

LOCAL REVENUE SOURCES: BOND ISSUES

CCA
(REGULATION)

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 Local 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.

SCOPE

This Policy applies to any debt obligation with a term of one (1) year or longer that is payable from the Interest & Sinking Fund. 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, thirty (30) to ninety (90) days.

DEBT
MANAGEMENT
OBJECTIVES

The debt management objectives of the District are to:

1. Maintain financial stability
2. Preserve public trust
 - 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 multi-year capital improvement plan in conjunction with its financial advisor, demographer, facilities planner, architect and bond committee, as applicable. The Administration shall review the capital improvement plan on an annual basis and recommend appropriate changes to the Board of Trustees. The capital improvement plan shall include:

- i. A timeline of the anticipated capital improvements needed and the projected cost thereof, given projected student enrollments and existing school facilities;
 - ii. A prioritization of such projects; and
 - iii. 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").
4. Provide flexibility to manage annual debt service requirements and corresponding Interest & 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 financial advisor, 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 (see "Composition of Debt Portfolio and Debt Strategies").
- b. Refinance the District's existing debt obligations at a lower interest rate as such opportunities are available (see "Guidelines for Refunding Debt Obligations").
- c. When economically feasible, combine multiple debt sales 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.

**ALLOWABLE
PURPOSES FOR THE
ISSUANCE OF DEBT**

The District regards the issuance of debt as a valuable management tool which 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, etc.);
 - b. The construction, acquisition and equipment of school facilities;
 - c. The renovation of school facilities;
 - d. The purchase of school buses;
 - e. Refund the District's outstanding debt obligations (see "Guidelines for Refunding Debt Obligations");
 - f. Fund a payment associated with the termination of a synthetic debt structure; and/or
 - g. 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.

**GUIDELINES FOR
PAYMENT 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 of 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 within 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.

1. Short-Term Capital Improvement Projects

Short-term capital improvement projects shall be those projects that generally have a useful life of 10 years or less. The following are guidelines to be used for the amortization of debt obligations issued for short-term capital improvements:

<u>Description</u>	<u>Average Life of Debt Obligations</u>
Computer Hardware and Software	5 years
Furniture, Fixtures and Equipment	10 years
Network Infrastructure	10 years
School Buses	10 years
Stadium Turf	10 years

2. Long-Term Capital Improvement Projects

- a. Long-term capital improvement projects shall be those projects that generally have a useful life of more than 10 years.
- b. Pursuant to State law, the District shall amortize all debt obligations within the parameters established by State law.

3. Total Debt Portfolio

- a. The District may consider the following principal repayment targets for its total debt portfolio:
 - i. 5-Years = Principal repayment target of 15% - 25%

- ii. 10-Years = Principal repayment target of 40% - 50%
 - iii. 20-Years = Principal repayment target of 65% - 75%
 - iv. 30-Years = Principal repayment target of 85% - 95%; and
 - v. 35-Years = Principal repayment target of 100%.
- b. To the extent such principal amortization requirements described in (a) above should limit the District's ability to annually manage its Interest & Sinking Fund tax rate or cost-effectively issue future debt obligations, the District shall maintain its financial management flexibility by amortizing its debt obligations at a slower repayment rate than described above.
 - c. To the degree the principal repayment targets described in (a) above are not met, should the District's taxable assessed valuation increase more than assumed within its multi-year capital improvement program and/or additional revenues are received for the payment of debt service, the District shall to the degree it is deemed financially feasible, use such excess funds to repay its debt obligations prior to final maturity, while maintaining an Interest & Sinking Fund tax rate within the parameters previously communicated to taxpayers.

COMPOSITION OF
DEBT PORTFOLIO

The District's debt portfolio may be comprised of three types of debt: 1.) traditional fixed rate debt, 2.) variable rate debt and 3.) synthetic debt structures. The District shall select the most prudent debt structure of the time debt obligations are sold, given the District's targeted debt portfolio, prevailing and expected market conditions and established risk parameters.

1. Traditional Fixed Rate Debt

Traditional fixed rate debt are obligations whose interest rates remain constant until the final maturity. The targeted percentage of traditional fixed rate debt within the District's debt portfolio shall be between 50% - 100%.

2. Variable Rate Debt

Variable rate debt are obligations whose interest rates "reset" on a periodic basis (i.e. daily, weekly, monthly, annually, etc.). The targeted percentage of variable rate

debt within the District's debt portfolio shall be 0% - 30%.

3. Synthetic Debt Structures

The District may consider the use of synthetic debt services (such as interest rate swaps and other interest rate risk management tools) after carefully evaluating the risks and benefits of any proposed transaction. A separate policy shall govern the use of any synthetic debt structures within the District's debt portfolio. The targeted percentage of synthetic debt structures (excluding basis swaps) within the District's debt portfolio shall be 0% - 20%.

