Memphis City Council
Summary Sheet

Resolution approving the Memphis Light, Gas and Water Division Debt Management Policy.

- This item is a resolution requesting approval of the MLGW Debt Management Policy.
- Memphis Light, Gas and Water requests that the Memphis City Council approve the policy which are written guidelines for the issuance, management, continuing evaluation of and reporting of bonds and other forms of indebtedness by the City of Memphis for the use and benefit of MLGW.
- There is no change to an existing resolution or ordinance.
- The resolution does not require a new contract, or amend an existing contract.
- No contracts, expenditure of funds, or budget amendments are required.

RESOLUTION

WHEREAS, the Board of Light, Gas and Water Commissioners at its meeting held April 12, 2012, approved the *Memphis Light, Gas and Water Division Debt Management Policy.*

WHEREAS, this policy provides written guidelines for the issuance, management, continuing evaluation of and reporting of bonds and other forms of indebtedness by the City of Memphis for the use and benefit of MLGW.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Memphis, that the *Memphis Light, Gas and Water Division Debt Management Policy* is hereby approved.

EXCERPT
from
MINUTES OF MEETING
of
BOARD OF LIGHT, GAS AND WATER COMMISSIONERS
CITY OF MEMPHIS
held
April 12, 2012

The Secretary-Treasurer submitted for approval of the Board, the *Memphis Light, Gas and Water Division Debt Management Policy* (attached hereto).

This policy provides written guidelines for the issuance, management, continuing evaluation of and reporting of bonds and other forms of indebtedness by the City of Memphis for the use and benefit of MLGW.

NOW, THEREFORE, BE IT RESOLVED by the Board of Light, Gas and Water Commissioners:

> THAT, subject to the consent and approval of the Council of the City of Memphis, the *Memphis Light, Gas and Water Division Debt Management Policy* attached hereto is hereby approved.

I hereby certify that the foregoing is a true copy of a resolution adopted by the Board of Light, Gas and Water Commissioners at a regular ~~special~~ meeting held on 12th day of April, 20 12, at which a quorum was present.

Secretary - Treasurer

MEMPHIS LIGHT, GAS AND WATER DIVISION

DEBT MANAGEMENT POLICY

Adopted: ____, 2012

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Introduction

Memphis Light, Gas and Water ("MLGW") has developed this Debt Management Policy to provide written guidelines for the issuance, management, continuing evaluation of and reporting of bonds and other forms of indebtedness by the City of Memphis (the "City") for the use and benefit of MLGW. The Debt Management Policy is to be administered in conjunction with, and with reference to provisions of the City's Charter, Ordinances and Resolutions and State and Federal laws pertaining to the issuance and sale of bonds, notes and other indebtedness.

MLGW recognizes that changes in the capital markets as well as other unforeseen circumstances may from time to time produce situations that are not covered by the Policy and will require modifications or exceptions to achieve policy goals. The Debt Management Policy is not intended to eliminate the flexibility needed to meet changing market conditions. To the extent that any of the details contained herein conflict with the terms and conditions of existing MLGW contracts as of the effective date of this policy, documents and/or agreements, such financing documents will control.

Policy Statement

It is MLGW's policy to:

- Promote transparency in its financing transactions
- Achieve the lowest cost of capital consistent with other policy objectives including taking into account risk tolerance
- Ensure high credit quality
- Assure access to the capital credit markets
- Preserve financial flexibility
- Manage interest rate risk exposure
- Provide the opportunity for local, minority and women owned investment banking, legal firms, and financial professionals to participate in the issuance of MLGW's debt.

Scope and Authority

The Charter of the City of Memphis, Tennessee, as amended by Chapter 381 of the 1939 Tennessee Private Acts placed control of municipal utility systems then owned and later acquired by the City for the manufacture, production, distribution or sale of electricity, natural and artificial gas or water under the jurisdiction, control and management of MLGW. The City's Charter authorizes the City's governing body to incur indebtedness and issue and sell bonds or notes on behalf of MLGW to such extent and in such manner authorized by statues of the State. Title 7, Chapter 34 of Tennessee Code Annotated (the "Revenue Bond Law") establishes the purposes, terms, covenants and conditions of bonds, anticipation notes and other indebtedness that may be issued by the governing body of the City to finance the construction, acquisition, reconstruction, improvement, betterment or extension of its light, gas or water systems or to finance electrical power or gas purchases on a current or long-term purchase basis. The Revenue Bond Law also authorizes the use of revenues derived from its light, gas or water systems for payment of debt service on debt issued thereunder. Other statutes, like Title 9, Chapter 21 of

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Tennessee Code Annotated may also apply to the issuance and/or refunding of debt for light gas and water systems. Within this Debt Policy, the term "MLGW" will be used to include all participants in the local approval process for debt issuance, namely the President (CEO), Chief Financial Officer (CFO) and the MLGW Board.

