CITY OF DESOTO, TEXAS

DEBT MANAGEMENT POLICY

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PART I - DEBT MANAGEMENT

The mission of the Financial Services Debt Management Division is to ensure the City of DeSoto's ability to efficiently fund all capital needs and ensure the comprehensive administration of ongoing fiscal controls in managing the issuance of short and long-term financings for both capital improvements and equipment needs. This will be accomplished by monitoring, evaluating and balancing market, credit and interest rate risks with economic benefits and financial impacts.

1.0 POLICY

It is the policy of the City of DeSoto to develop and maintain a sound debt management program. This policy sets forth the parameters for issuing new debt as well as managing the outstanding debt portfolio, identifying the types and amounts of permissible debt, and maintaining the current bond rating in order to minimize borrowing costs and preserving access to credit. It is the intent of the City to establish policies that will provide guidance to staff on how to:

a. Ensure efficient, cost effective and timely access to capital to fund all capital asset needs;
b. Identify, reduce and manage interest rate, counterparty and general market risk;
c. Ensure compliance with all regulatory, legal and contractual requirements and commitments;
d. Ensure full public understanding and involvement by full disclosure and transparency;
e. Ensure high quality debt management decisions;
f. Ensure that debt management decisions are viewed positively by rating agencies, the investment community and citizenry-at-large;
g. Ensure support for debt issuances both internally and externally;
h. Demonstrate a commitment to long-term financial planning.

2.0 SCOPE AND APPLICATION

The City of DeSoto Debt Management Policy (this "Policy") applies to all debt instruments issued by the City of DeSoto regardless of the funding source. Funding sources can be derived from ad valorem taxes, general City revenues, enterprise fund revenues or any other identifiable source of revenue that may be identified for appropriate pledging for bonded indebtedness. This Policy sets forth comprehensive guidelines for the financing of capital expenditures.

This Policy and any subsequent amendments hereto shall be on file with the Financial Services Department, contained on the City's website, with copies delivered to the City Secretary, the City Council and the Chair of the City's Audit and Finance Committee.

A debt management policy offers several advantages. First, it can help community leaders integrate the issuance of debt with other long-term planning goals, while providing guidance on acceptable levels of indebtedness. This is helpful because market conditions and plans frequently change over time. Second, it frames and streamlines the decisions-making process before any decisions need to be made, making it easier to remain true to core values and long-term objectives under stress. Third, it can help educate the community about the debt issuance process; once bonds are issued, it is useful in evaluating the impact of each issue on the jurisdiction's overall financial position. Fourth, this is extremely valuable since debt capacity is limited and governments must make each dollar count; therefore, a debt management policy should be sufficiently flexible to permit governments to take advantage of market opportunities or to respond to changing conditions without jeopardizing essential public services.

3.0 OBJECTIVES

The primary objective of this Policy is to ensure that the City establishes and maintains a solid position with respect to its debt service fund. It is intended to demonstrate that proceeds from long-term debt will not be used for current operations but rather for capital improvements and other long-term assets.

The objectives of effective debt management also include:

a. the city obtains financing only when necessary;
b. the process for identifying the timing and amount of debt or other financing be as efficient as possible;
c. the most favorable interest and other costs be obtained;
d. bonds will be paid back within a period not to exceed, and preferably sooner than, the expected useful life of the capital project;
e. decisions will be made based on a number of factors and will be evaluated against long-term goals rather than a short-term fix;
f. debt service funds will be managed and invested in accordance with all federal, state and local laws;
g. the City will maintain cost-effective access to the capital markets through prudent policies;
h. maintain moderate debt and debt service payments with effective planning and coordination with City departments;
i. meet significant capital demands through debt financing and alternate financing mechanisms such as public/private partnerships, and
j. achieve the highest possible credit ratings within the context of the City's capital needs and financing capabilities.