GUIDELINES FOR REFUNDING DEBT OBLIGATIONS

All refunding proposals should be reviewed by the District's Administration and its financial advisor to determine the applicability, accuracy and potential benefits to the District. Each potential refunding program should be considered on its own merits and shall be analyzed and structured to support current and future debt programs.

When reviewing the appropriateness of a refunding program, the evaluation process should be dynamic enough to consider all potential benefits to the District, such as lowering the District's interest cost, increasing the District's debt capacity, increasing flexibility to manage the District's debt portfolio, etc. The following provides the general criteria the District shall utilize when considering the implementation of a refunding program:

1. Criteria to be utilized for a Refunding for Interest Cost Savings
 - a. A refunding program shall produce sufficient interest cost savings to be deemed prudent and material given the inherent risks of the refunding program.
 - i. A refunding utilizing traditional fixed rate debt may be considered if the "Present Value Savings as a Percentage of the Principal Amount of the Refunding Bonds" ratio is at least 3.0%.
 - ii. A refunding utilizing a synthetic debt structure that does not involve tax risk may be considered if the "Present Value Savings as a Percentage of the Principal Amount of the Refunded Bonds" ratio is at 5.0%.

- iii. A refunding utilizing a synthetic debt structure that includes the assumption of tax risk may be considered if the “Present Value Savings as a Percentage of the Principal Amount of the Refunded Bonds” ratio is at least 8.0%.
 - b. The final maturity of the Refunding Bonds shall not exceed the final maturity of the Refunded Bonds.
 - c. A refunding for savings shall not materially diminish the District’s ability to manage its debt portfolio or restrict the District’s ability to cost-effectively issue additional debt obligations.
 - d. A refunding for savings shall be combined with a “new money” issuance to achieve economies of scale regarding costs of issuance, when feasible and prudent.
- 2. Criteria to be Utilized for a Refunding for Restructuring Purposes
 - a. Both callable and non-callable debt may be refunded for restructuring purposes. In higher interest rate environments, non-callable debt shall be restructured prior to any callable debt, if possible.
 - b. A restructuring may be implemented to:
 - i. Permit additional debt obligations to be sold more cost-effectively;
 - ii. Keep within the tax rate parameters communicated to voters of the District or to manage the District’s Interest & Sinking Fund tax rate; and
 - iii. Add flexibility to the District’s debt portfolio, given prevailing circumstances.
 - c. The costs associated with a restructuring (costs of issuance and additional interest cost; if any) shall be evaluated in contrast to the expected benefit of the restructuring.
 - d. A restructuring should not materially diminish the District’s ability to manage its debt portfolio or restrict the District’s ability to cost-effectively issue additional debt.

METHOD OF SALE
TO BE UTILIZED

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 which indicate the appropriate method of sale are generally described below:

1. Competitive Sale

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

- a. The debt market is stable and demand for the debt obligations is strong;
- b. The District can reasonably expect at least three bids will be received;
- c. Structural features and credit quality are conventional;
- d. Transaction size is manageable; and/or
- e. Volume of competing transactions is low.

2. Negotiated Sale

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

- a. An advance refunding is being completed;
- b. Debt market is volatile, demand for debt obligations is perceived to be weak or the volume of competing sales is high;
- c. Coordination of multiple components of the financing is required;
- d. Substantial education of investors is required;
- e. Structural features or credit quality is unconventional;
- f. Large transaction size; and/or
- g. Retail participation is expected or desired to be high.

3. Private Placement

The District shall consider a private placement of its debt obligations if it provides more advantageous financing terms than may be obtained in the national capital markets.

PARAMETER DEBT SALES

The Board of Trustees may designate 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 of Trustees 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.

1. Credit Ratings

- a. For any new issuance of traditional fixed rate debt sold either through a competitive or negotiated sale, the District shall obtain a credit rating from at least two nationally recognized rating agencies. The District shall obtain a credit rating based upon the District's stand-alone credit strength, as well as, a credit rating based upon any type of credit enhancement obtained for a particular debt issuance.
- b. 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.
- c. Based upon a recommendation from the District's financial advisor, the District shall conduct the rating process either in person through a formal rating presentation or via a conference call.
- d. The District will be cooperative with the rating agencies and provide all requested information in a timely manner.

2. Credit Enhancement

- a. 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 stand-alone credit rating, the District shall compare that cost and related benefits of other types of credit enhancement (i.e. bond insurance, etc.) and select the option which results in the lowest interest cost at the time a debt obligation is sold.
- b. 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 financial advisor 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.
- c. 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 (“LOC”) and Standby Bond Purchase Agreements (“SBPA”) 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. It is the responsibility of the Administration to conduct periodic reviews of each professional to determine if the quality of service provided is commensurate with the fees charged by such professionals.

