

LOCAL REVENUE SOURCES  
BOND ISSUES

CCA  
(LOCAL)

<b>Purpose</b>	The purpose of this policy is to establish guidelines governing the issuance, management, and reporting of all debt obligations issued by the District and the execution and management of interest-rate management agreement transactions and to provide for the actions necessary to ensure proper implementation and compliance with this policy.
<b>Scope</b>	The policy applies to all debt instruments issued by the District regardless of the purpose for which issued or the funding source for repayment and to interest-rate management agreement transactions executed in anticipation thereof or related thereto.
<b>Debt Management Objectives</b>	<p>The objectives of this policy are to:</p> <ol style="list-style-type: none"><li>1. Preserve the public trust.</li><li>2. Maintain the financial integrity and stability of the District.</li><li>3. Preserve access to financial markets.</li><li>4. Preserve future financial flexibility.</li><li>5. Establish a framework exercising prudence in debt issuance.</li><li>6. Reduce costs to taxpayers and reduce borrowing costs through consistent application of approved processes.</li><li>7. Demonstrate adequate administrative oversight of debt programs to credit rating agencies.</li><li>8. Comply with all applicable state and federal laws in the issuance, investment, and reporting of debt.</li></ol>
<b>Policy Review</b>	This policy shall be reviewed on an annual basis and updated as necessary.
<b>Delegation of Responsibility</b>	The chief of business and operations shall have the responsibility for ensuring the District's compliance with this policy. Day-to-day activities shall be managed by the District's investment officers, who are the chief of business and operations, executive director of financial services, comptroller, and treasurer. The department of financial services shall provide a report to the Board annually detailing debt management activities and adherence to the policy.
<b>Ethics Disclosures</b>	All financing team members shall be required to provide full and complete disclosure relative to any and all agreements with other financing team members, Board members, key District personnel, and outside parties subject to, but not limited to, Chapter 176 of the Government Code. Parties shall be governed by the District's Board policy concerning conflict of interest disclosures. In general, no agreements shall be permitted that would compromise a firm's

ability to provide independent advice that is solely in the best interest of the District.

**Compliance**

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

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 “rebata-ble 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; and
2. Calculate at such intervals as may be required by applicable regulations, the amount of “rebata-ble arbitrage earnings.”

**Disclosure Requirements**

The District shall work with its financial adviser to coordinate the filing of the annual report and any other disclosure event notices as required by the Securities and Exchange Commission (SEC) Rule 15c2-12.

**Capital Planning and Debt Issuance**

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 the District’s “commercial paper” program and other types of authorized debt listed below.

**Unreserved, Undesignated Debt Service Fund Balance**

The District shall maintain a debt service fund balance that is sufficient enough to ensure repayment of debt obligations in the event of any tax receipt shortfalls.

**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. Contractual obligations as permitted by Chapter 271 Local Government Code.
6. Lease purchase agreement as permitted by Chapter 303 Local Government Code.
7. Revenue bonds as permitted by Education Code 45.032.
8. Refunding bonds as permitted by Chapter 1207 Texas Government Code.
9. Commercial paper notes as permitted by Education Code 45.001 and Government Code 1371.

### Debt Structure

The District shall consider a range of debt structures, which when combined, allow for flexibility in responding to future events, do not utilize all available debt capacity, continue to 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 three categories:

1. **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.
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.
  - a. Each debt issuance will be issued with an average maturity no greater than the average life of the assets being financed.
  - b. The maximum maturity will be no greater than the maximum useful life of any asset class being financed by the bond issue.
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, maintenance tax notes,

and refunding bonds. 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) subject to voter approval. 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 financial adviser. The capital planning process shall incorporate the cost of wages paid in accordance with the Davis-Bacon Prevailing Wage Rate Schedule or any other wage rate schedule adopted by the Board.
- 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. 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 will need additional parties involved, including a remarketing agent, liquidity provider, and tender agent. The remarketing agent determines the interest rate for the period, notifies the bondholders (through the tender agent) and remarkets 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 effectively remarketed. The tender agent accepts the tender bonds from the holders and notifies the District, remarketing agent, liquidity provider, and 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 ten to 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.

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, deep discount bonds, zero coupon bonds, and premium bonds.
- (3) Mandatory and optional call features.
- (4) Short and/or long coupon maturities.
- (5) Municipal bond insurance.
- (6) Other legal structures not listed above.

**Debt Limits /  
Capacity**

The District is authorized to levy an ad valorem debt service tax, without limit as to rate or amount, to pay debt service on unlimited tax bonds and on commercial paper notes issued to provide interim financing for projects that shall be financed through the issuance of unlimited tax bonds.

