Purpose

The purpose of the District's debt management policy is to establish and maintain well-defined debt management guidelines for issuing new debt as well as managing outstanding debt to sustain a strong debt management program.

Scope

The District's debt management policy shall apply to all debt instruments issued by the District, regardless of the purpose for which it was issued or the funding source for repayment.

Objective

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

1. Maintain financial stability.
2. Preserve public trust.
3. Minimize costs to taxpayers.
4. Minimize borrowing costs.
5. Preserve access to financial markets.
6. Demonstrate adequate administrative oversight of debt programs to credit rating agencies.

Debt Financing Guidelines

The District shall consider a range of debt structures that when combined allow for flexibility in responding to future needs, do not utilize all available debt capacity, continue to emphasize credit considerations, and match well with the useful life of the assets for which debt is incurred.

Debt is a financing tool that shall be judiciously used within the District's legal, financial, and debt market capacities.

Definition of Debt

The creation of debt occurs when a governing body incurs a financial obligation that cannot or shall not be repaid from current year revenues.

Cash Flow Financing

Cash flow financing refers to tax and revenue anticipation notes (TANS and RANS) 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. TANS and RANS are payable from current year revenues and, therefore, do not constitute debt.

Short-Term Debt

For purposes of this policy, short-term debt refers to debt with a repayment term of less than five years.

Long-Term Debt

For purposes of this policy, long-term debt refers to debt with a repayment term greater than the maximum term of short-term debt, up to the maximum term allowable by law.

Legal Authority for Types of Authorized Debt

The District shall be authorized to issue the following types of debt as approved by the Texas Education Code and the Texas Government Code.

Unlimited Tax Bonds

The Texas Education Code 45.001 authorizes school districts to issue bonds for the construction, acquisition, and equipment of school buildings, the purchase of necessary sites for school buildings, and the purchase of new school buses. The District secures these bonds through levying, pledging, assessing, and collecting annual ad valorem taxes, without limit as to rate or amount, sufficient to pay the principal and interest on the bonds as they become due. The bonds must mature serially or otherwise not more than 40 years from their issuance date and may be redeemable before maturity. The bonds require voter approval to be issued (45.003(a)) and may be sold at a public or private sale.

Maintenance Tax Notes and Tax Anticipation Notes

The District may pledge any available funds of the District, including the proceeds of its maintenance tax, to secure negotiable maintenance tax notes and tax anticipation notes under 45.108 of the Texas Education Code. The proceeds of these notes may be used for any legal maintenance expenditure including environmental clean-up and asbestos removal programs or maintenance, repair, rehabilitation, or replacement of heating, air conditioning, water, sanitation, roofing, flooring, electric, or other building systems of existing school properties. Notes issued pursuant to this section may not at any time exceed 75 percent of the previous year's income, may be issued only after a budget has been adopted for the current school year, and must mature not more than 20 years from their date, except for Tax Anticipation Notes, which must be repaid within 12 months.

Delinquent Tax Notes

45.104 of the Texas Education Code authorizes the District to pledge any delinquent taxes levied for maintenance purposes to secure a loan and may evidence such loan with negotiable notes. The proceeds of these loans may be employed for any legal maintenance expenditure including all costs incurred in connection with environmental clean-up and asbestos removal programs or maintenance, repair, rehabilitation or replacement of heating, air conditioning, water, sanitation, roofing, flooring, electric, or other building systems of existing school properties. Negotiable notes issued under this section must mature not more than 20 years from their date.

Time Warrants

45.103 of the Texas Education Code authorizes the District to issue time warrants. The warrants must mature in not more than five years from their date of issuance and are payable out of any available funds of the District. No election is required to issue time warrants. Time warrants may be issued to provide funds to construct, repair, or renovate school buildings, purchase school buildings and school equipment, or equip school properties with necessary heating, water, sanitation, lunch room, or electric facilities. A school district may not have more than $500,000 in time warrants outstanding at any one time.

Contractual Obligations

The District is authorized to incur contractual obligations under Chapter 271 of the Local Government Code to pay for school buses, computers, furniture, and other moveable personal property. These contractual obligations shall be payable from maintenance taxes. The maturity of a contractual obligation may not exceed five years.

Lease Purchase Agreement

The District is authorized to form a Public Property Finance Corporation under Chapter 303 of the Local Government Code. This corporation has the authority to issue bonds to construct any necessary facilities for the District without an election. These bonds shall be secured by lease payments, payable from the District's maintenance tax and any other lawfully available funds, paid by the District to the Corporation.

