

Debt Management Policy

City of Pflugerville

This policy is to establish guidelines for the issuance and management of debt and related financing activities. It is the intent of this policy to provide a comprehensive view of the City's long-term debt and improve the quality of decisions in relation to the City's debt issuance and management. Adherence to a debt policy helps ensure that the City maintains a sound debt position and that credit quality is protected.

Conditions of Debt Issuance

Debt should be issued for the purpose of meeting the needs of the community by funding capital projects and equipment but without constituting an unreasonable burden to taxpayers. Long-term debt is only issued to finance the acquisition and/or construction of capital improvements or to refund outstanding debt.

Characteristics of Debt Issuance

When the City finances capital projects by issuing debt, it will pay back the debt within standard terms that include the following:

- Term of up to 30 years will normally be considered depending on cash flow assumptions. Longer terms may be considered, but in no case will exceed the useful life of the assets being financed.
- The City will seek level or declining debt repayment schedules and will avoid issuing debt that provides for balloon principal payments.
- Call provisions will be shortest possible optional call consistent with optimal pricing.
- The City will avoid variable-rate debt due to the potential volatility of such instruments.

Commercial insurance or other credit enhancements to a debt issue's rating will be considered when cost-effective.

Types of Debt

General Obligation Bonds/Limited Tax Bonds

General Obligation (GO) or Limited Tax Bonds may only be issued with voter approval. The use of the proceeds from GO/Limited Tax Bonds is limited to the acquisition or improvement of real property and other uses allowed by law and the applicable language of the bond proposition(s) approved by the voters. Libraries, parks, streets and other municipal facilities are all types of infrastructure that could be financed with GO/Limited Tax Bonds. To the extent that property tax revenues are used to fund debt service, an increase to the property tax may be proposed.

Certificate of Obligations

Certificate of Obligations (CO) may be issued without voter approval to finance any capital improvement project or capital equipment, as permitted by State law. There is a forty-six (46) - day notice period before a city can pass an ordinance to issue the certificates giving time for citizen input and time to gather signatures for a voter initiated petition to call an

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election. To the extent that property tax revenues are used to fund debt service, an increase to the property tax may be proposed.

Revenue Bonds

Revenue Bonds finance infrastructure and facilities for a revenue producing enterprise and are payable from revenue sources within that enterprise. Municipal water and wastewater are examples of revenue producing enterprises within the City. Adjustments to the City's enterprise rate structures will be made as necessary to maintain adequate revenue coverage and reserve funds as may be required by applicable bond covenants.

Refunding Bonds

The City Council is authorized to provide for the issuance of bonds for the purpose of refunding any long-term debt obligation of the City. The City's financial advisor shall routinely monitor the municipal bond market and make recommendations regarding refunding opportunities. As a general rule, refundings will be considered if they produce an economic benefit in the form of a net present value debt service savings or if the refunding is essential in order to modernize covenants essential to operations and management. Refundings should be issued for an equal or a shorter maturity. Refunding issues that produce negative savings will not be considered unless a compelling public policy objective is served by the refunding.

Other Obligations

Circumstances may arise for which other forms of debt may be appropriate and will be evaluated on a case-by-case basis. Such other forms include, but are not limited to limited tax notes, assessment bonds, bond anticipation notes, tax anticipation notes, grant anticipation notes, leases, and funding from State Agencies.

Restriction on Debt Issuance

- The City will not use long-term debt to finance annual operating needs.
- Derivative products will not be used by the City.
- Swaps will not be entered into without establishment of a Swap Policy.
- Variable rate debt will not be entered into without establishment of a Variable Rate Debt Policy.

Limitations on Outstanding Debt

The City operates under its home-rule City Charter as authorized by Article XI, Section 5 of the Constitution of the State of Texas. Article XI, Section 5 of the Constitution establishes a maximum tax rate of \$2.50 per \$100 Assessed Valuation for all City purposes. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.50 of the \$2.50 maximum tax rate for debt service on tax supported debt obligations.