The District is also authorized to levy an ad valorem maintenance and operations tax (M&O) at a rate in accordance with state law.

**Maturity Levels**

The term of debt shall in no case exceed 40 years. The average (weighted) bond maturities shall be kept at or below 25 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. To match or improve upon the interest and sinking (I&S) tax rate assumptions and projections as discussed with the citizens of the District at the time of the bond election.

**Interest-Rate  
Management  
Transactions**

Authorized  
Conditions—  
Independent Advice

Purposes for  
Interest-Rate  
Management  
Transactions

The District may not enter into an interest-rate management transaction without independent advice from a financial adviser or swap adviser (“independent adviser”) who has experience in interest-rate management transactions unless the Board has approved execution of the transaction without independent advice from a financial adviser or swap adviser who has such experience.

The District may enter into an interest-rate management agreement for one or more of the following purposes:

1. Reducing the exposure to changes in interest rates on a particular financial transaction or in the context of the management of interest-rate risk derived from the District’s overall asset/liability balance.
2. To achieve diversification of interest exposure for a particular debt offering.
3. Achieving a lower net cost of borrowing with respect to the District’s debt or a higher net rate of return on investments made in connection with, or incidental to the issuance, incurring, or carrying of the District’s obligations or other District investments. Savings shall be calculated after adjusting for:
  - a. Applicable fees (including takedown, remarketing fees, credit enhancement, and legal fees); and
  - b. Call options that may be available on the debt.

Examples may include, but are not limited to, synthetic fixed-rate debt and synthetic variable-rate debt.

4. Managing variable interest-rate exposure consistent with prudent debt practices.
5. Enhancing expected investment returns within prudent risk guidelines.
6. Managing the exposure to changing market conditions in advance of anticipated debt issues (through the use of anticipatory hedging instruments, such as rate locks).
7. Achieving greater flexibility in meeting overall financial objectives than can be achieved in conventional markets (e.g., entering into a swaption with an upfront payment).

Any index chosen as part of an interest-rate management transaction shall be a recognized market index, including, but not limited to, the Securities Industry and Financial Markets Association (SIFMA) Municipal Swap Index, the Secured Overnight Financing Rate (SOFR), or the London Interbank

Offered Rate (LIBOR). The District shall not enter into interest-rate management transactions that do not have a direct (one-to-one) correlation with the movement of an index without thoroughly analyzing the risk associated with such interest-rate management transactions.

The District shall not enter into interest-rate management transactions:

- a. That are speculative or create extraordinary leverage or risk based on a reasonably prudent investor standard;
- b. For which the District lacks adequate liquidity to terminate without incurring a significant bid/ask spread; or
- c. That, at the time of execution, do not provide sufficient price transparency to allow for reasonable valuation.

Creditworthiness of  
Counterparty

The District shall enter into each interest-rate management transaction only with qualified financial institutions which, at the time of execution of an interest-rate management transaction:

1. Are rated at least AA-/Aa3/AA- by at least two of three nationally recognized bond rating agencies: Standard & Poor's (S&P) Rating Agency, Moody's Investors Service, and Fitch Ratings, Inc., respectively, and have a minimum capitalization of \$50 million; or
2. If rated below AA-/Aa3/AA- by at least two of S&P, Moody's, and Fitch, respectively, or if not rated, shall provide credit support that may require such party to deliver collateral for the benefit of the District:
  - a. That is of a kind and in such amounts as are specified by the independent adviser and which relate to various rating threshold levels of the counterparty or its guarantor, beginning at AA-/Aa3/AA- (S&P/Moody's/Fitch); and
  - b. That, in the judgment of the District, is reasonable and customary for similar interest-rate management transactions, taking into account all aspects of each interest-rate management transaction, including, without limitation, the economic terms of each interest-rate management transaction and the creditworthiness of the counterparty or, if applicable, its guarantor; or
3. If rated below AA-/Aa3/AA- by at least two of S&P, Moody's, and Fitch, respectively, or if not rated, shall obtain credit enhancement from a provider with respect to its obligations under each interest-rate management transaction that satisfies

the requirements of paragraph 1 of this section, given the undertaking involved with each particular interest-rate management transaction.

Each counterparty shall make available audited financial statements and rating reports of the counterparty (and any guarantor or credit enhancer, as applicable) at the time of entry into each interest-rate management transaction and annually thereafter. If at any time the counterparty or credit enhancer undergoes a credit or regulatory review, then audited financial statements and rating reports of the counterparty (and any guarantor or credit enhancer, as applicable) shall be made immediately available to the District by the counterparty.

