Goal/Mission: To provide management with appropriate guidelines and direction to assist in making sound debt management decisions. To further demonstrate strong financial management practices for our county citizens, outside investors, and credit agencies.

Objectives:

1. Provide a synopsis of the types of financing available to Roane County; thereby, obtaining an understanding of the transaction and related cost and risk
2. Enhance decision making process transparency
3. Identify all expenditures of principal, interest, and annual costs along with issue specific transaction costs
4. Address hiring outside professionals and any potential conflict of interest issues
5. Specify requirements and decision making checklist for new debt

This policy references:

- Capital Asset Policy
- Capital Asset Plan
- An Annual Debt Report
- Specific New Issue Report
- Attachment A- State Form CT-0253
- Attachment B- Bench Marks
- Attachment C- Fund Balance Policy

1. Synopsis of the Types of Financing Anticipated for Roane County and Related Cost and Risk

All financing shall be approved by the Roane County Commission and the Tennessee Comptroller's Office within legal guidelines of Tennessee Law and regulations set forth by the comptroller's office.

Potential Financing Methods:

- **Tax/Revenue Anticipation Notes** – Used for cash flow purposes until annual revenues are received for a particular fund. All borrowing is required to be fully paid back by the end of the current fiscal year. Tax/Revenue Anticipation Notes shall be used on a limited basis and if the need arises it is the county's intent to have sufficient funds available with the Trustee to meet these cash flow needs with internal borrowing from the County Trustee or among individual funds.
    - Generally for funds operating on property tax or other revenue that is not received on a monthly basis.
    - Interest risk would be low since term of notes would be less than one year and interest would be paid back to the county
- **Lease Agreements**- Not anticipated to be used.

- **Capital Outlay Notes**- Used for capital borrowings which are 12 years or less in duration and which can be funded internally (borrowing from the Trustee or individual fund) or from a local financial institution as first choice. Roane County would not anticipate capital outlay notes from financial institutions outside of Roane County but in the event it would be from a non-local financial institution then the borrowing would be treated in this policy the same as a Long Term Loan or Bond. Generally Roane County's capital outlay notes will be less than $1,000,000. Capital Outlay Notes cannot exceed the asset's life expectancy. It is the intent of Roane County not to borrow for a dollar amount less than $400,000. The County should be able through a capital project plan to pay for these projects with cash. Thus Roane County's Capital Outlay Notes would generally be used for borrowing between $400,000 and $1,000,000. Capital outlay notes generally would be issued for medium capital assets as noted in the capital asset policy.
    - External cost of borrowing should be zero since debt would be internal borrowing or with a local financial institution.
    - Interest risk would be low since time of indebtedness would be relatively short; typically, five (5) to ten (10) years or less and could be paid back to the Trustee.
- **Long Term Loans and Bonds**- Used for indebtedness which would exceed 12 years for repayment and Roane County would anticipate borrowing in a dollar amount greater than $1,000,000, but could be as be low as $400,000. Funds may be borrowed from the private sector, federal or state agency loan programs. In cases of loans or bonds the county will be provided specific legal debt resolutions which shall be approved by the county legislative body. In certain cases legal and bond counsel may be hired. Information within this policy gives guidance of disclosing the cost of these services and address as potential conflicts of interest. Long term loans and bonds would be anticipated on major capital assets as noted in the capital asset policy.
    - External cost would be anticipated and fully disclosed on State Form CT- 0253 **(Attachment A)** prior to the contract to secure the funding.
    - Interest risk would be anticipated due to the length of the indebtedness.

Cost of Issuance of New Debt

Roane County shall:

- Complete or have completed by external party State Form CT- 0253 in order to compare the cost for issuance of debt prior to contracting for funding.
- Compare at least two proposals of issuance cost and estimated interest rate cost.

2. Enhance transparency of decisions by way of Annual Debt Report, Annual Budgets, and Specific New Issue Report

Responsibilities for analysis and reporting shall be with the County Executive and the Director of Accounts and Budgets.

To insure transparency of decisions annual debt reports, annual budgets, and specific issuance debt reports shall be prepared and available for public review and comment.

The County legislative body may assign an ad hoc Debt Management Committee to review reports and study debt standards and ability to repay debt, but in the absence of a Debt Management Committee these duties will rest with the Budget Committee.

