Purpose

The purpose of the District's debt management policy (the "policy") is to establish responsibilities and guidelines for the issuance of debt obligations and to provide guidelines for the ongoing management of the District's debt portfolio. This policy affirms the intent of the District to adhere to sound debt management practices within the highest industry, legal, and governmental standards while achieving the lowest cost of capital given established parameters.

The Board recognizes that no policy can meet every circumstance and intends that this policy shall serve as a guideline to be used by the Board and administration to handle routine tasks and as a starting point for discussion of more complex questions.

Scope

This policy applies to any debt obligation with a term of one year or longer that is payable from the Interest and Sinking Fund or maintenance and operating revenue. It does not apply to short-term debt such as accounts payable or obligations incurred and normally paid within a short time period of, for example, 30 to 90 days.

Debt Management Objectives

The debt management objectives of the District are to:

1. Maintain financial stability.
2. Preserve public trust. The District shall:
    a. Complete debt programs within guidelines communicated to taxpayers; and
    b. Obtain citizen input to formulate components of capital improvement programs funded with voter-approved debt.
3. Provide sufficient debt capacity for current and future capital needs of the District. The District shall:
    a. Formulate a multiyear capital improvement plan in conjunction with its independent registered municipal adviser (MA), facilities planner, architect, and bond committee, as applicable. The administration shall review the capital improvement plan and recommend appropriate changes to the Board. The capital improvement plan shall include:
        (1) A timeline of the anticipated capital improvements needed and the projected cost thereof, given projected student enrollments and existing school facilities;
        (2) A prioritization of such projects; and

(3) A preliminary financing plan that demonstrates the parameters for which such capital needs may be completed.

b. Repay its debt obligations as expeditiously deemed prudent given the applicable tax rate parameters and the District's overall financing objectives (see Guidelines for Repayment of Debt Obligations, below).

4. Provide flexibility to manage annual debt service requirements and corresponding Interest and Sinking Fund tax rate. The District shall structure its debt obligations with a call provision, if possible, to allow such obligations to be redeemed prior to final scheduled maturity. Generally speaking, the District, in consultation with the District's MA, shall select the earliest call provision given prevailing market conditions.

5. Minimize the District's interest and financing costs. While not all-inclusive, the District shall:

   a. Implement debt strategies to achieve the lowest cost of capital given the District's established risk parameters, overall financing objectives, and prevailing market conditions.

   b. Refinance the District's existing debt obligations at a lower interest rate as such opportunities are available (see Guidelines for Repayment of Debt Obligations, below).

   c. Combine multiple debt sales, when economically feasible, into one sale in order to minimize issuance costs.

   d. Maximize state funding assistance that may be available for the payment of debt.

6. Comply with all state and federal laws.

Delegation of Responsibility

The Board shall have ultimate authority for the issuance of debt and the terms and conditions under which debt may be issued.

The Board delegates to the chief financial officer or designee the responsibility for the District’s compliance with this policy. Day-to-day activities shall be managed by designated personnel within the District’s business office.

Allowable Purposes for the Issuance of Debt

Debt issuance is considered to be one component of capital financing. The District shall consider a range of debt structures that balance affordability with financial flexibility. Planning for debt issuance shall be made in conjunction with other methods of financing capital improvements such as “pay-as-you-go” financing and considering the types of authorized debt listed below.

The District regards the issuance of debt as an important management tool that must be judiciously utilized within the District's financial and legal operating environment. In general, the District may issue debt obligations to fund capital improvements within the District or to refinance the District's debt obligations. The following summarizes the permitted purposes for which the District may consider the issuance of debt:

1. The District may finance certain capital improvements, which include, but are not limited to:
    a. The purchase of land for future school facilities (school facilities in the context of this policy include school buildings, career and technology centers, agricultural facilities, administrative facilities, athletic facilities, maintenance facilities, and the like);
    b. The construction, acquisition, and equipment of school facilities;
    c. The renovation of school facilities;
    d. The purchase of school buses;
    e. Refund of the District's outstanding debt obligations (see Guidelines For Repayment Of Debt Obligations, below); and
    f. Any other purpose legally available to the District pursuant to state law.
2. Long-term debt obligations may not be used:
    a. To fund operating expenditures of the District that may not be capitalized;
    b. For the purpose of investing; and/or
    c. For the sole purpose of earning arbitrage.

