

Franklin Special Board of Education

Monitoring: Review: Annually, in January	Descriptor Term: Debt Management	Descriptor Code: 2.202	Issued Date: 04/09/12
		Rescinds:	Issued:

1 Introduction

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3 This Debt Management Policy (the "Policy") is intended to provide written guidance about the amount
4 and type of debt issued, the issuance process, and the management of the debt portfolio of the Board of
5 Education (the "Governing Body") of the Franklin Special School District (the "District"). The District
6 was created and issues debt pursuant to Chapter 563 of the 1949 Private Acts of the State of Tennessee,
7 as amended (collectively, the "Private Acts" and each a "Private Act"). Bonds and notes of the District are
8 authorized by and secured by the pledge of continuing annual taxes levied on all taxable property within
9 the boundaries of the District, the rates of which are established by the General Assembly of the State of
10 Tennessee by Private Act of the General Assembly. The District has no authority to establish and levy
11 taxes. Issuance of bonds and notes must also be authorized by resolution of the District.
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13 Debt Management Strategies

14 A. Authorization and Security

15 Debt is issued pursuant to the authority of and in full compliance with provisions, restrictions and
16 limitations of the Constitution and laws of the State of Tennessee (the "State") and the Private Acts,
17 and pursuant to resolutions adopted by the Governing Body. With respect to each debt issuance (other
18 than previously authorized refundings and refinancings), the Governing Body shall by resolution rec-
19 ommend the adoption of a Private Act authorizing the issuance of debt and the levy of a tax to secure
20 the debt and request that the senate and house members of the General Assembly who represent the
21 area in which the District is located file the Private Act with the General Assembly and recommend its
22 adoption. Debt may only be used to finance or refinance the capital costs of school projects and such
23 other costs related thereto as may be authorized by the Private Acts and by resolution of the Governing
24 Body. Debt shall be secured by and be payable from the taxes authorized by the Private Acts, and may
25 be additionally secured by the District's portion of the local option sales tax distributed to the District,
26 by any funds received from the State of Tennessee available for capital outlay expenditures and any
27 other source of funds authorized by the Private Acts.

28 B. Federal Tax Status

29 Based on the assumption that tax-exempt interest rates are lower than taxable rates and that the inter-
30 est savings outweigh the administrative costs, restrictions on use of financed projects, and investment
31 constraints; the District will use its best efforts to maximize the amount of debt sold under this Policy
32 as tax-exempt. The District will sell taxable debt when necessary to finance projects with a private use
33 or to take advantage of special Federal incentive programs, such as Build America Bonds and other
34 tax-credit federal programs.

35 C. Legal Limitations on the Use of Debt

36 No debt obligation shall be issued to fund the current operations of the District. The proceeds of any
37 debt obligation shall be expended only for the purpose for which it was authorized by the Governing
38 Body and by the related Private Act.
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Types of Debt

Long Term Bonds

The District may issue long term fixed rate bonds if authorized under a Private Act and within the restrictions established in the related Private Act to finance capital projects or refinance outstanding debt

Short Term Notes

The District may issue short term debt if authorized by a Private Act and within the restrictions established in the related Private Act as either: (1) notes that will be repaid by proceeds of a subsequent long-term bond issue authorized by a Private Act. Such notes will not be issued unless and until all steps prerequisite to the issuance of the anticipated long term bonds have been taken, or (2) as notes for the financing of capital projects over a relatively short period. Short-term debt may be structured as fixed rate as permitted by the authorizing Private Act.

Loans from Authorities and State Agencies and Capital Leases

If authorized by Private Act and within the restrictions established by the related Private Act, the District may enter into loan agreements with one or more state or local government authorities or agencies, in lieu of issuing bonds or notes in accordance with any restrictions in the related Private Acts. The policies set forth herein for bonds issued under the related Private Acts shall be equally applicable to such authorities or agencies, except that all loan agreements may be entered into pursuant to a negotiated sale. The District shall not enter into loan agreements with such agencies or authorities in lieu of issuing its own debt, unless the Governing Body determines that the District cannot reasonably accomplish its financing objectives through the issuance of its own debt. If authorized by Private Act and by resolution of the Governing Body, the District may use capital leases to finance projects on the same basis as bonds and notes.

Debt Management Practices

A. Structure

The Governing Body shall establish by resolution pursuant to the related Private Act to the extent not inconsistent with such Private Acts, all terms and conditions relating to the issuance of debt within the parameters established in the related Private Act.

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, and in no event more than 40 years from issuance.
2. **Principal Amortization** - The Governing Body shall strive to achieve, in conjunction with other outstanding District debt, a debt service schedule, taking into consideration outstanding debt, that is approximately level or declining.
3. **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 District. The District will not enter variable rate debt unless authorized by the Private Acts and without amending this Policy to include provisions specifically related to variable rate debt.
4. **Call Provisions** - The District 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 District 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**

Debt Service Savings. In determining whether a refunding is advisable, the Governing Body shall take into account 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. Advance refundings should yield a net present value savings of at least 3.0% of the advance refunded debt principal amount. The decision to take less than 3.0% net present value savings may be approved by resolution of the Governing Body. The District will not enter into short-term variable rate debt unless authorized by the Private Acts and without amending this Policy to include provisions specifically related to long-term variable rate debt.

Private Use. The District 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.

Restructuring. The District 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 District's best interest.

