Purpose of Debt Management Policy

The purpose of the debt management policy shall be to establish and maintain well-defined debt management guidelines for issuing new debt and managing outstanding debt.

Scope

The District debt management policy shall apply to all long-term property tax-secured debt instruments issued by the District that were authorized by District voters regardless of the purpose for which they were issued or the funding source for repayment.

Objective

The primary objective shall be to ensure prudent debt management practices that:

- Maintain financial stability;
- Preserve public trust;
- Minimize costs to taxpayers;
- Minimize borrowing costs;
- Preserve access to financial markets; and
- Demonstrate adequate administrative oversight of debt programs to credit rating agencies.

Debt Financing Guidelines

Bonds

Capital requirements for the construction, acquisition, and equipping of school buildings and the purchase of necessary sites for school buildings shall be identified in a capital plan. The capital planning process shall incorporate updated demographic data from a third-party consultant, community involvement, and debt financing information from the District's financial adviser.

Debt Refunding

Accelerated retirement and restructuring of debt can be valuable debt management tools. Debt is often restructured through the issuance of refunding bonds. Current refundings occur when the refunding bonds are settled within 90 days of an optional prepayment date. Advance refundings occur when the refundings are settled more than 90 days in advance of an optional prepayment date. Federal restrictions allow an issue to be advance refunded only once on a tax-exempt basis. Refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least five percent.

Restrictions / Limitations of Debt Issuance

Debt Tax Limitations

School districts are authorized to issue bonds and levy taxes for repayment subject to voter approval of a proposition under 45.003(a) of the Education Code. Section 45.003(b)(1) provides for a tax levy unlimited as to rate or amount for the support of school district bonded indebtedness. Section 45.0031 requires a district to demonstrate to the attorney general that it has the ability to pay debt service on the proposed bonds and all previously issued bonds from a tax at a rate not to exceed $0.50 per $100 of assessed valuation before bonds may be issued. A district may take into account state allotments in demonstrating the ability to pay debt service at a rate of $0.50.

Maturity Levels

The term of debt shall not exceed 30 years.

Repayment Provisions

The District shall structure its debt with the following primary goals and shall ensure the earliest possible maturity of the bonds and minimize interest expense. The District shall ensure that it has the capacity to take on future debt necessary to achieve the District's capital needs.

Swaps

The District shall not enter into any interest rate swap agreements without first adopting a formal swaps policy.

Use of Debt

The District shall not use long-term debt to finance current operations or normal maintenance.

New Debt

Before any debt may be issued, the District's financial adviser shall perform an analysis of the annual debt service requirements to determine the impact on future budgets, including the tax impact.

Debt Issuance Process

Financial Adviser

The District's financial adviser shall work with District staff to:

1. Ensure the District's bonds are issued at the lowest possible interest cost and are structured in accordance with the District's financing guidelines;
2. Prepare the notice of sale, preliminary official statement, and the official statement;
3. Obtain the permanent school fund guarantee through the Texas Education Agency (TEA) or assist with other credit enhancement, if needed and as available;
4. Evaluate the bids submitted and recommend they be accepted or rejected;
5. Review draft closing documents and monitor the closing process; and
6. Assist in establishing repayment schedules that complement existing requirements and maintain a repayment pace acceptable to credit rating agencies.

Bond Counsel

The District's bond counsel shall:

1. Certify that the District has the legal authority to issue bonds;
2. Prepare required election orders, resolutions, and tax certificates;

3. Work with the attorney general to obtain approval of the bond issue;
4. Provide a legal opinion as to the enforceability and the federal income tax implications of the bonds; and
5. Coordinate the closing transactions.

Paying Agent

The District's paying agent shall:

1. Authenticate the bonds;
2. Send/receive transfers of money at closing;
3. Maintain a listing of bondholders and applicable addresses;
4. Receive principal and interest payments from the District and remit to bondholders; and
5. Represent bondholders in case of default.

Timing of Sale

The District's financial adviser shall work with District staff to ensure that the timing of bond sales coincides with eligibility requirements for state assistance and guarantees, if applicable, as well as having bond proceeds available for projects prior to the execution of construction or purchase contracts.

Bond Rating Goals

The District shall strive to maintain and improve bond ratings through:

1. Strong financial management practices; and
2. Timely disclosure of annual financial information including the comprehensive annual financial report prepared by management and attested to by the external auditors.

Disclosure Requirements

The Securities and Exchange Commission (SEC) regulates both primary disclosure (the initial marketing of bonds) and continuing disclosure (the ongoing information to the market about the status of the issue and issuer). The SEC Rule 15c2-12, as amended, requires the District to provide updated annual financial information no later than 180 days after the District's fiscal year-end to designated state and national information repositories.

Timely and accurate information can improve the marketability of the District's bonds. The District will work with the financial adviser in preparing and filing the annual report with each nationally recognized municipal securities information repository and the state information depository in order to fully comply with regulations.

Management of Bond Proceeds

When governments issue bonds, they deposit proceeds or other monies in various accounts, which may include a construction fund, debt service fund, and an escrow fund in a refunding. Monies allocated to these funds are invested until needed. The investment strategy for each fund shall depend, in part, on federal and state statutes and regulations governing the types of instruments permitted to be used, the yield permitted for the fund, and the anticipated drawdown of bond proceeds. According to the cash flow schedule for capital projects, investment of bond proceeds shall be in accordance with the Public Funds Investment Act (Government Code 2256), the Public Funds Collateral Act (Government Code 2257), federal and state laws, and CDA(LOCAL).

I & S Tax Rate

The tax rate shall be set each year by the Board when it approves the annual budgets. The tax rate shall be set sufficient to meet that fiscal year's debt payments and to ensure that the District has the capacity to take on future debt necessary to achieve the District's capital needs.

Compliance

The District shall comply with all statutory regulations in the issuance and structuring of debt obligations.

Federal Arbitrage and Rebate Compliance

The arbitrage rules are statutory rules set forth in the Internal Revenue Code of 1986, as interpreted from time to time by regulations promulgated by the U.S. Treasury Department and rulings by the Internal Revenue Service. Generally, the rules fall into two broad categories, investment rules and rebate rules.

The investment rules limit the amount that can be earned by investing bond-related money. The rebate rules are designed to require the local governmental issuer to pay to the United States certain amounts of "arbitrage profit" that may be earned under the investment rules. Both sets of rules require compliance. In addition to bond counsel, the District has contracted with a third-party arbitrage compliance specialist to ensure that the District maintains compliance with arbitrage rules.