MLGW's Debt Management Policy shall be reviewed and updated annually. The CFO, with the assistance of MLGW Finance Division staff, shall have the day-to-day responsibility and authority for structuring, implementing, and managing MLGW's debt and finance program.

This Policy does not address price risk management guidelines for the purchase of commodities associated with the operation of MLGW systems, which is a separate policy approved by the Board on December 18, 2008 and subsequently approved by Memphis City Council on January 27, 2009. Copies of the price risk management policy may be secured by contacting the CFO.

Objectives

This policy should be utilized as a tool to ensure that adequate financial resources are available to support MLGW's fiscal needs and long-term planning objectives. Specifically, the provisions in this document are intended to assist MLGW in the following:

- To guide MLGW in policy and debt issuance decisions
- To finance capital projects, prepayments, capital leases and other approved debt instruments in a timely and cost-effective manner,
- To ensure compliance with debt issuance authority
- To achieve and maintain the highest practicable credit ratings
- To minimize the cost of debt,
- To devise debt service structures that are equal to or less than the estimated useful life of the asset requiring the funding
- To retain maximum financial flexibility
- To document responsibility for the oversight and management of debt related transactions
- To establish criteria and promote prudent financial management for the issuance of debt obligations and the evaluation of debt issuance options
- To identify legal and administrative limitations on the issuance of debt and ensure the legal use of the Board's debt issuance authority
- To define the types and appropriate use of debt approved for use within the constraints established by State law
- To provide guidance for evaluating refunding candidates or alternative debt schedules
- To enhance risk management practices
- To increase transparency, reduce conflicts, and promote cooperation in the debt management process
- To maintain the best interest of the ratepayers as a whole.

Transparency

MLGW shall comply with the notice and record keeping requirements of the Tennessee Open Meetings Act, especially with respect to meetings of the Board and the City Council where MLGW debt issuance will be considered. MLGW will cause to be prepared and filed with the

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Office of State and Local Finance a statement of costs related to the issuance and other information set forth in Section 9-21-151, Tennessee Code Annotated. A duplicate original of this statement shall be presented by the CFO to the Board at its next meeting after the issuance and retained in the official records of the Board for inspection and copying at the offices of MLGW by any Tennessee citizen upon request in accordance with the Tennessee Public Records Act.

Tax Status

Tax Exempt - MLGW will usually issue federally tax exempt debt. Interest on the majority of bonds issued is excluded from the gross income of its owners for federal income purposes. MLGW, along with Bond Counsel, will evaluate all projects to be funded to determine their tax exempt status. MLGW will make every effort to comply with all state and federal laws necessary to make interest on bonds exempt from federal income taxation.

Taxable - Certain municipal bonds are taxable because they are issued for purposes that the federal government deems not to provide a significant benefit to the public at large. In certain instances, taxable bonds may also be issued with a subsidy from the federal government for purposes that would otherwise be financed with tax-exempt bonds. MLGW will confer with Bond Counsel to ensure that the debt is given the appropriate tax status.

Role of Debt

Long-term debt may be used for capital purchases or construction identified through the 5-year capital improvement plan, or the applicable Master Plan. Long term debt may also be utilized for electric and gas prepayment opportunities or other energy cost reduction plans as approved by the Board and City Council. Lease financing may be used where, based on the useful life of the capital equipment, and the terms and conditions of the lease, such financing would prove more economically beneficial to MLGW than traditional debt financing of the capital equipment.

MLGW will strive to minimize the use of debt to finance short term working capital needs by maintaining adequate working capital and close budget management. However, MLGW may utilize short-term borrowings for specific electric power purchases or gas purchase, storage and delivery applications due to the seasonality of revenue collections for electricity and gas.

Debt Structure

MLGW shall establish the terms and conditions relating to the issuance of all debt and the investment of all debt and bond proceeds pursuant to the terms of MLGW's Investment Policy, and Federal and State law regulations and guidance. Unless otherwise authorized by MLGW, the CFO may consider the following factors in determining the structure of any proposed debt issuance:

- **Term** - Taking into consideration the limitations of IRS Regulations § 1.148-10(a)(4), the weighted average maturity of the underlying debt issued to finance or refinance capital projects should not exceed 110% of the average reasonably expected useful life of the financed capital projects determined as provided under the Internal Revenue Code. Debt

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issued to finance working capital expenditures shall not remain outstanding longer than twenty-four months. An exception would be made when following IRS regulations regarding prepayment bonds.