4.0 RECOMMENDATION RESPONSIBILITY

4.1 Primary Responsibility

The primary responsibility for developing financing recommendations rests with the Managing Director of Financial Services. In developing the recommendations, the Managing Director of Financial Services shall be assisted by the Financial Advisor, City Manager and the Director of Development Services. The Managing Director of Financial Services shall be responsible for the following activities as follows:

a. Meetings held no less than once a year with the City Manager and Department Managers to consider the need for financing and assess progress on the Capital Improvement Program,
b. Review changes in state and federal legislation, review annually the provisions of ordinances authorizing issuance of obligations, and
c. Periodically, at least annually, review the services provided by the Financial Advisor, Bond Counsel, Paying Agent and other service providers to evaluate the effectiveness and quality of services being provided.

4.2 Recommendation Considerations

In developing financing recommendations, consideration will be given to the following factors:

a. the amount of time the proceeds of obligation are expected to remain on hand and the related carrying cost;
b. the options for interim financing including short term and interfund borrowing;
c. the effect of the proposed actions on the tax rate and user charges;
d. trends in interest rates;
e. other factors as appropriate.

5.0 DEBT STRUCTURE PRACTICES

Historically, the debt structures have been designed to coincide with the fiscal policies of the City. The guiding principal for borrowed funds undergirding DeSoto's fiscal policy is that the total debt payment period for an asset or improvement is always less than or equal to its useful life.

Debt service will be structured, to the greatest extent possible, to match projected cash flows, minimize the impact of future property tax levies, and maintain a relatively rapid payment of principal. The term of the debt issuance should equal the lesser of the useful life of the asset being financed or the maximum maturity permitted by State law for the obligations issued to finance the acquisition and construction of the asset. This does not preclude the City from considering different structures or structuring its issuance differently from its typical debt structure. The purpose of a standard structure is to provide the City with the lowest possible costs under market conditions at the time of issuance.

5.1. Standard Terms

The following terms shall be applied to all the City's debt sale transactions as appropriate. Individual terms may change as dictated by the marketplace or the unique qualities of the transaction.

a. **Term or Serial bonds** –Bonds structured for annual principal payments and semi-annual interest payments. The standard maximum maturity is 20 years. However, a maximum maturity of up to 30 years may be acceptable, depending on cash flow assumptions, construction timelines and remaining useful life of the asset being financed;
b. **Call Features** – Traditional call features that do not influence the price of the bonds will be considered standard. However, call features may be shortened to provide flexibility for refunding and restructuring based on market conditions, strategic goals, and cash flow risk and uncertainty.
c. **Pricing Structure –** The standard structure to issue debt at the lowest cost while meeting all strategic and financial goals. Anticipate and allow for premium and discount bond pricing to ensure pricing flexibility to meet market demand.
d. **First Year Payment** – The standard is for the first payment to begin in the fiscal year after debt is issued. However, if capitalized interest is utilized the maximum first payment will be within IRS guidelines and the fiscal year after the assets is placed into utilization.
e. **Bond Insurance** – Utilized only if total cost of insurance and resulting interest cost reduces the cost of debt issue without impacting the preferred amortization structure and legal covenants of the debt being issued, or any debt outstanding or to be issued.
f. **Surety Bond** - Utilized only if total cost of surety reduces the cost of the debt issue, without affecting the preferred amortization structure and legal covenants of the debt being issued, or any debt outstanding or to be issued.
g. **Maximum Premium** – To be determined on a case-by-case basis, as recommended by Financial Advisor and approved by the Managing Director of Finance.
h. **Maximum Discount** – To be determined on a case-by- case basis, as recommended by Financial Advisor and approved by the Managing Director of Finance.
i. **Payment Dates Fixed –** Standard semiannual payment dates are August and February of each year. However, payment dates and frequency may vary to match cash flow of revenues for special project debt and revenue bonds as determined by the Managing Director of Finance.
j. **Structure of Debt -** Standard structure is level debt service for not more than 20 years, but shall be determined on a case-by-case basis, at the discretion of the Managing Director of Finance. The Managing Director of Finance will determine standard occurrence of all new

debt service payments.

k. **Reimbursement Resolution** –A Reimbursement Resolution must be adopted by the City Council if it is anticipated that any costs will be funded prior to closing of the corresponding debt issuance. The Reimbursement Resolution must indicate the maximum amount that can be funded, the source of cash for the funding and that if the corresponding debt issue does not close, the City Council is willing to approve the appropriation of funding for the advance. No exceptions are allowed without formal City Council approval.

l. **Budgeting Debt Service** – The budgeted amount shall be for gross debt service.

