conducted using an industry standard electronic bidding platform are not subject to this disclosure. No disclosure is required that would violate any rule or regulation of professional conduct.

Compliance

Continuing Annual Disclosure

Normally at the time debt is delivered, the District 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 District by not later than twelve months after each of the District's fiscal years, (the "Annual Report") and provide notice of the occurrence of certain enumerated events). The Annual Report will be filed with the MSRB through the operation of the Electronic Municipal Market Access system ("EMMA") and any State Information Depository established in the State of Tennessee (the "SID"). If the District is unable to provide the Annual Report to the MSRB and any SID by the date required, notice of each failure will be sent to the MSRB and any SID on or before such date. The notices of certain enumerated events will be filed by the District with the MSRB through EMMA and any SID. The specific nature of the information to be contained in the Annual Report or the notices of significant events is provided in each Continuing Disclosure Certificate. These covenants are made in order to assist underwriters in complying with SEC Rule 15c2-12(b) (the "Rule").

Arbitrage Rebate

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

Records

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

Debt Policy Review

The guidelines outlined herein are only intended to provide general direction regarding the future issuance of debt. The District 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 District as long as such exceptions or changes are consistent with TCA and any rules and regulations promulgated by the State.

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

Revision #1 Dated March 7, 2014