- **Capitalized Interest** - From time to time certain financings may require the use of capitalized interest from the issuance date until MLGW has beneficial use and/or occupancy of the financed project. Interest may be financed (capitalized) through a period permitted by federal law and State statute if it is determined that doing so is beneficial to the financing.
- **Call Provisions** - In general, MLGW's securities may include a call feature approximately ten (10) years or less from the date of delivery of the bonds. All call provisions should be evaluated with reference to prevailing market conditions and MLGW's objectives.
- **Original Issuance Discount/Premium** - Bonds with original issuance discount/premium may be utilized.
- **Deep Discount Bonds** - Deep discount bonds may be utilized to provide a lower cost of borrowing in certain capital markets.

Types of Products

Current Interest Bonds - Current interest bonds are bonds that pay interest periodically and principal at maturity. They may be used for both new money and refunding transactions. Current interest bonds may be structured to meet the objectives of MLGW by reducing the cost of borrowing. They can also be structured to provide a premium or discount.

Zero Coupon Bonds - Zero Coupon Bonds are debt securities that do not pay interest (a coupon) but are traded at a deep discount, accreting (at the rate represented by the offering yield at issuance) to its full value at maturity. Such bonds shall only be recommended in limited situations which meet the objectives of MLGW.

Variable Rate Bonds - Variable Rate Bonds are securities 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. MLGW will limit its exposure to long-term variable rate debt (excluding variable rate debt which has swapped to a fixed rate and debt matched to assets) to 25% of the total principal amount of its outstanding long term debt. Upon issuance of variable rate debt, MLGW will annually include in its budget an interest rate assumption for any outstanding variable rate debt that takes market fluctuations affecting the rate of interest into consideration. The CFO shall be responsible for monitoring such factors as he deems advisable relative to any variable rate debt. Such factors might include 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.

Derivative Products - Derivative products will be considered appropriate in the issuance or management of debt only in instances where it has been demonstrated that the derivative product will either provide a hedge that reduces risk of fluctuations in expense or revenue, or alternatively, where it will reduce total financing cost. If the product requires any contracts with

third parties, such as letters of credit or swap agreements, MLGW will enter into contracts with financial institutions that have credit ratings equal to or higher than the credit of the underlying debt or into contracts that require the posting of collateral if financial institutions have credit ratings that are less than the credit of the underlying debt. MLGW generally requires transfers, guarantees or collateralization in the event of credit downgrades below minimum thresholds. Derivative products will only be utilized after approval of a derivatives policy.

Security Structure

Revenue Bonds - MLGW may issue revenue bonds, where repayment of the debt service obligations of the bonds will be made through revenues generated from specifically designated sources. Revenue bonds will typically be issued for capital projects which can be supported from project or enterprise-related revenue. However, revenue bonds may also be used for specific electric and gas prepay opportunities and hedging wherein MLGW may reduce power and gas costs. Bonds may be either fixed rate bonds – long-term securities with serial and term maturities whereby interest rates are determined when the bonds are sold and are fixed to maturity or variable rate bonds – long-term securities that bear interest at variable rates adjusted at agreed upon intervals, such as daily, weekly, or monthly.

Refunding Bonds - Refunding bonds are issued to retire all or a portion of an outstanding bond issue. Most typically this is done to refinance at a lower interest rate to reduce debt service. Alternatively, some refundings are executed for reasons other than to achieve cost savings, such as to restructure the repayment schedule of the debt, to change the type of debt instruments being used, or to retire an indenture in order to remove undesirable covenants. In any event, a present value analysis must be prepared by the CFO that identifies the economic effects of any refunding being proposed. However, the target savings amounts listed below are not applicable for refunding transactions that are not solely undertaken to achieve cost savings. In determining whether a refunding is advisable, MLGW 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 CFO shall have the responsibility to periodically analyze outstanding bond issues to determine whether bonds can be refunded for debt service savings or for reasons other than to achieve cost savings.

The target savings amount shall be measured using the savings as percentage of par method. The target savings from any particular refunding candidate should generally be greater than 1% of the refunded par amount net of all transaction expenses. The CFO shall have discretion in making the final determination to include individual refunding candidates that are slightly below the target in order to optimize MLGW policy and/or financial objectives. In the event that an interest rate swap or other derivative product is to be used as part of a refunding, the target savings shall be increased to account for any additional ongoing administrative costs, financial risk beyond that of a traditional fixed rate refunding, and loss of future financial flexibility. The target savings for the percentage of par method shall also be a minimum of 1%. A plan for refunding debt issues must be submitted to the Tennessee Comptroller's Office prior to issuance.