Revenue Bonds

Under 45.032 of the Texas Education Code, the District is authorized to issue revenue bonds to provide funds to acquire, construct, improve, or equip gymnasia, stadia, or other recreational facilities payable from and secured by liens on and pledges of all or any part of any of the revenues from any rentals, rates, charges, or other revenues from any or all of the facilities.

Refunding Bonds

Chapter 1207, Texas Government Code, authorizes school districts to refund or refinance all or any part of the school district's outstanding bonds and matured or unmatured but unpaid interest on those bonds payable from ad valorem taxes by issuing refunding bonds payable from ad valorem taxes. A series or issue of refunding bonds may not be issued unless the total debt service on the refunding bonds will be less than the total debt service on the bonds being refunded.

Conditions for Issuance of Long-Term Debt

When an asset's useful life is appropriate for long-term financing and the estimated future revenues are sufficient to ensure repayment of debt obligations, long-term debt shall be considered.

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) subject to voter approval. The capital planning process may incorporate updated demographic data from a third-party consultant, facility planning data from Facilities Services and architectural firms, and debt financing data from the District's financial advisor and chief financial officer.

Debt Refunding

Refinancing and/or restructuring debt can be valuable debt management tools to provide the District with debt service savings or debt payment relief. 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. Current refunding requires a three percent net present value threshold to be deemed appropriate. Advance refunding transactions should be considered when the net present value savings as a percentage of the par amount of refunded bonds is at least four percent.

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 can provide a hedge against interest rate risk. Interest rates on variable rate debt instruments are at the short end of the yield curve because they are periodically adjusted (e.g., daily, weekly, or monthly) based on current market conditions. Variable rate debt gives investors the right to "put" securities back to the issuer at their discretion at specified future intervals.

When issuing variable rate debt (rather than fixed rate debt), the District shall need additional parties involved including a remarketing agent, liquidity provider, and tender agent. The remarketing agent shall determine the interest rate for the period, notify the bondholders (through the tender agent), and remarket any bonds tendered to either different bond buyers or the liquidity provider.

The liquidity provider is usually a national or multi-national bank that provides the District with liquidity through a Standby Bond Purchase Agreement. Should there be a failed remarketing, the bonds would be placed with the liquidity provider until the bonds can be actively remarketed.

The tender agent shall accept the tender bonds from the holders and notify the District, remarketing agent, liquidity provider, and the bondholders of required mandatory or optional tender notices or rate changes.

As a general rule, some rating agencies recommend that variable rate debt not exceed 10–20 percent of total bonds outstanding, although other factors may affect their evaluation of the amount they regard as acceptable. The District may consider issuing variable rate bonds when variable short-term interest rates are consistently lower than long-term fixed rates. Total variable debt may not exceed 20 percent of the total outstanding debt, plus the amount of authorized bonds.

Short-Lived Assets

The District may finance purchases of capital equipment such as buses and technology from authorized bonds re-paid by the Interest and Sinking Tax Rate. The goal shall be to utilize shorter term bonds that correspond to the useful life of the equipment purchased.

Unauthorized Structures

The District shall not utilize swaps and other similar derivative products as a method of issuance.

Restrictions / Limitations on Debt Issuance

The District shall abide by the restrictions and limitations on debt issuance as described below.

Maintenance Tax Limitations

A school district is authorized to levy maintenance and operation taxes subject to approval of a proposition submitted to school district voters under Section 45.003(d) of the Texas Education Code, as amended. Subject to limited exceptions, the maximum tax rate that may be approved by voters for maintenance and operations is the sum of $0.17 plus the product of the state's compressed percentage multiplied by the school district's tax rate in 2005–06.

For fiscal year 2008–09 and thereafter, the Commissioner is required to determine the state compression percentage for each fiscal year, which is based on the amount of state funds appropriated for distribution to the District for the current fiscal year. Furthermore, a school district cannot annually increase its tax rate in excess of the school district's "rollback tax rate" without submitting such tax rate to a referendum election and a majority of the voters voting at such an election approving the adopted rate.

Debt Tax Limitations

The District shall evaluate debt limitations in developing debt issuance plans. 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 Texas Education Code. 45.003(b)(1) provides for a tax levy unlimited as to rate or amount for the support of school district bonded indebtedness. 45.0031 requires a school district to demonstrate to the Texas 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 $.50 per $100 of assessed valuation before bonds may be issued. A school district may take into account state allotments in demonstrating the ability to pay debt service at a rate of $.50.