#### Risks

At the request of the District, the independent adviser shall provide a disclosure memorandum to the District that includes an analysis of the risks and benefits of each interest-rate management transaction.

Guidelines and parameters for certain risk categories are as follows:

1. **Counterparty risk.** The impact to the District of counterparty default can be reduced by diversifying credit exposure across multiple counterparties. In addition, the District may further mitigate counterparty risk by requiring counterparties to post collateral on a mark-to-market basis.
2. **Termination risk.** A termination payment may be required in the event of termination of an interest-rate management transaction due to a counterparty default or following a decrease in the credit rating of the District or its counterparty. All interest-rate management transactions should be designed to provide the District with sufficient time to determine whether it is financially advantageous to obtain a replacement counterparty or to effect termination.

The District may retain the right to terminate each interest-rate management transaction at any time over its term at its then-prevailing market value. Termination values may be readily obtainable through a market quote methodology or as provided by the independent adviser.

3. **Amortization/Tenor risk.** Each interest-rate management transaction designated as a hedge shall reflect, as closely as possible, the amortization of the underlying debt or shall be in

place for no longer than the period of time that matching assets are available to hedge each interest-rate management transaction.

4. **Liquidity risk.** The District shall consider whether the swap market is sufficiently liquid (i.e., if enough potential counterparties participate actively in the market to assure fair pricing) for the type of interest-rate management transaction being considered and the potential ramifications of an illiquid market for such type of interest-rate management transaction. There may not be another appropriate party available to act as an offsetting counterparty. The District may enter into liquidity or credit agreements with liquidity providers and/or credit enhancers to protect against this risk.
5. **Basis risk (including tax risk).** As a result of issuer specific credit events or tax code changes, payments on hedged variable rate bonds could exceed swap receipts and result in a higher cost of funds to the District. Basis risk may be mitigated by specifying an index or percentage of an index for the interest-rate management transaction reflecting historical trading relationships and scheduled future tax cuts.

Any index chosen as part of an interest-rate management transaction shall be a recognized market index, including, but not limited to, the SIFMA Municipal Swap Index, the SOFR, or LIBOR. The District shall not enter into interest-rate management transactions that do not have a direct (one-to-one) correlation with the movement of an index without thoroughly analyzing the risk associated with such interest-rate management transactions.

6. **Variable rate bond (rollover) risk.** The District could be subject to a penalty interest rate as a result of a failed variable rate demand obligation remarketing, and could fail to have a liquidity facility renewed at expiration. The District may consider purchasing bond insurance, as available, and may enter into long-term liquidity facilities with highly rated providers in order to mitigate this risk.

Methods of  
Selection of  
Counterparties

The District shall determine the procurement method for each interest-rate management transaction contemplated. The District may select from, but is not limited to, the following procurement methods:

1. **Competitive bid.** The solicitation of competitive bids shall include not fewer than three Counterparties that are qualified under this policy.

2. **Limited bid.** The solicitation of a limited bid shall include as many participants as deemed necessary by the District finance officer to ensure a fair and competitive process. All participants in a limited bid shall be counterparties qualified under this policy.
3. **Negotiated interest-rate management transactions.** In the case of an interest-rate management transaction executed on a negotiated basis, the District:
  - a. Shall set parameters for execution;
  - b. May delegate to a designee, in consultation with the independent adviser, authority to negotiate the applicable rate; and
  - c. Shall arrange with the independent adviser for delivery of a “fair market value” opinion. A negotiated interest-rate management transaction shall only be executed with a counterparty qualified under this policy.

Limits Concerning  
Awarding a  
Transaction,  
Monitoring, and  
Exposure

In order to limit and diversify the District’s counterparty risk and to monitor credit exposure to each counterparty, the District shall comply with the following guidelines:

1. The total notional amount of outstanding interest-rate management transactions between a particular counterparty (and its unconditional guarantor, if applicable) and the District, calculated as a percent of total authorized and outstanding debt, shall not exceed rating agency guidelines. The District’s total notional exposure to each counterparty shall be calculated net of any offsetting interest-rate management transactions or insured termination payments. If requested by the District, the independent adviser can provide a memorandum setting forth this exposure limit calculation. Notional exposure limits shall be reviewed by the Board at least annually.
2. If the maximum notional exposure limit for a particular counterparty is exceeded solely by reason of merger or acquisition involving two or more counterparties, the District shall expeditiously analyze the exposure, but shall not be required to “unwind” existing interest-rate management transactions unless the District determines such action is in its best interest, given all the facts and circumstances.
3. Net mark-to-market exposure of all interest-rate management transactions shall be measured periodically by the finance officer, in consultation with the independent adviser. In the event that net mark-to-market exposure to any individual

counterparty exceeds a reasonable portion of currently outstanding and authorized debt, and until such exposure limits are remedied, the finance officer shall report to the Board on a weekly basis the extent of the exposure and the risks relating thereto.