Capital Leases - Where lease financing would prove more economically beneficial, MLGW should consider capital leases. The useful life of the asset, the terms and conditions of the lease, and the direct impact on debt capacity and budget flexibility will be evaluated prior to the

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execution of a lease agreement. Capital or equipment leases may be entered into; however, details of capital or equipment lease agreements must be forwarded to the Comptroller's Office on a specified form within 45 days after authorization by the Board and/or City Council as required.

Duration

Long-Term Debt (maturing after 3 years) - MLGW may issue long-term debt where it is deemed that capital improvements should not be financed from current revenues or short-term borrowings. Long-term borrowing will not be used to finance current operations or normal maintenance. Long-term debt will be self-supporting and structured such that financial obligations do not exceed the average reasonably expected useful life of the financed capital project(s):

- **Serial and Term Bonds** may be issued in either fixed or variable rate modes to finance capital infrastructure projects with an expected life of three years or greater.
- **Capital Outlay Notes** may be issued to finance capital infrastructure projects with an expected life of three to seven years.

Short-Term Debt (maturing within three years) - Where their use is judged to be prudent and advantageous to MLGW, MLGW has the power to enter into agreements with commercial banks or other financial entities for purposes of acquiring lines or letters of credit that shall provide MLGW with access to credit under terms and conditions as specified in such agreements. Any agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by the President, CEO or the CFO as designated by the President. Short-term borrowing may be utilized for the construction period of a long-term project or for the temporary funding of operational cash flow deficits or anticipated revenues (defined as an assured source with the anticipated amount based on conservative estimates) subject to the following policies:

- **Bond Anticipation Notes (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 twenty-four (24) months from the date of issuance. The maturity of BANs can be extended or renewed in accordance with federal law and State statutes. In any event, BANs shall mature within 6 months after substantial completion of the financed facility.
- **Revenue Anticipation Notes (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 IRS and state requirements and limitations. RANs shall not mature more than thirty-six (36) months from the date of issuance.
- **Revenue Anticipation Notes—Power Purchases (Power RANs)** may be used to borrow money in anticipation of the collection of revenues from the electric or gas systems for the purpose of financing electrical power or gas purchases, including storage and pipeline capacity costs for any twelve (12) month period. The term of any Power RANs shall be concurrent with the twelve (12) month period for which the financed power was purchased.
- **Lines of Credit** shall be considered as an alternative to other short-term borrowing

options, but shall otherwise comply with the rules governing BANs.

- **Interdivisional Loans** shall only be used to fund operational deficiencies among accounts or for capital projects to be paid from current fiscal year revenues. Such interdivisional loans shall only be issued in compliance with state statutes and limitations, MLGW's charter, bond resolutions, and terms and conditions of other contracts and agreements.
- **Other Short-Term Debt -** including commercial paper notes, 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 rate mode. MLGW will determine and utilize the least costly method for short-term borrowing. MLGW may issue short-term debt when there is a defined repayment source or amortization of principal. MLGW may choose to issue Commercial Paper as a source of interim construction financing for projects contained in MLGW's capital plan only after the CFO in consultation with the Financial Advisor determines that such financing represents the least cost interim financing option for MLGW.

All debt listed above is required to be approved by the State of Tennessee Comptroller's Office, the MLGW Board and the Memphis City Council prior to issuance.

Methods of Sale

Competitive - In a competitive sale, the bonds or other indebtedness 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.

Negotiated - MLGW recognizes that it has greater flexibility to tailor its financing needs and cost saving objectives through negotiation. 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
- Market conditions are such that it is anticipated that a limited number of bidders would participate
- 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)
- MLGW will negotiate rates that are favorable to the organization.

Private Placement - From time to time the Governing Body may elect to privately place its debt. Such placement shall only be considered if this method is expected to result in a cost savings to MLGW relative to other methods of debt issuance.

Professional Services

All professionals to be retained by MLGW shall be approved by the Board upon

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recommendation of the CFO or General Counsel, as appropriate. In the procurement of professional services for MLGW debt transactions, MLGW will consider as factors, in evaluating the qualifications of all firms seeking to participate on MLGW debt transactions, a firm's experience, expertise, cost, ability to perform the work on time and within budget and a firm's demonstrated commitment to diversity in hiring and/or any documented best efforts utilized by a firm or firms which provide opportunities for qualified local, minority and women owned investment banking, legal, and financial professionals. Any information or documentation obtained by MLGW from interested professionals considered for participation on a debt transaction shall be available for review.

MLGW shall require all professionals engaged in the process of issuing debt to clearly disclose in writing all compensation and financial arrangements related to services provided or to be provided in the debt issuance transaction to both MLGW and the underwriter, lender or conduit issuer, if any. This includes "soft" costs or compensation in lieu of direct payments.