Maturity Levels

The term of debt shall in no case exceed 30 years. The average (weighted) bond maturities shall be kept at or below 20 years.

Repayment Provisions

The District shall structure its debt in compliance with all federal, state, and local requirements as to repayment terms and seek to repay its debt in an expeditious manner within the District's overall financial objectives and in consideration of the useful life of the project and dedicated repayment revenue sources. The District shall structure its debt with two primary goals: 1) to ensure the earliest possible maturity of the bonds, and 2) matching or improving upon the Interest & Sinking (I&S) tax rate assumptions and projections as discussed with the citizens of the District at the time of the bond election.

Debt Ratios

The District shall also evaluate debt affordability ratios in developing debt issuance plans:

1. Ratio of net bonded debt to assessed value.
2. Ratio of total debt to assessed value.
3. Ratio of net bonded debt per student.
4. Ratio of total debt per student.

Debt Issuance Process

The District shall issue debt as described below.

Preferred Method of Sale

The District may sell bonds through a competitive sale. In a competitive sale, bonds are marketed to a wide spectrum of investment banking (underwriting) firms. Their bids are submitted at a specified time. The underwriter is selected based on the best bid (lowest true interest cost).

For negotiated sales, the District shall select one or more underwriters. The District's financial advisor shall set criteria deemed appropriate for the evaluation of underwriters and make a recommendation to District staff based on such criteria. Criteria for selecting underwriters shall include capacity for managing the District's sale, a Texas pricing desk and other factors based on economic conditions.

External Financial Professionals

External financial professionals shall perform duties as described in this policy.

Financial Advisor

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

1. Ensure that the District's bonds shall be 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 or assist with other credit enhancement, if needed.
4. Evaluate the bids submitted and recommend that they be accepted or rejected.
5. Review draft closing documents and monitor the closing process.
6. Prepare and submit the District's Annual Disclosure Report in accordance with SEC Rule 15c2-12.
7. 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 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 of the bonds and the federal income tax implications of the bonds.
5. Coordinate the closing transactions.

Paying Agent / Registrar

The District's paying agent shall:

1. Authenticate the bonds.
2. Send and 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.
5. Represent bondholders in case of default.

Rating Agencies

The District shall obtain a credit rating from at least two nationally recognized bond rating agencies on all bond issues. There are currently three nationally recognized rating agencies: Moody's Investors Service, Standard and Poor's Rating Agency, and Fitch Ratings, Inc. Rating agencies assign a credit rating to bonds based on their assessment of the District's financial position and ability to make full and timely payments of principal and interest, and provide a ratings report to the market prior to the sale.

Timing of Sales

The District's financial advisor shall work with District staff (Financial Services and Facilities Services) to ensure that the timing of bond sales coincides with having bond proceeds available for projects prior to the execution of construction or purchase contracts.

Bond Rating Goals

The District shall strive to maintain excellent bond ratings through:

1. Enforcing strong financial management practices.
2. Ensuring timely disclosure of annual financial information including the Comprehensive Annual Financial Report prepared by management and attested to by the external auditors.
3. Maintaining good relationships with bond rating agencies including site visits or meetings in person when required.

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 Securities and Exchange Commission Rule 15c2–12, as amended, requires the District to provide updated annual financial information no later than December 31 to designated state and national information repositories. Timely and accurate information can improve the marketability of the District's bonds.

The District shall work with the financial advisor to prepare and file the annual report with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) and the State Information Depository (SID) in order to fully comply with regulations.

Management of Bond Proceeds

When bonds are issued, the proceeds shall be deposited in various accounts, which may include a construction fund, debt service fund, and an escrow fund in a refunding. Monies allocated to these funds shall be 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. Investment of bond proceeds shall be in accordance with the Public Funds Investment Act (PFIA) (Texas Government Code 2256), the Public Funds Collateral Act (Texas Government Code 2257), federal and state laws, and Policy CDA(LOCAL) according to the cash flow schedule for capital projects. The District's financial advisor may not bid on investment products. Interest income generated from bond proceeds may be allocated for use in the Capital Project Fund(s); or, transferred from the Capital Project Fund(s) to the Debt Service Fund for the purpose of paying principal and interest costs on current and future debt. Determination shall be based on the recommendation of the financial advisors, the Superintendent, and the chief financial officer; and shall be approved by the Board.