Types of Authorized Debt

The District is authorized to issue debt as follows in accordance with law:

1. Unlimited tax bonds as permitted by Education Code 45.001.
2. Tax anticipation notes and maintenance tax notes as permitted by Education Code 45.108.
3. Delinquent tax notes as permitted by Education Code 45.104.

4. Time warrants as permitted by Education Code 45.103.
5. Lease-purchase agreements as permitted by Texas Local Government Code 271.004.

Guidelines for Repayment of Debt Obligations

The purpose and useful life of capital improvement projects to be financed with debt obligations shall be carefully considered when selecting an amortization period for debt obligations. The District shall repay its debt in compliance with all federal, state, and local requirements and seek to repay its debt in an expeditious manner in alignment with the District's overall financial objectives, the useful life of the project financed, and the source of repayment. In no circumstances shall the District amortize its debt obligations for a time period longer than the expected useful life of such project being financed. However, such amortization schedule must not restrict the District's ability to annually manage its Interest and Sinking Fund tax rate or severely limit the District's ability to issue future debt obligations.

Short-Term Capital Improvement Projects

Short-term capital improvement projects shall be those projects that generally have a useful life of ten years or less. The following are guidelines to be used for the amortization of debt obligations issued for short-term capital improvements:

Description	**Average Life of Debt Obligations**
Software	Five years
Computer equipment	Five years
Furniture, fixtures, and equipment	Ten years
School buses	Ten years
Stadium turf	Ten years

Long-Term Capital Improvement Projects

Long-term capital improvement projects shall be those projects that generally have a useful life of more than ten years.

Pursuant to state law, the District shall amortize all debt obligations within the parameters established by state law.

Debt Structure

The District shall consider a range of debt structures which, when combined, allow for flexibility in responding to future events, are mindful of the future impact to the District, emphasize credit rating considerations, and correspond with the useful life of assets for which such debt is incurred. The issuance of debt obligations shall be considered within the following four categories:

1. Cash Flow Financing—Cash flow financing refers to tax anticipation notes and revenue anticipation notes that are issued in anticipation of the receipt of revenues, and the tax dollars are levied, appropriated, and expected to be received in the fiscal year in which the note is issued.
2. Short-Term Debt—Debt that is issued for a maturity not greater than seven years. Debt appropriate to this structure can include maintenance tax notes, delinquent tax notes, time warrants, contractual obligations, lease purchase agreements, unlimited tax bonds, and revenue bonds. Each such debt issuance shall be issued with an average maturity no greater than the average life of the assets being financed. The maximum maturity shall be no greater than the maximum useful life of any asset class being financed.
3. Long-Term Debt—Debt issued for any term longer than seven years up to any maximum term allowable by law. Long-term debt may be issued for any asset that has a useful life greater than seven years or that will extend the useful life of an asset by more than seven years. Debt structures appropriate to this category include unlimited tax bonds, subject to voter approval, and maintenance tax notes. Debt shall be considered when the asset's useful life lends itself to such financing and the District's estimated future taxes and revenues are sufficient to pay the estimated principal and interest payments.
    a. Bonds—Capital requirements for the construction, acquisition, and equipping of school buildings, and the purchase of necessary sites for school buildings may be identified through a bond study committee and formalized in a capital improvement program (CIP). The capital planning process may incorporate updated demographic data from a third-party consultant, facility planning data from support services and architectural firms, and debt financing data from the District's MA.
    b. Variable Rate Debt—Variable rate debt can be an important tool in managing a debt program. When issued prudently, variable rate debt can help lower the cost of borrowing and provide a hedge against interest rate risk.
    c. Other Authorized Structures—The Board may consider any type of structure that has the effect of providing the lowest cost of funds, providing additional flexibility, or enhancing credit ratings including, but not limited to:
        (1) Fixed, variable, and/or stepped coupon debt.

(2) Capital appreciation bonds (CABs), deep discount bonds, zero coupon bonds, and premium bonds. As general guidance, CABs should be used as sparingly as possible.

(3) Mandatory and optional call features.

(4) Short and/or long coupon maturities.

(5) Municipal bond insurance.

