



Dripping Springs Independent School District Operating Procedures

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DEBT MANAGEMENT POLICY

STATEMENT OF PURPOSE

The purpose of the Dripping Springs Independent School District Debt Management Policy is to establish and maintain well defined debt management guidelines for issuing new debt as well as managing outstanding debt.

SCOPE

The Dripping Springs Independent School District Debt Management Policy applies to all long-term, property tax secured debt instruments issued by the District which have been authorized by District voters regardless of the purpose for which issued or the funding source for repayment.

OBJECTIVE

The primary objective is to ensure prudent debt management practices which:

- A. Maintain financial stability
- B. Preserve public trust
- C. Minimize costs to taxpayers
- D. Minimize borrowing costs
- E. Preserve access to financial markets
- F. Demonstrate adequate administrative oversight of debt programs to credit rating agencies

DEBT FINANCING GUIDELINES

- A. Bonds—Capital requirements for the construction, acquisition, and equipping of school buildings, and the purchase of necessary sites for school buildings will be identified in a capital improvement program (CIP). The capital planning process will incorporate updated demographic data from a third party consultant, facility planning data from a facilities planner and/or architectural firms, community involvement, and debt financing data from the District's Financial Advisor.
- B. Debt Refunding – Accelerated retirement and restructuring of debt can be valuable debt

management tools. 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. 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 3%. Restructuring of existing debt where savings are absent should be undertaken only to manage the debt portion of the tax rate as approved by the Board.

RESTRICTIONS/LIMITATIONS OF DEBT ISSUANCE

- A. Debt Tax Limitations – 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 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 district may take into account State Allotments in demonstrating the ability to pay debt service at a rate of \$.50.
- B. Maturity Levels – The term of debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed 30 years. The average (weighted) bond maturities for any series of debt shall be kept at or below 25 years.
- C. Repayment Provisions – The District will 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 any dedicated revenue repayment sources. The District will 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 & Sinking (I&S) tax rate projections as discussed with the citizens of the District at the time of the bond election.
- D. Swaps – The District will not enter into any interest rate swap agreements without first adopting a formal Swaps Policy.

DEBT ISSUANCE PROCESS

- A. External Financial Professionals:
 - 1. Financial Advisor – The District's Financial Advisor will work with District staff:
 - 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.
 - To prepare the Notice of Sale, Preliminary Official Statement, and the Official Statement.
 - To obtain the Permanent School Fund Guarantee through the Texas Education

Agency or assist with other credit enhancement, if needed and as available.

- To evaluate the bids submitted and recommend that they be accepted or rejected.
- To review draft closing documents and monitor the closing process.
- To assist in establishing repayment schedules that complement existing requirements and maintain a repayment pace acceptable to credit rating agencies.

2. Bond Counsel – The District’s Bond Counsel will:

- Certify that the District has the legal authority to issue bonds.
- Prepare required election orders, resolutions, and tax certificates.
- Work with the Attorney General to obtain approval of the bond issue.
- Provide a legal opinion as to the enforceability and the federal income tax implications of the bonds.
- Coordinate the closing transactions.

3. Paying Agent / Registrar – The District’s Paying Agent will:

- Authenticate the bonds.
- Send/receive transfers of money at closing.
- Maintain a listing of bondholders and applicable addresses.
- Receive principal and interest payments from the District and remit to bondholders.
- Represent bondholders in case of default.

B. Timing of Sales – The District’s Financial Advisor will work with District staff to insure that the timing of bond sales coincide with eligibility requirements for State Assistance and Guarantees (if applicable) as well as having bond proceeds available for projects prior to the execution of construction or purchase contracts.

C. Bond Rating Goals – The District will strive to maintain and improve bond ratings through:

- Strong financial management practices.
- Timely disclosure of annual financial information including the Comprehensive Annual Financial Report prepared by management and attested to by the external auditors.
- Good relationships with bond rating agencies including site visits or meetings in person when required.

D. 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 180 days after the District's fiscal year end to designated state and national information repositories. Timely and accurate information can improve the marketability of the District's bonds. The District will work with the Financial Advisor in the preparation and filing of 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 governments issue bonds, they deposit proceeds or other monies 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.

FUND BALANCE

The District shall target an unreserved, undesignated debt service fund balance of 25% (3 months equivalent) of total expenditures.

I&S TAX RATE

- A. Stabilization - From time to time (and as required by the bond order) the District will call or defease a portion of its bonds to stabilize the District's I&S tax rate or the total tax rate. This process will be conducted in the summer of each year.
- B. Increases – When required, tax rate increases associated with the issuance of new bonds will be implemented in the current and succeeding fiscal year. 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 the I&S fund balance.

COMPLIANCE

- A. Compliance with Statutory Regulations – The District will comply with all statutory regulations in the issuance and structuring of debt obligations.
- B. 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. 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.