The District shall incur, within six months of the date on which proceeds are issued, a binding obligation to a third party to expend at least five percent of the sale proceeds of the bonds on a bond project. The District reasonably expects that work on or acquisition of the project shall proceed with due diligence to completion and that the proceeds of the bonds shall be expended on the project within reasonable dispatch. The District reasonably expects that 85 percent of the sale proceeds of the bonds shall have been expended on the project prior to the date that is three years after the issue date. Any sale proceeds not expended prior to the date that is three years after the issue date shall be either invested at a yield not “materially higher” or shall make yield restriction payments, not less often than every fifth anniversary date of the delivery of the bonds and within 60 days following the final maturity of the bonds.

Management of Debt Service Fund

The District shall create or continue a debt service fund (the “Debt Service Fund”) and the proceeds from all taxes levied, assessed, and collected for and on account of bonds shall be deposited in such Fund. The District expects that taxes levied, assessed, and collected for and on account of bonds will be sufficient each year to pay such debt service. The bona fide portion of the Debt Service Fund shall be used primarily to achieve a proper matching of revenues and principal and interest payments on bonds within each bond year. Amounts held in the bona fide portion of the Debt Service Fund shall be invested at an unrestricted yield because such amounts shall be expended within 13 months of the date such amounts are received. The remaining portion of the Debt Service Fund (the “Reserve Portion”) shall be included in the calculation of arbitrage rebate.

Interest Earnings

Interest earnings in the Construction Fund may be used for the projects, or may be used to pay principal, interest costs, and related fees on current and future debt. Earnings of the Debt Service Fund shall be used to pay only principal, interest costs, and related fees on current and future debt.

Fund Balance

Fund balance shall mean the gross difference between governmental fund assets and liabilities reflected on the balance sheet.

The District shall target a minimum debt service fund balance in accordance with policy CE(LOCAL), which is currently set at 15 percent of the annual debt service requirements on all outstanding debt issuance.

Order of Fund Balance Spending

The order of spending and availability is to reduce restricted, committed, assigned as appropriate, and then unassigned funds. Negative amounts are not reported for restricted, committed, or assigned funds in any funds.

Restricted Fund Balance

Restricted fund balance includes amounts constrained to a specific purpose by the provider, such as a grantor.

Examples are as follows:

1. Federal or state granting agency.
2. Construction funds.
3. Retirement of long-term debt.

I & S Tax Rate

The District shall call or defease bonds as required by the bond order. The District may also call or defease additional bonds in order to stabilize the I & S tax rate or the total tax rate.

When required, tax rate increases associated with the issuance of new bonds shall be implemented in the current and succeeding fiscal year.

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.

The District shall take all necessary steps to comply with the requirements that “rebate arbitrage earnings” on the investment of “gross proceeds” of bonds, within the meaning of section 148(f) of the Code be rebated to the federal government. Specifically, the District shall:

1. Maintain records regarding the investment of the “gross proceeds” of bonds as may be required to calculate such “rebatable arbitrage earnings” separately from records of amounts on deposit in the funds and accounts of the District, which are allocable to other bond issues of the District.

2. Calculate at such intervals as may be required by applicable regulations, the amount of “rebatable arbitrage earnings,” earned from the investment of “gross proceeds” of bonds.
3. Pay, not less often than every fifth anniversary date of the delivery of bonds and within 60 days following the final maturity of bonds, or on such other dates required or permitted by applicable regulations, all amounts required to be rebated to the federal government.

The District shall maintain a copy of any such calculations, and all documentation necessary to produce such calculations or necessary to establish qualification for an exemption from the need to produce such calculations, for at least six years after the close of the final calendar year during which any bond is outstanding. 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.

Issuers of municipal bonds with an aggregate of $10 million or more in outstanding debt shall be required by SEC Rule 15c2–12 as amended, to annually disclose certain operating data as well as audited financial statements. The required secondary market or ongoing disclosure documents shall be due to the SID and each NRMSIR within six months of the fiscal year end. For the District, the deadline is December 31 following the fiscal year end of June 30. Accurate and timely filing of ongoing disclosure information is important as it relates to the liquidity of the District’s bonds and ensures that the District has the best results when accessing the capital markets.

Reporting to Committee / Board

The Superintendent, chief financial officer, and the District’s financial advisor shall provide summary debt management reports to the Board at least once every year or with every bond sale. The Debt Management Policy shall be reviewed on an annual basis and updated as needed.