(6) Other legal structures not listed above.

d. Unauthorized Structures—The District shall not utilize interest rate swaps or other similar derivative products.

4. Refunding Bonds—Debt issued to achieve interest cost savings or to reamortize a stream of debt service payments.

Debt Issuance Process

The Board may choose any authorized method of sale including competitive sales, negotiated sales, and private placements. The District shall work with its MA to select the method of sale most likely to achieve the lowest cost of borrowing while taking into account both short-term and long-range implications for taxpayers.

The District recognizes that each issuance of debt obligations has unique characteristics that will provide the basis for determining the appropriate method of sale. Such methods of sale include competitive, negotiated, and private placements. The conditions that indicate the appropriate method of sale are generally described below:

Competitive Sale

The District may consider a competitive sale of its debt obligations if:

1. The debt market is stable and demand for the debt obligations is strong;
2. The District can reasonably expect at least three bids will be received;
3. Structural features and credit quality are conventional;
4. Transaction size is manageable;
5. Volume of competing transactions is low; and/or
6. An advance/current refunding is being completed.

Negotiated Sale

The District may consider a negotiated sale of its debt obligations if:

1. An advance/current refunding is being completed;

2. The debt market is volatile, the demand for debt obligations is perceived to be weak, or the volume of competing sales is high;
3. Coordination of multiple components of the financing is required;
4. Substantial education of investors is required;
5. Structural features or credit quality is unconventional;
6. The transaction size is large; and/or
7. Retail participation is expected or desired to be high.

Private Placement

The District may utilize the private placement funding process for debt obligations when appropriate circumstances warrant.

Parameter Debt Sales

The Board may delegate the ability to approve the issuance of debt obligations to the District's administration, so long as the issuance of the debt obligations meets certain parameters approved by the Board and it is permissible pursuant to state law.

Credit Ratings and Credit Enhancement

The District shall strive to secure and maintain the highest possible credit ratings based upon its stand-alone credit strength. It is the goal of the District to maintain a positive reputation in the debt markets through the maintenance and improvement of the relevant credit characteristics within its control.

Credit Ratings

Regarding credit ratings:

1. For any new issuance of debt sold either through a competitive or negotiated sale, the District shall obtain a credit rating from at least one nationally recognized rating agency. The District shall obtain a credit rating based upon the District's stand-alone credit strength, as well as a credit rating based on any type of credit enhancement obtained for a particular debt issuance.
2. For any new issuance of variable rate debt sold either through a competitive or negotiated sale, the District shall utilize a credit rating from at least one nationally recognized rating agency.
3. Based on a recommendation from the District's MA, the District shall conduct the rating process either in person through a formal rating presentation or via a conference call.
4. The District shall provide the rating agencies all requested information in a timely manner.

Credit Enhancement

Regarding credit enhancement:

1. Permanent School Fund Guarantee Program—So long as the District's stand-alone credit ratings are rated below the ratings of the Permanent School Fund (PSF) Guarantee Program of the state of Texas, the District shall attempt to secure credit enhancement through the PSF Guarantee Program. Should the PSF Guarantee Program be out of capacity or have a credit rating lower than the District's standalone credit rating, the District shall compare the costs and related benefits of other types of credit enhancement (i.e., bond insurance and the like) and select the option that results in the lowest interest cost at the time a debt obligation is sold.

2. Bond Insurance—The District shall consider the use of bond insurance when it provides an economic advantage for a sale of debt obligations. The District's MA shall compare the present value of the prospective interest savings produced by using bond insurance to the cost of such insurance. Bond insurance may be purchased when it results in a present value benefit. The District may solicit bids for bond insurance.

3. Liquidity/Credit Facilities—The issuance of variable rate debt may require the use of a liquidity facility and/or a credit facility. Letters of credit (LOCs) and standby bond purchase agreements (SBPAs) shall be considered as credit enhancement based upon their respective cost effectiveness. The District may solicit bids from qualified financial institutions established in this line of business and select the best value based on price, financial stability, terms and conditions, market acceptance, and service.

Selection of Consultants

The administration may contract with outside professionals for assistance in fulfilling any of the obligations or objectives of the District or the administration under this policy. The services to be provided by such professionals shall be set forth pursuant to a contract.