5.2. Fixed Interest versus Variable Interest

The City primarily issues fixed rate bonds to protect the City against interest rate risk. The City has the option to issue variable rate bonds and may, if market conditions, strategic and financial goals warrant, consider such a structure. Commercial paper notes, due to their short-term maturities (270 days or less), are treated as variable rate obligations. The Managing Director of Finance must present a recommendation for utilization of variable rate debt to the City Manager for approval.

5.3. Summary

Bonds are generally issued with an average life of 20 years or less for general obligation bonds, certificates of obligation and revenue bonds, but may be greater for some projects such as landfills and major utility facilities whose lives are greater than 20 years. Typically, interest is paid in the first fiscal year after a bond sale, and principal is paid no later than the second fiscal year after the debt is issued. Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the City. The targeted maximum length to call is 10 years. However, the City may opt for a call date longer than 10 years in order to achieve the necessary goals of the particular issue.

6.0 FINANCING ALTERNATIVES

The City may choose to issue debt under any provision allowed for and permitted by state statute. Although debt is an obligation to be repaid, it can assume many forms. The form and character of debt is typically determined by the nature of the funding source and nature of the asset to be purchased or improved.

It is the City's intent to develop a level of cash and debt funded capital improvement projects that provide the citizens with the desired amount of City services at the lowest cost. The City may utilize several types of municipal debt obligations to finance long-term capital assets. Long-term debt is only issued to finance the acquisition and/or construction of capital assets unless otherwise decreed by court order or adjudicated settlement. Long-term debt financing shall never be used to fund operating or maintenance costs.

In determining the type of security for financing an improvement or purchase of a capital asset, the City may consider the following types and form of debt, but is not limited to the following:

6.1 General obligations bonds ("GOB") – Utilized for strategic initiatives, unique projects and capital programs that will impact the debt service tax rate.

General obligations bonds ("GOB") will be used if the following criteria are met:

a. The size of the total issuance may result in an impact to the debt service tax rate.

b. The project is a non-essential strategic initiatives or project.

c. Funds will be used for new and expanded facilities, major repair/renovations to existing facilities, and quality-of-life projects.

d. Useful lives of assets acquired will be fifteen (15) years or more; or will extend the useful life of an asset for more than fifteen (15) years, and will require issuing debt with an amortization of longer than 15 years.

e. Voter authorized debt

f. The total dollar amount of bond election propositions recommended to the voters shall not exceed the City's estimated ability to issue said bonds within a normal 6-year period.

g. The use of reimbursement resolutions shall be encouraged as a cash management tool for general obligation debt funded projects.

h. Commercial paper can be used as a source of long-term financing for projects that have received voter authorization if City staff has determined that such financing is prudent. It is the policy of the City that the amount of commercial paper outstanding should not exceed 120% of the total investment portfolio of the City. It is the policy of the City that the net amount (total commercial paper less the investment portfolio) of commercial paper outstanding not exceed 25% of the amount of fixed rate debt outstanding. Commercial paper will be converted to refunding bonds when dictated by economic and business conditions.

i. Quality-of-life projects are defined as projects such as but not limited to the City's parks, museums, zoo, libraries, non-public safety facilities, and entertainment, sports and amusement-type facilities.

6.2 Certificates of Obligation – For Essential Nonimpact capital projects

It is the City's priority to fund the majority of capital projects with voter-approved debt. However, for capital requirements that are essential, ongoing and do not impact the debt service tax rates will be issued for the following type of projects/acquisitions:

a. Capital asset acquisitions (heavy equipment, vehicles, IT equipment, etc.);
b. Rehabilitation and/or extension of the useful life of existing facilities
c. Street resurfacing
d. Unpaved Rights of Way
e. ADA retrofitting/rehabilitation projects
f. Street lighting
g. Infrastructure projects (street and draining work)
h. Emergency rehabilitation of city facilities (storm water draining, etc.)
i. Major core service facilities (police, fire, streets, etc.)
j. Emergency funding requirements
k. Take advantage of market conditions