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Debt Issuance Process

The City shall utilize the services of an independent, Municipal Securities Rulemaking Board-registered financial advisor on all debt financing. In addition, bond counsel will be used for each transaction. The City may utilize a pool of underwriters to mitigate time constraints and reduce overhead costs to the City in procuring services to underwrite issuances. In accordance with MSRB Rule G-23, the City's financial advisor is prohibited from underwriting the City's debt obligations while under contract with the City as financial advisor.

The City may sell debt through competitive sale, negotiated sale, or direct purchase. For each issuance, the City's financial advisor shall prepare an analysis and recommendation as to the most appropriate method of sale for staff consideration.

Credit Ratings

The City will maintain good communication with credit rating agencies about its financial condition. The City will seek to maintain and improve its current credit ratings on its debt obligations so its borrowing costs are reduced to a minimum and its access to credit is preserved. In conjunction with the financial advisor, the City will request ratings from at least one of the major rating agencies when issuing new publicly-offered debt obligations or refunding existing debt to obtain an affirmed or upgraded rating. The City staff, with the assistance of the financial advisors and bond counsel, will prepare the necessary materials for presentation to the rating agencies to aid in their evaluation of the City's credit position.

Covenant Compliance

The City will comply with all applicable debt covenants.

Market Disclosure

The City is committed to complete, accurate, and timely financial disclosure and to cooperating fully with the rating agencies, investors, and the general public. City staff will assist the financial advisors and bond counsel in the production of Preliminary Official Statements and other necessary information and will take responsibility for the accuracy of all financial information released.

Official statements accompanying debt issues, Comprehensive Annual Financial Reports, and continuing SEC Rule 15c(2)-12 continuing disclosure statements will meet (at a minimum), the standards articulated by the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analyst (NFMA), the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The Finance Department is responsible for making ongoing continuing disclosure filings with established national information repositories, including Electronic Municipal Market Access (EMMA), and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

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Reimbursement Resolutions

The City may reimburse itself from the proceeds of tax-exempt debt in order to manage its debt issues, due to project timing and arbitrage requirements. In so doing, the City would use its capital reserve “cash” to delay debt issues until such time when issuance is favorable and beneficial to the City or begin projects in advance of a scheduled debt issuance.

The City will adopt a reimbursement resolution when the City intends to reimburse itself for expenditures paid more than 60 days before the debt is issued as outlined in U.S. Treasury Regulations Section 1.150-2. The issuance of the reimbursing tax-exempt debt shall occur no later than 18 months after the later of (1) the date the expenditures are paid or (2) the date on which the property for which the expenditures were made is placed in service; provided that in no event shall the debt be issued more than 3 years after an expenditure to be reimbursed was actually paid.

In the event of unexpected circumstances that delay the timing of projects, or market conditions that prohibit financially sound debt issuance, the approved project can be postponed by ordinance and considered after issues can be resolved. The total outstanding debt reimbursements may not exceed the total amount of the City’s reserve funds.

Investment of Debt Proceeds

When bonds are issued, the proceeds are deposited in various accounts, which may include construction fund, debt service fund and an escrow fund in a refunding. Monies allocated to these funds are all 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. All bond sale proceeds shall be invested in accordance with the City’s Investment Policy document approved by the City Council. The City’s Investment Policy complies, and will at all times comply, with the provisions of the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

Issued but unspent debt proceeds and interest earnings on debt proceeds may fund changes to the debt financed capital projects in compliance with the issued debt, cost overruns on debt financed projects, projects consistent with the issuance language, or debt service payments on the debt issued.

Federal Requirements

The City will maintain written procedures to follow post-issuance tax compliance rules, arbitrage rebate and other Federal tax law requirements.

The City will maintain written procedures to follow the post-issuance continuing disclosure requirements in the City’s undertakings made in accordance with SEC Rule 15c2-12.

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Transaction Records

The City's finance department shall maintain complete records in connection with each financing. Each transaction shall include the official transcript for the financing and final numbers. These records will be maintained in accordance with the City's record retention schedule or other bond covenants when more restrictive.

Modification to Policies

This policy will be reviewed annually by the City's financial advisor and Finance Director. When necessary, recommendations for change will be presented to the City Manager, and subsequently to the City Council for their consideration.

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