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

1. Financial Advisor – To assist with the planning and issuance of all debt and debt administration processes relating to District’s debt portfolio and future debt programs.
2. Bond Counsel – To consult with the District and its financial advisor on legal matters pertaining to the issuance of debt obligations. In addition, Bond Counsel shall provide a written opinion, upon 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.
3. Demographer – To assist in reviewing and analyzing the demographic changes within the District and the corresponding projections of student enrollment. The District shall incorporate such information assembled by its demographer within its multi-year capital improvement plan.

SELECTION OF
UNDERWRITERS
FOR NEGOTIATED
TRANSACTIONS –
FIXED RATE DEBT
OBLIGATIONS

The District may select a pool of qualified firms to serve as senior manager and/or co-manager for a three-year period (the “Underwriting Pool”). The District reserves the right to add or remove firms from the Underwriting Pool at any time and to shorten or lengthen the period of time for which the Underwriting Pool is in place. The District may add or remove firms from the Underwriting Pool at any time based on factors including, but not limited to, performance or change in staff or firm organization.

1. Selection Process

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

- a. Capital position;
- b. Institutional and retail sales network for municipal debt obligations;
- c. Experience underwriting Texas school district debt obligations;
- d. Experience underwriting municipal debt obligations;

- e. Financing ideas presented or other value provided to the District;
- f. Demonstrated commitment to Texas school districts;
- g. Prior performance on District's negotiated sales;
- h. Performance on District's competitive sales;
- i. Local presence; and
- j. Potential conflicts of interest.

In determining its Underwriting Pool, the District shall consider other compensated services currently being performed by potential underwriters to help ensure diversification among its financing team.

2. Underwriting Syndicate Selection

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

- a. The dollar amount of debt obligations to be sold;
- b. The criteria listed within (1) above; and
- c. Underwriting participation in District's recent negotiated sales.

3. 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 financial advisor which shall include at a minimum:

- a. A summary of orders submitted and allocations (including designations) received by each firm;
- b. A comparison of the District's interest rates to the interest rates on comparable sales; and
- c. A review of market conditions at the time of pricing.

The District's financial advisor will evaluate the success of the underwriting versus the market at the time of sale and

analyze each syndicate member's performance and present such information to the District's Administration.

4. Unsolicited Proposals

The District encourages the submission of unsolicited financing proposals from any firm and may accept proposals from firms that are not in its Underwriting Pool. A copy of each proposal shall be provided to the District's financial advisor. 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. If the District implements a financing alternative submitted by a firm that is not a member of its Underwriting Pool, the District may consider inclusion of such firm within the underwriting syndicate.

SELECTION OF UNDERWRITER / REMARKETING AGENT FOR VARIABLE RATE DEBT OBLIGATIONS

The District will select qualified firm(s) to serve as underwriter/remarketing agent for each series of the District's variable rate debt obligations. The District reserves the right to replace the remarketing agent or utilize other remarketing agents at any time based on factors including, but not limited to, performance, change in staff or firm organizations, etc.

1. Selection Process

The criteria to be utilized in the selection of underwriters/remarketing agents for the District's variable rate debt obligations shall consider a firm's:

- a. Capital position;
- b. Sales and distribution network for short-term municipal debt obligations;
- c. Experience in providing underwriting/remarketing agent services for Texas school districts;
- d. Experience in providing underwriting/remarketing agent services for municipal debt issuers;
- e. Financing ideas presented or other value provided to the District;
- f. Demonstrated commitment to Texas school districts;

- g. Prior performance as remarketing agent on District's variable rate issues;
- h. Local presence; and
- i. Potential conflicts of interest.

2. Evaluation of Remarketing Agent Performance

At least annually, the District's financial advisor shall evaluate the performance of the remarketing agents versus the market performance of other comparable Texas school district financings and present such information to the District's Administration.

**ONGOING DEBT
MANAGEMENT
PRACTICES**

1. 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 (see CDA(LEGAL)).

2. 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 which facilitates the completion of accurate rebate calculations and rebate payments, if any, on an annual basis.

3. Continuing Disclosure Requirements

The District shall comply with the Securities and Exchange Commission (SEC) Rule 15c2-12 by filing with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) and State Information Depository (SID) 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. The District will also notify each NRMSIR and SID of any "material events" (as defined pursuant to SEC Rule 15c2-12) promptly after such event has occurred.

**DUTIES AND
RESPONSIBILITIES**

The District's Administration is responsible for reviewing and monitoring the activities of the District to determine compliance with the general guidelines and restrictions established by this Policy. The Administration shall review the District's Policy on an annual basis review appropriate changes with the Board of Trustees.