Notwithstanding the policy set forth herein and in section 6.1, certificates of obligation or other long-term debt may be considered if the following criteria are met:

1) The need for the project is urgent and immediate;
2) Detailed information and justification is presented;
3) The project(s) is necessary to prevent an economic loss to the City;
4) Source of revenue is specific and can be expected to cover the additional debt;
5) The expected debt is the most cost effective financing option available.
6) In addition, the average maturity of non-voter approved debt shall not exceed the average life of the project financed. Capital items shall have a value of at least $5,000 and a life of at least four years.
7) Reimbursement resolutions may be used for projects funded through certificates of obligations.

6.3 Certificates of Obligations – Enterprise Funds

The City's standard practice will be to issue Certificates of obligation for an enterprise that can demonstrate the capability to support the certificate debt either though its own revenues or another pledged source other than ad valorem taxes and meet the same criteria as outlined in 6.2 above. The City may utilize, on a case-by-case basis, the taxing ability of Certificates of Obligation to repay enterprise fund debt if justified by extraordinary facts and circumstances.

6.4 Revenue Bonds

Revenue bonds will be issued for projects that generate revenues that are sufficient to repay the debt. Except where otherwise required by State Statutes, revenue bonds may be issued without voter approval and only in accordance with the laws of Texas.

6.5 Other Debt Obligations

The use of other debt obligations permitted by law, including but not limited to, public property finance act contractual obligations, pension obligation bonds, tax notes, and lease purchase obligations, will be reviewed on a case-by-case basis. The findings in 6.2 above will be considered for the use of these obligations. See Appendix A for a more detailed description of financing alternatives and Appendix B for the table summarizing the most commonly used financing forms for Texas Cities and Counties.

7.0 CREDIT ENHANCEMENTS

Credit enhancements are mechanisms, which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, will usually bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall costs.

During debt issuance planning, the Financial Advisor will advise the city whether or not a credit enhancement is cost effective under the circumstances and what type of credit enhancement, if any, should be purchased. In a negotiated sale, bids will be taken during the period prior to the pricing of the sale. In a competitive sale, bond insurance may be provided by the purchaser if the issue qualifies for bond insurance.

8.0 DEBT APPROVAL PROCEDURES

8.1. Approval by the City Manager

All City financing transactions shall be prepared by the Managing Director of Financial Services for approval by the City Manager, prior to submittal to the Audit and Finance Committee.

All financing transactions for City subsidiary corporations and agencies shall be prepared and presented jointly to the City Manager by the Managing Director of Financial Services and the Executive Director of the corporation and agency. The debt transactions must be approved by the City Manager prior to submittal to the corporation or agency board for approval and forwarding to the City Audit and Finance Committee.

8.2. Review By Audit & Finance Committee (AFC)

All proposed long-term financing transactions for capital improvements shall be reviewed by the City's Audit and Finance Committee. For matters related to review by the AFC, "long-term financing" means financing that constitutes an obligation beyond one fiscal year.

a. The City Council should not authorize the issuance of any long-term financing until the AFC completes its review of the proposed transaction and submits its recommendation to the City Council.
b. The Managing Director of Finance, City Manager and City Attorney should review proposed transactions submitted to the AFC prior to submission.
c. Upon approval by the AFC, the proposed transaction shall then be presented to the full City Council.
d. In the absence of a quorum of the AFC, the Managing Director of Finance has the authority to present the proposed transaction to the City Council without prior review of the AFC.
e. The City Council shall comply with all public hearing requirements applicable to the specific type of bond being approved.

9.0 DEBT LIMITATIONS

1. The total principal amount of general obligation bonds together with the principal amount of all other outstanding tax indebtedness of the City shall not exceed ten (10) percent of the total assessed valuation of the City's tax rolls.
2. Since debt service payments represent a fixed expense and impacts the City's total budget, the City will not issue debt that negatively impact its ability to fund current operations or limit projected operational funding requirements.

10.0 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 thirty (30) years.

11.0 METHODS OF SALE

The City will use the method of sale that results in the most cost effective, efficient debt issuance process. The Managing Director of Finance will determine the method of sale.