Financial Advisor - MLGW shall enter into a written agreement with each person or firm serving as financial advisor in debt management and transactions. Whether in a competitive or negotiated sale, the financial advisor shall not be allowed to bid on, privately place, or underwrite an issue for which they are or have been providing advisory services for the issuance.

Significant consideration will be given to the proposed fee structure and estimated costs, but price will not be the sole determining factor.

A financial advisor will be employed to aid in the following:

- To perform all the duties customarily performed by financial consultants in connection with the public offering of municipal securities
- To proceed immediately with investigation, studies and planning for the purpose of formulating a sound plan of financing by structuring the right kind and size of deal that is in accordance with the authorization and desires of MLGW
- In the case of a competitive sale, to prepare and distribute to prospective investors, financial institutions and bidders an Official Statement and the Official Notice of Sale, comprehensive information with respect to any notes or bonds being offered by MLGW, legal documents and other necessary information
  In the case of a negotiated sale, to assist MLGW in the preparation and distribution of the Official Statement for any debt securities being offered by MLGW, the legal documents and other necessary information
- To assist the bond counsel
- To assist with the adoption of all resolutions, the publishing of all legal notices and any other matters required for the successful sale and delivery of the indebtedness
- To advise MLGW on market conditions and other factors affecting the successful sale of the indebtedness
- To establish a wide interest in the debt securities among prospective bond underwriters and investors
- To confer with Moody's Investors Service, Inc., Standard & Poor's Corporation, Fitch and/or any other rating service to provide them with complete information regarding MLGW so that they may properly evaluate the quality of the proposed debt securities

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- To recommend either a competitive or negotiated sale of the debt. If the debt is to be sold at competitive sale, the Financial Advisor will coordinate the public sale of such securities through a competitive bid process either in person or via Internet. If the debt is to be sold at a negotiated sale, the Financial Advisor along with the CFO will recommend a managing underwriter to represent MLGW in all of its negotiations with the selected investment banker including the actual pricing of the debt
- To assist in soliciting bids for and procuring the services of credit enhancement agencies, banking services and related financial services essential to any alternative forms of financing which MLGW may elect to use. On behalf of MLGW, arrange for the printing, signing and delivery of the securities and to arrange for the printing and delivery of Preliminary and Final Official Statements
- To provide additional financial services to MLGW on an individual, as-needed basis.

Bond Counsel

MLGW shall enter into an engagement letter agreement with each lawyer or law firm representing MLGW in a debt transaction. (*No engagement letter is required for any lawyer who is an employee of MLGW.) MLGW will not enter into an engagement letter with counsel not representing MLGW, such as underwriters' counsel.*)

The CFO and General Counsel will recommend Bond Counsel to be employed and the duration of the employment for an individual or a series of financings.

Bond Counsel will provide a written legal opinion affirming that MLGW is authorized to issue the proposed indebtedness, that MLGW has met all constitutional and statutory requirements necessary for issuance, that the Bonds are legally binding, that City Council, has the power and is obligated to raise rates, if necessary, for the payment of the bonds and interest on such indebtedness, and a determination of the proposed debt's federal income tax status. Bond Counsel shall be selected based on the extensiveness of experience in public finance and tax issues.

Bond Counsel's compensation will be based on a fixed fee schedule and will vary based on the complexity of the transaction.

Bond Counsel will be expected to provide, within 120 days of the closing, to MLGW and the Bond Team an electronic copy of the Transcript of Proceedings, along with a bound copy which will be retained in MLGW's vault.

Underwriters

Any entity engaged to provide underwriting services to MLGW will be required to clearly identify itself in writing as an underwriter and not as a financial advisor from the earliest stages of its relationship with MLGW regarding a particular 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 MLGW's interest.

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The CFO shall recommend providers of underwriting services for all debt issues through negotiated or private placement based on the firm's experience and capability. The CFO may develop a proposal solicitation and selection process for negotiated sales. The selection of underwriters may be for an individual or series of financings or a specified time period.

Senior Manager/Co-Manager - The CFO shall recommend a senior manager and/or co-managers for a proposed negotiated sale. The criteria shall include but not be limited to the following:

- The firm's ability and experience in managing similar transactions
- Prior knowledge and experience with MLGW
- The firm's willingness to risk capital and demonstration of such risk
- The firm's ability to sell bonds and
- Quality and experience of personnel assigned to MLGW's engagement and financing plan presented.

Co-Manager Selection - Co-managers will be selected on the same basis as the senior manager. In addition to their qualifications, co-managers appointed to specific transactions will be a function of transaction size and the necessity to ensure maximum distribution of MLGW's bonds.

Selling Groups - MLGW may use selling groups in certain transactions. To the extent that selling groups are used, the CFO may make recommendations as to selling groups as the transaction dictates.