Generally, the District shall consider engaging the following professionals to the degree necessary:

1. Independent Registered Municipal Adviser—To assist with the planning and issuance of all debt and debt administration processes relating to the District's debt portfolio and future debt programs.

2. Bond Counsel—To consult with the District and its MA on legal matters pertaining to the issuance of debt obligations. In addition, the bond counsel shall provide a written opinion, up-

on the issuance of a debt obligation, affirming that the District is authorized to issue the debt and that the District has met all constitutional and statutory requirements necessary for issuance. Such written legal opinion should also include a determination regarding the debt obligation's federal income tax status, if applicable.

Selection of Underwriters for Negotiated Transactions

Selection Process

The criteria to be utilized in the selection of underwriters for the District's negotiated sales shall consider a firm's:

1. Capital position;
2. Institutional and retail sales network for municipal debt obligations;
3. Experience underwriting Texas school district debt obligations;
4. Experience underwriting municipal debt obligations;
5. Financing ideas presented or other value provided to the District;
6. Demonstrated commitment to Texas school districts;
7. Prior performance on District's negotiated sales;
8. Performance on District's competitive sales;
9. Local presence; and
10. Potential conflicts of interest.

Underwriting Syndicate Selection

The size and composition of each underwriting syndicate formed for a particular negotiated sale of debt shall be based on:

1. The dollar amount of debt obligations to be sold; and
2. The criteria listed at Selection Process, above.

Post-Sale Evaluation of Underwriting Performance

After the completion of each transaction, the senior manager shall be required to present a post-sale analysis to the District's MA, which shall include at a minimum:

1. A summary of orders submitted and allocations (including designations) received by each firm;
2. A comparison of the District's interest rates to the interest rates on comparable sales; and
3. An evaluation by the District's MA of the success of the underwriting versus the market at the time of sale and an analysis of each syndicate member's performance. The District’s MA will present this information to the District's administration.

Unsolicited Proposals

The District encourages the submission of unsolicited financing proposals from any firm. A copy of each proposal shall be provided to the District's MA. All proposals should include a full analysis of risks and benefits associated with each financing alternative proposed and a description of previous experience with such financing technique, if any. The District reserves the right to issue a request for proposals for any product or transaction.

Refunding of Outstanding Debt

Refunding opportunities shall be evaluated using criteria established by the Board. Refunding bonds shall be utilized to reduce District debt service costs and/or to restructure debt if deemed advantageous to the District.

Criteria for Refunding

These criteria are recognized as guidelines, and the Board reserves the right to add, delete, or modify any or all criteria in making a final evaluation of any proposal. The following criteria are adopted with the understanding that they do and shall apply until modified or replaced by the Board:

1. Present value savings shall be at least three percent of refunded par.
2. The existing maturity schedule shall not be extended.
3. The future ability to manage the debt service tax rate shall be preserved.
4. Refunding and new money issues shall be combined when possible.
5. The District should be satisfied as to the amount of savings obtained compared to the value of negative arbitrage associated with the refunding.
6. The District should be satisfied as to the amount of savings obtained compared to the cost of effecting the refunding transaction.

Ongoing Debt Management Practices

The following guidelines shall be followed for ongoing debt management practices:

Investment of Debt Proceeds

Any investment of debt proceeds shall be executed in accordance with the District's investment policy, legal covenants, and state and federal tax law limitations. The proceeds of debt or other obligations of the District are subject to the Public Funds Investment Act.

Compliance with Federal Arbitrage Rebate Regulations

The use and investment of debt proceeds shall be monitored to ensure compliance with arbitrage restrictions. The District's administration shall ensure that debt proceeds and investments are tracked in a manner that facilitates the completion of accurate rebate calculations and rebate payments.

Continuing Disclosure Requirements

The District shall comply with the Securities and Exchange Commission (SEC) Rule 15c2-12 by filing with EMMA annual financial statements and other financial and operating data required for the benefit of its debt holders no later than six months after the end of each fiscal year. The inability to make timely filings must be disclosed promptly.

Transaction Records

The business office shall maintain complete records of decisions made in connection with each financing. Each transaction file shall include the official transcript for the financing and the final debt service numbers. The chief financial officer shall provide a timely summary of each financing to the Board.