Annual Debt Report

An annual debt report shall be submitted to the county legislative body by June of each year, generally the report will be presented with the annual debt budget.

The annual report shall consist of but not be limited to:

- Multi-year annual budgets extending to the length of the longest issue and graphing the estimated revenue, expenditures, and fund balances each year.
- Net Debt Calculation (Total Principal outstanding less most recent year respective debt fund balance).
- Calculation of Net Debt per capita (net debt/population).
- Calculation of Net Debt as a percentage of estimated assessed value of taxable property (net debt/assessed property value).
- Ratio of debt service expenditures as a percent of governmental fund expenditures - Funds 101-156. (Calculated as total budget expenditures of funds 151,152,156 divided by total budget expenditures of funds 101 thru 156).
- Net Debt per capita as a percentage of income per capita (per capita income/net debt per capita).
- All calculations and ratios shall be compared to benchmark approved as **Attachment B**.
- Documentation of the most recent debt rating as available.
- Reports will reflect estimated fund balances which shall comply with a fund balance policy or specific explanation of variances. Fund Balance policy approved as **Attachment C**.
- Percentage of Fixed verses Variable Rate Debt.

Annual Debt Budgets

Annual Debt Budgets shall be adopted by the county legislative body and comply with legal notice and filings requirements for county budgets TCA 5-12.

Specific Issue Transaction

A specific issue transaction report shall be prepared before consideration of new debt. Details of the specific issue report are noted in the following section 3 of this policy.

3. Cost of Debt- Principal, Interest, Annual Management Cost, and New Issuance Cost

In order to assist the county in making better short and long term debt decisions and to reflect the cost of debt Roane County shall:

- Prepare a multi-year budget reflecting the current debt cost of principal, interest and estimated annual cost over the life of the existing debt. This data shall then be graphed, which will allow the county to determine if extra capacity exists to issue new debt, what the capacity maybe or if a revenue shortage is anticipated.
- Prepare a **Specific Issue Report** which shall include at minimum:
    - Straight line amortization repayment schedule of the proposed new debt.
    - Comparison of Straight line amortization repayment schedule to any other proposed repayment schedule to determine if the alternative repayment schedule provides for advanced payment of principal or back loaded payment of principal. Comparison shall reflect the difference in interest cost.
    - Any new debt cost of principal, interest and annual cost as if the debt exists by itself. This cost shall be graphed as a cost by itself and reflect the estimated tax needed to support the debt as if no other revenue or debt existed. This shall be an annual budget of the new debt by itself.
    - Combine the new debt annual budget proposed with the multi-year annual budget which exists for the current debt; thereby, determining any need for additional revenue to support the new proposed debt.
    - Reflect new ratios as noted in the Annual Debt Report (income/debt per capita)
- Insure that State Form CT- 0253 is complete for new issues.

4. Hiring outside professionals and any potential conflict of interest issues

Roane County shall:

- From time to time hire legal counsel, a financial advisor or underwriter to assist in issuance of debt.
- Require all professionals to disclose the estimated cost of their respective services including “soft” cost or compensations in lieu of direct payments.
- Require all professionals to enter into an engagement letter related to their proposed services, cost, and any potential conflict of interest.

5. Requirements and Decision Making Checklist for New Debt

Certain requirements must be met prior to the issuance of new debt. These requirements will be used as a checklist prior to issuing additional debt and are as follows:

- Annual Debt Report completed on existing debt. **Section 2**
- New Issuance Report which reflects the impact on the multi-year budget with the new debt. **Section 3**
- Borrowing only for assets in the current capital outlay plan or in emergency situations.
- Borrowing for major assets as outlined in the capital project policy.
- Borrowing for medium assets as outlined in the capital project policy where the assets are for emergencies or in cases that have been noted for borrowed funds in the capital outlay plan.
- Repayment schedule will not exceed the useful life of the asset.
- Repayment schedule uses the straight-line method of repayment (debt retirement similar to a conventional home loan) or wrapping principal which does not exceed 3 year. Any other repayment schedule must be approved by the comptroller's office in writing and fully disclose the additional interest cost compared to straight-line repayment. **Section 3**
- Compare the proposed repayment schedule with the straight-line method noted whether the new debt has an advanced repayment schedule, straight-line or back loaded schedule. **Section 3**
- Compare at least two proposals of issuances cost and estimated interest rate cost.
- Leases can be used only in very limited cases and where there is an imputed interest rate, amount, and term of the lease which is stated on the face of the document.
- Consider variable debt in the county's overall debt management plan. The county recognizes that the Trustee has investments from month to month which earn interest. Roane County also understands that the Trustee's investment interest rates fluctuate over time and the interest rate earning and interest rate debt expense should move in concert; therefore, Roane County will calculate and project the available idle funds based on fund balances. Roane County will consider that variable debt for the same amount of the invested fund should not impact the percentage of variable verse fixed rate indebtedness.
- Consider having the variable rate debt equal to the Trustee's invested idle funds, at minimum.
- Consider having variable rate debt which would not exceed 30% of total indebtedness; however, Roane County will consider the current debt market and anticipated direction of future interest rates before selecting variable rate instruments.
- In the event of variable interest debt, Roane County shall set aside an amount above the variable rate to protect the county in the event of an upswing in interest rates. Roane County shall budget at least 3% above the variable rate on the initial issuance.
- In the case of refinancing, an analysis report shall be provided which fully explains the reasons for the refinancing and the net savings and costs of the refinancing which will including not only interest charges but also the fees associated with the transaction.

- Insure that refinanced debt will not exceed an asset's useful life.
- Insure that no debt is issued which engages in interest swap agreements or complex financing arrangements.
- Complete State Form CT- 0253 prior to a new issue reflecting a preliminary estimated cost of issuance.

Preparing a multi-year budget is considered the key element in gaining an understanding of how a new issue impacts the annual budget. The multi-year budget will be the catalyst for decision making. Upon the development of the multi-year budget a series of graphs will be presented allowing a better understanding of the county's ability to pay future obligations and review capacity or potential revenue shortage in future years.

Attachment A: State Form CT-0253

Attachment B: Bench Marks – Section 6 in this report

Net Debt Per Capita: Total Debt of a County divided by County's population. **Bench Mark as established by Roane County is a goal to have no more than $800 (debt per capita) but to insure we do not exceed $1,400.**

Net Debt to Assessed Property Value (Net Debt/Assessed Property Value). **The overall net debt should not exceed 10% of assessed value.**

Ratio of Debt Expenditures to Total governmental expenditures (excludes capital and agencies funds). **Ratio should not exceed 5%.**

Debt as a Percentage of Personal Income. **Ratio should not exceed 15%.**

Attachment C: Fund Balance Policy for Debt Service – Section 2

In the absence of a Fund Balance Policy that covers all county funds this Attachment C is used for the Debt Management Policy.

Fund Balances in general are used:

- To assist in cash management which will avoid tax or revenue anticipated notes having to be used to make annual payments until annual revenue is received.
- As emergency funds in the case of unanticipated loss of annual revenue or unanticipated additional expenses.
- For investments and thus investment earnings which then assist in providing revenue thus not requiring additional needed funds from other sources.

General Debt Service Fund 151

The General Debt Service Fund 151 is used by the county to fund general projects and is a fund which can be used for not only general capital projects but school projects and enterprise fund projects. This fund generally will have the most activity both during the year and over future decades. Since this fund will generally be maintained, over time the fund balance should remain as constant as possible and should range from a low of 50% to a high of 150% fund balance related to the respective annual fund budget. The fund balance could be below 50% if debt if being paid off or the county is trying to begin a capital project plan of paying for capital assets as they are being purchased and thus not using debt. The fund balance could also grow over the 150% if the county is accumulating funds (fund balance) for future large debt issuances. Typically the fund will have around 100%-150% if the county has scheduled capital projects planned which will need debt to fund the projects.

Rural Debt Service Fund 152

The Rural Debt Service Fund was used for school debt where the county borrowed funds, did not share proceeds of the issuances with the city schools of Harriman and Oak Ridge, and has not levied a tax on property in the city limits of Harriman and Oak Ridge. This fund is now closed to any future use for the repayment of new debt since Harriman City schools merged with the county school system. The fund will be close as the current debt assigned for payment from this fund is retired. The last payment is scheduled for 2022. This fund balance shall be reduced to zero as the final debt is paid.

Education Debt Service Fund 156

The Education Debt Service Fund 156 is used for repayment of education debt where the City of Oak Ridge does not share in the proceeds of the debt and is not levied a tax for the debt repayment.