Underwriter's Discount - The CFO will evaluate the proposed underwriter's discount against comparable issues in the market. If there are multiple underwriters in the transaction, the CFO will determine the allocation of fees with respect to the management fee, if any. The determination may be based upon participation in the structuring phase of the transaction.

All fees and allocation of the management fee will be determined prior to the sale date; a cap on management fee, expenses and underwriter's counsel will be established and communicated to all parties by the CFO. The senior manager shall submit an itemized list of expenses charged to members of the underwriting group. Any additional expenses must be substantiated.

Evaluation of Underwriter Performance - The CFO, with the assistance of an independent Financial Advisor will evaluate each bond sale after completion to assess the following: costs of issuance including underwriters' compensation, pricing of the bonds in terms of the overall interest cost and on a maturity-by-maturity basis, and the distribution of bonds and sales credits.

Following each sale, the CFO shall provide a report to the Board on the results of the sale.

Syndicate Policies - For each negotiated transaction, the CFO will prepare syndicate policies that will describe the priority of orders policies governing the upcoming sale. The CFO shall ensure receipt of each member's acknowledgement of the syndicate policies for the upcoming sale prior to the sale date.

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Priority of Orders - To encourage the pre-marketing efforts of each member of the underwriting team, MLGW's bonds will be net designated, unless otherwise expressly stated. MLGW shall require the Senior Manager to:

- Equitably allocate bonds to other managers and the selling group according to orders and designations
- Comply with Municipal Securities Rulemaking Board (MSRB) regulations governing the priority of orders and allocations
- Within 10 working days after the closing date, submit to the CFO a detail of orders, allocations and other relevant information pertaining to the MLGW's sale.

However, there are times when the type and or complexity of the transaction requires a deviation from net designated. In those cases, the CFO, with the CEO's approval, retains the authority to specify the priority provision to be group net order or member order.

Underwriter's Counsel

The selection of the underwriter's counsel by the lead underwriter shall be made in consultation with the CFO.

Disclosure Counsel

In any negotiated sale of MLGW debt in which legal counsel is required to represent MLGW, in regards to tax compliance, the recommendation to the Board will be made by the CFO and General Counsel. MLGW shall enter into an engagement letter agreement with each lawyer or law firm representing MLGW in a debt transaction. (*No engagement letter is required for any lawyer who is an employee of MLGW. MLGW does not need an engagement letter with counsel not representing MLGW, such as underwriters' counsel.*)

Paying Agent

The CFO shall solicit proposals periodically for paying (escrow) agent services from qualified commercial and trustee banks. The cost of providing such services shall be used by the CFO along with other qualitative measurements, in selection of Paying Agents.

Other Service Providers

The CFO shall periodically solicit for other service providers. Other consultants or vendors may be called upon to provide various services such as:

- Certified Public Accountants - verification of financial data
- Financial Institutions - provide letter of credit facilities for variable rate issues
- Printers – To print Official Statements
- Verification Agents – to verify refunding yields and cash flows
- Feasibility Consultants – to review financial and operational feasibility of projects and conduct rate studies and

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- Arbitrage Specialists – to track rebate liability.

Conflicts

Professionals involved in a debt transaction hired or compensated by MLGW shall be required to disclose in writing to MLGW any 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, disclosure counsel, 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 MLGW 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.

Credit Ratings and Enhancements

Rating Agency Relationships

Use of Rating Agencies - The CFO shall be responsible for determining whether or not a rating shall be requested on a particular financing, and which of the major rating agencies shall be asked to provide such a rating.

Minimum Long-Term Rating Requirements - MLGW shall strive to maintain a rating of at least "AA" on its debt. A lower rating standard may be accepted for indirect or conduit obligations, subject to review and approval as stated above in the Scope and Authority Section. MLGW shall (1) communicate regularly with credit analysts each fiscal year, and (2) prior to each competitive or negotiated sale, offer to meet with agency analysts in connection with the sale.

Credit Ratings Table

Risk Profile:	Moody's	Standard & Poor's	Fitch
Prime	Aaa	AAA	AAA
Excellent	Aa	AA	AA
Upper Medium	A	A	A
Lower Medium	Baa	BBB	BBB
Speculative	Ba	BB	BB
Very Speculative	B, Caa	B, CCC, CC	B,CCC, CC, C
Default	Ca, C	D	DDD, DD, D

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Use of Credit Enhancement

MLGW shall seek to use credit enhancement (letters of credit, bond insurance, surety bonds, etc.) when such credit enhancement proves cost-effective. Selection of credit enhancement providers shall be subject to a competitive bid process developed by the CFO and/or Financial Advisor. Credit enhancement may be used to improve or establish a credit rating on a debt obligation even if such credit enhancement is not cost effective if, in the opinion of the CFO, the use of such credit enhancement meets MLGW's debt financing goals and objectives. MLGW will consider the use of credit enhancement on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall enhancement be considered. MLGW will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancement.