4. If an exposure limit is breached for a counterparty, then the District shall:
  - a. Conduct a review of the exposure limit calculation of the counterparty;
  - b. Determine whether collateral may be posted to satisfy the exposure limitation; and
  - c. Enter into an offsetting interest-rate management transaction, if necessary.

**Debt Affordability Ratios**

Debt affordability ratios include:

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

**Debt Issuance Process**

The Board may choose any authorized method of sale including competitive sales, negotiated sales, and private placements. The Board may utilize alternative types of sales if deemed more advantageous to the District as a result of market or other conditions.

Refunding issues shall typically be conducted on a negotiated basis.

Competitive sales are preferred for the sale of short-term debt, TANS, and other non-bonded debt. Negotiated sales may be utilized if deemed more advantageous to the District.

**Refunding Policy**

Refunding bonds shall be utilized to restructure debt and to substantially reduce District costs. A refunding shall only be considered where a minimum net present value savings of 3.5 percent as a percentage of the par amount can be produced. Exceptions may be approved where debt is being restructured, such as a conversion from variable to fixed rate debt.

**Selection / Use of Service Providers**

Financial Adviser

The financial adviser shall:

1. Make recommendations to ensure that the District's bonds are issued at the lowest possible interest cost and are structured in accordance with the District's financing guidelines.

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2. Coordinate the preparation of the notice of sale, preliminary official statement, and official statement and other market documents necessary in the marketing of debt obligations.
3. Act as the District's agent in arranging for the printing of offering documents.
4. Prepare a uniform bid form containing provisions recognized by the municipal securities industry as being appropriate for the obligations to be offered for sale, when necessary.
5. Assist in obtaining the Permanent School Fund Guarantee through the Texas Education Agency, when available.
6. Assist with obtaining credit enhancements.
7. Represent the District at the pricing for the purpose of tabulation and comparison of bids and make a recommendation as to the acceptance or rejection of such bids.
8. Work closely with the District's bond counsel in the preparation of all appropriate legal proceedings and documents.
9. Prepare and submit the District's Annual Disclosure Report in accordance with SEC Rule 15c2-12.
10. Assist and make recommendations in determining debt issuance and repayment schedules that will be most beneficial to the District and acceptable to credit rating agencies.

Bond Counsel

The bond counsel shall:

1. Certify that the District has the legal authority to issue the proposed bonds or other debt obligations.
2. Prepare orders, resolutions, tax certificates, and other documents necessary to call, conduct, and canvass bond elections and to issue bonds and other debt obligations.
3. Obtain approval of the bond issue by the attorney general's office.
4. Provide a legal opinion as to the validity and enforceability of the bonds and the exemption from federal income taxation of the interest.
5. Attend all meetings, including those with rating agencies and state officials, called to discuss the legal aspects of the bonds proposed to be issued.
6. Coordinate closing of transactions.

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7. Consult with District officials and the District's financial advisers in order to review information to be included in offering documents.
8. Provide written advice to the District enabling officials of the District to comply with applicable arbitrage requirements including yield restrictions and rebate requirements.

Paying Agent /  
Registrar

The paying agent shall:

1. Authenticate the bonds and facilitate transfers and exchanges.
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 if acting as a trustee.

Rating Agencies

The District shall obtain a credit rating from at least two of the three nationally recognized bond rating agencies (Moody's, S&P, and Fitch) on all bond issues. 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.

The District shall endeavor to maintain effective relationships with the rating agencies.

**Investment of Bond  
Proceeds**

When bonds are issued, the proceeds are 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 are invested until needed. The investment strategy for each fund will 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 adviser may not bid on investment products. Interest income generated from bond proceeds will be 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.

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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 will 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 yield restriction payments shall be made 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 has created or continued a debt service fund, and the proceeds from all taxes levied, assessed, and collected for and on account of bonds are to 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 in the construction fund shall be used for the projects but 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.

**Interest and Sinking  
Fund 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 will be implemented in the current and succeeding fiscal years. Due to construction fund interest earnings being used and other factors, the variable rate bonds of the District may need to be called or defeased to stabilize.

**Transaction Records**

The department of financial services shall maintain complete records of decisions made in connection with each financing. Each transaction file shall include the official transcript for the financing,

the final number runs, and a post-pricing summary of the debt issue. The chief of business and operations shall provide a timely summary of each financing to the Board.