2. Term of Refunding Issues and Escrow

The Governing Body will refund bonds within the term of the originally issued debt, unless otherwise expressly approved by resolution of the Governing Body. The District shall utilize the least costly securities available in structuring refunding escrows; provided that the District may purchase U.S. Treasuries - State and Local Government Series if it is determined that the costs and risks attendant to the solicitation of open market securities outweigh any attendant benefits. With respect to purchases of open market securities, the District will take competitive bids on a selected portfolio of securities and will award to the lowest cost provider. The provider must guarantee the delivery of securities. Under no circumstances shall an underwriter, agent or financial advisor sell escrow securities to the District from its own account.

C. Methods of Sale

Bonds and Notes may be sold through either a competitive bid process, through a negotiated sale or by a private placement. If sold at 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 volatility of market conditions; size and complexity of the bond sale; credit strength; in the case of a refunding, timing and interest rate sensitivity; and whether the bonds are structured in a manner that is not conducive to competitive sale (e.g. variable rate bonds). Private placement shall only be considered if this method is demonstrated to result in a cost savings to the District relative to other methods of debt issuance.

D. Underwriter Selection (Negotiated Transaction)

The District 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, ability and experience in managing similar transactions; prior knowledge and experience with the District; capital adequacy; quality and experience of personnel assigned to the District's engagement; financing ideas presented; and underwriting fees. The District 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 District.

E. Credit Quality

The Assistant Director of Schools for Finance and Administration (the "Assistant Director") will be responsible for maintaining relationships and communicating with the rating agencies that assign ratings to the District's debt. The Assistant Director shall prepare and make presentations to the rating agencies, as needed, to assist credit analysts in making an informed decision.

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2 **F. Credit Enhancements and Use of Structured Products**

3 The District will consider the use of credit enhancements on a case-by-case basis, evaluating economic
4 benefit versus the cost. Only when clearly demonstrable savings can be shown shall an enhancement
5 be utilized. No interest rate agreements or forward purchase agreements will be considered unless
6 authorized by the Private Acts and amendment of this Policy.

7 **G. Disclosure**

8 If required by Rule 15c2-12, the Assistant Director, the bond counsel, financial advisor, if any, along
9 with other members of the financing team will prepare a Preliminary Official Statement and final Of-
10 ficial Statement describing the transaction and the security for the debt that is fully compliant with all
11 legal requirements. To the extent that any of the District's debt issues are subject to continuing disclo-
12 sure agreements required by U.S. Securities and Exchange Commission Rule 15c2-12 ("Rule 15c2-
13 12"), the Assistant Director will ensure that the District remains in compliance with such agreements.
14 Specifically, the Assistant Director will provide certain financial information and operating data by
15 specified dates, and will provide notice of certain enumerated events with respect to the bonds, all as
16 described in Rule 15c2-12.

17 **H. Transparency**

18 The District shall comply with the Tennessee Open Meetings Act, providing adequate public notice
19 of meetings and specifying on the agenda when matters related to debt issuance will be considered.
20 Additionally, in the interest of transparency, all costs (including interest, issuance, continuing, and
21 one-time) shall be disclosed to the Governing Body and citizens in a timely manner. In order to com-
22 ply with the requirements of the preceding sentence, an estimate of the costs described above will be
23 presented to the Governing Body along with any resolution authorizing debt. Within four weeks of
24 closing on a debt transaction, the debt service schedule and the State Form CT-0253 shall be available
25 at the office of the Assistant Director for review by members of the Governing Body and the public.

26 **I. Professional Services**

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

- 32 1. **Counsel** - The District will enter into an engagement letter agreement with each lawyer or law firm
33 representing the District in a debt transaction. No engagement letter is required for any lawyer who
34 serves as counsel to the District regarding District matters generally.
- 35 2. **Bond Counsel** - Bond counsel for each debt transaction is contracted by the Assistant Director and
36 serves to assist the District in such debt issue.
- 37 3. **Financial Advisor** - If the District chooses to engage a financial advisor for a debt transaction,
38 the District shall enter into a written contract with the financial advisor on terms and conditions
39 approved by the Assistant Director. The financial advisor shall not be permitted to bid on or under-
40 write an issue for which they are or have been providing advisory services.
- 41 4. **Underwriter** - If there is an underwriter for a debt issue, the underwriter must clearly identify itself
42 to the District in writing (e.g., in a response to a request for proposals or in promotional materials
43 provided to the District) as an underwriter and not as a financial advisor from the earliest stages of
44 its relationship with the District with respect to that issue. The underwriter must clarify its primary
45 role as a purchaser of securities in an arm's-length commercial transaction and that it has financial
46 and other interests that differ from those of the District. The underwriter in a publicly offered,
47 negotiated sale shall be required to provide pricing information both as to interest rates and to
48 takedown per maturity to the Assistant Director in advance of the pricing of the debt.

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J. Potential Conflicts of Interest

Professionals involved in a debt transaction hired or compensated by the District 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 District 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.

Review of the Policy

This Policy is only intended to provide general direction regarding the future use and execution of debt. A violation of the Governing Body's 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 this Policy (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 this Policy 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, the Private Acts, and this policy, the terms of the Private Acts and the debt resolution shall control.

This policy will be periodically reviewed by the Assistant Director. The Assistant 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 April 9, 2012, effective April 9, 2012.