Bond Insurance - MLGW shall 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.

Debt Service Reserve Funds - When advisable, a reserve fund may be used to strengthen the underlying credit of the indebtedness.

Continuing Disclosure

Federal Regulatory Compliance and Continuing Disclosure

Arbitrage - MLGW will comply with arbitrage requirements on invested tax-exempt bond funds and proceeds. Proceeds that are to be used to finance construction expenditures are exempted from the filing requirements, provided that the proceeds are spent in accordance with requirements established by the IRS. MLGW will comply with all of its tax certificates for tax-exempt financings by monitoring the arbitrage earnings on bond proceeds on an interim basis and by rebating all positive arbitrage when due, pursuant to Internal Revenue Code, Section 148. MLGW currently contracts with an arbitrage consultant to prepare these calculations, when needed. MLGW will also retain all records relating to debt transactions for as long as the debt is outstanding, plus three years after the final redemption date of the transaction.

Investment of Proceeds - Any proceeds or other funds available will be deposited with the MLGW's custodian bank or a Trustee for investment. The proceeds must be invested pursuant to the MLGW Investment Policy adopted in accordance with Section 9-1-118, Tennessee Code Annotated, which is approved by the Board.

Disclosure - In complying with U.S. Securities and Exchange Commission Rule 15c2-12, MLGW will provide to EMMA certain financial information and operating data no later than 270 days after the fiscal year-end or as designated by the Continuing Disclosure document pertaining to each individual bond financing, and will provide notice of certain enumerated events with respect to the bonds, if material. Such material events include:

1. Principal and interest payment delinquencies
2. Nonpayment-related defaults

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3. Unscheduled draws on credit enhancements
4. Substitution of credit or liquidity providers or the failure of performance on the part of a liquidity provider
5. Adverse tax opinions or events affecting the tax-exempt status of any bonds
6. Modifications to rights of bond holders
7. Bond calls
8. Defeasances
9. Matters affecting collateral
10. Rating changes

MLGW will also maintain a system of record keeping and reporting which complies with arbitrage rebate compliance requirements of the federal tax code, along with any other applicable federal or state guidelines.

Generally Accepted Accounting Principles (GAAP) - MLGW will comply with the standard accounting practices adopted by the Financial Accounting Standards Board and the Governmental Accounting Standards Board when applicable.

Modification of the Policy

This policy is only intended to provide general direction regarding the future use and execution of debt. MLGW, with the approval of the Board and City Council, maintains the right to modify these guidelines. The CFO will present to the Board and City Council any recommendations for any amendments, deletions, additions, improvement or clarification.

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Glossary

Advisor means an individual or firm with a deep knowledge in a specific area, engaged in the business of advising others. It can include a Financial, Swap, or Program Administrator.

Backloading refers to delaying repayment of principal until the end of the financing term. A standard or default structure for debt service is level debt service payments, similar to a standard home mortgage. Backloading should be considered only when beneficial to the overall structure of debt, upon the occurrence of natural disasters, or when project revenues are not available during the early years of a project.

Bonds are debt instruments issued for a period of one year or longer, usually for permanent financing.

Capital leases or a lease purchase are written agreements allowing the use of property in exchange for payment of funds.

Conduit Entity means a governmental entity or agency that borrows money to lend to another entity, and not to finance a project for itself. Examples of conduit issuers are health and education boards, economic development boards, and public building authorities.

Conflicts of Interest occur in situations where parties in a transaction have multiple interests or relationships that could possibly corrupt the motivation to act. The presence of a conflict of interest indicates the potential for divided loyalty and does not automatically indicate wrong doing.

Costs mean fees and expenses of professionals and service providers and other similar fees and expenses, whether or not payable at the time the debt is incurred. "Costs" also means recurring and nonrecurring fees and expenses during the life of the debt.

Counsel means a legal advisor or attorney, whether an individual or a firm, representing a client. It can include Bond, Disclosure, Issuer, Swap, Tax, or Underwriters Counsel.

Counterparty means the other party or participant in an agreement or contract; usually it refers to the other party in an Interest Rate (or swap) Agreement.

Debt means indebtedness lawfully issued, executed or assumed by a public entity. Debt is created when a public entity agrees to pay over time to someone else, in exchange for receiving an upfront payment or loan or for acquiring an asset. "Security" refers both to debt that can be transferred or delivered to another party, as well to property or assets pledged as collateral for a debt. Common instruments or evidence of debt are: Taxable and Tax-Exempt Notes and Bonds.

Debt service means a series of payments including **interest** (the amount or fee earned or paid for use of money or credit, calculated on the amount of principal) and **principal** (the amount of

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money borrowed or credit provided) required on a debt over time. The rate of interest can be **variable** or **fixed**.

Federal compliance issues means the ongoing responsibilities of a public entity after issuing debt. If the debt is sold as being "federally tax-exempt," then the entity will have to comply with federal tax law. If the debt is a "security" for federal securities laws, then the public entity is subject to anti-fraud provisions and possibly is subject to continuing disclosure obligations.

Finance transaction means both debt obligations and derivatives. A derivative is a financial product deriving value from a separate security. This term refers to many different products. "Derivative" includes an Interest Rate Agreement as defined in Tennessee Code Annotated Section 9-22-103 and other transactions as identified by the State Funding Board.

Governing Body means the group of individuals with the authority to make decisions for a public entity, often referred to as the "legislative body." Governing bodies are subject to the Tennessee Open Meetings Law (requiring public notice and recording of minutes). **Members** are the individuals serving on the governing body.

Group Net means an order that is allocated at the public offering price without deducting the commission. A group net order benefits all syndicate members according to their percentage participation in the account and is normally accorded the highest priority of all orders received during the order period.

Guidelines means the document adopted by the Tennessee State Funding Board providing statutorily required guidance on Interest Rate and Forward Purchase Agreements. The current version became effective November 1, 2009. The Guidelines are available on the internet at http://www.comptroller1.state.tn.us/sl/lfstfundbd.asp
http://tn.gov/comptroller/lf/pdf/SFB%20Guidelines%2010-9%20Final.pdf.

Lender means an individual or firm who loans a borrower money.

Loans are debt agreements usually with a financial institution such as a local bank or an organized loan program, such as the Tennessee Municipal Bond Fund or the State Revolving Loan Program. Loans are also internal loans between divisions within the entity or seller financed loans.

Member Order means an order submitted by a syndicate member where the securities would be confirmed to that member at syndicate terms.

Maximum total level of debt means the maximum principal amount of debt a public entity will have outstanding at any time, usually for each type of debt issued.

Net designated means an order submitted by a syndicate member on behalf of an investor on which all or a portion of the commission is to be credited to certain members of the syndicate. The investor directs the percentage of the total designation each member will receive.

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Notes are debt instruments issued for a short period of time, often for interim financing. Notes may be rolled to bonds. Examples are Capital Outlay Notes, Tax and Revenue Anticipation Notes, Bond Anticipation Notes, and Grant Anticipation Notes.

Paying Agent means an individual or firm that transfers the periodic interest and principal payments from the public entity to the investors.

Professionals means individuals or firms advising or offering to provide professional services to a public entity with respect to a finance transaction. Examples of professionals are Bond Counsel, Underwriter's Counsel, Disclosure Counsel, Verification Agent, Financial Advisor and Underwriters.

Public Entity is a governmental organization or unit that has a legal existence and is authorized to borrow money or enter into debt. It includes the State, state agencies, local governments, local government instrumentalities, and any other authority, board, district, instrumentality, or entity created by the State, a state agency, local government, a local government instrumentality, or any combination of the above. It does not include legal entities without debt authority, such as a county school board; however, a special school district with debt authority is included.

Registrar means the individual or firm responsible for maintaining a record or list of owners or investors in debt (sometimes referred to as holders of the debt).

Remarketing Agent means the firm responsible for reselling to new investors debt instruments that have been "tendered" for purchase by their holders. The remarketing agent is also responsible for resetting the interest rate for variable rate debt instruments.

Risk refers to the uncertainty (downside) involved in a debt transaction, including investment, business, credit, market, liquidity, operations, tax, and basis risks.

Schedule means the plan listing the amount and when debt service will be paid.

State Funding Board means the state entity whose members are the Governor, the Commissioner of Finance and Administration, the Comptroller, the State Treasurer, and the Secretary of State. The State Funding Board is created by Tennessee Code Annotated Section 9-9-101.

Syndicate means a group of underwriters formed to purchase a new issue of municipal securities from the issuer and offer it for resale to the general public. The syndicate is organized for the purposes of sharing the risks of underwriting the issue, obtaining sufficient capital to purchase an issue and broadening the distribution channels of the issue to the investing public.

Underwriter means the firm that buys new debt for reselling to the public for a profit. The underwriter may acquire the debt either through negotiation or by award on the basis of competitive bidding.

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Verification Agent usually means a certified public accountant or other independent third party that determines that the cash flow from investments purchased with proceeds of a refunding debt issue, along with other money, will be sufficient to pay the refunded bonds.

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