11.1. Competitive Sale

The City shall seek to issue its debt obligations in a competitive bidding environment. Bids shall be awarded on a True Interest Cost basis providing the bidders meet other bidding requirements. In some instances, the City may award the sale to the lowest Net Interest Cost bidder depending on the economic substance of the transaction. If the competitive bidding process is not conducive to soliciting the lowest cost of financing a bond issuance, the City may choose to negotiate the sale.

11.2. Negotiated Sale

The City shall seek to weigh the selection of underwriter before negotiating a bond sale. The selection of the underwriter shall encourage the best economic environment in which the City will benefit from sale of its bonds. Typically, negotiated sales will occur when the market volatility is unpredictable. In some cases, this may mean investors are not willing to commit capital in uncertain economic environments or the size of the issue may not attract the bids for a successful sale. Moreover, the primary purpose of the negotiated sale is to solicit the interest rate environment for the City to sale bonds.

11.3. Private Placement

The City will seek to place its bonds with a select group of investors when the issuance warrants the sophistication of the buyer. The City will ensure that the placement fee is less than a typical underwriter's fee in a negotiated offering of a comparable type sale in a similar sale environment.

12.0 PERMITTED INVESTMENTS

All investments of bond proceeds shall adhere to the City's Investment Policy, approved periodically by the City Council. Investments shall not allow security types or credit standards less than those of the City's Investment Policy and the term of the investments must not be in excess of the term of the bonds.

13.0 REFUNDING OF DEBT

The City of DeSoto, Texas shall monitor the municipal bond market for opportunities to refund outstanding debt to save the City from future interest costs. As a general rule, the savings shall be at least 3% of the present value of the par amount of debt refunded and be inclusive of issuance costs and any cash contributions. However, market conditions, the amount nature of the debt being refunded and any unique or special circumstances will be taken into consideration and if justified, the City shall consider refunding that is less than 3% present value savings. Arbitrage rules are to be considered when refunding debt.

14.0 DEBT SERVICE TAX RATE

Council shall adopt the necessary debt service tax rate in order to meet debt service principal, interest and fee payments, net of transfers, for each particular fiscal/budget year, subject to any reserve availability.

15.0 PROFESSIONAL ASSISTANCE

15.1. Bond Counsel

Bond Counsel will have comprehensive municipal debt knowledge and experience. When the bond counsel has been selected, they are responsible for providing an opinion to investors in two specific areas. The Bond Counsel will issue an opinion as to the legality and tax exempt status of any City obligations. The bond counsel also prepares all bond documents necessary to execute the bond issuance such as, preparation of the ordinance authorizing issuance of obligations and all of the closing documents to complete the sale, and will perform other services as defined by contract approved by the City Council.

The bond counsel is responsible for coordinating with the City Attorney's office, City Secretary's office and the Finance Department, as well as the City's Financial Advisor, to ensure that all tasks associated with the bond issuance are completed within the prescribed timeframes.

To the extent required by State law, bond counsel is responsible for coordinating with the Office of the Attorney General and the Office of the Comptroller of Public Accounts of the State of Texas matters relating to the approval of City obligations. The City values continuity in maintaining a relationship with bond counsel due to the complexity of issues and laws related in issuing municipal bonds. However, the City reserves the right to conduct a formal request for proposal or request for qualifications process.

The city will also seek the advice of Bond Counsel on all other types of financings and on any other questions involving federal tax or arbitrage law.

15.2. Financial Advisor (FA)
The city will seek the advice of the Financial Advisor when necessary. The Financial Advisor will advise on the structuring of obligations to be issued, inform the city of various options, advise the city as to how choices will impact the marketability of city obligations and will provide other services as defined by contract approved by the City Council. The Financial Advisor will inform the Managing Director of Finance and City Manager of significant issues.

The City values continuity in maintaining a relationship with the Financial Advisor due to the complexity of issues and transactions involved in issuing municipal debt. However, the City reserves the right to conduct a formal request for proposal or request for qualifications process in selecting an FA.

15.3. External Auditors
The city will include a review of its Official Statement in the contract for services with its external auditor.

15.4. Underwriters
In the case of a competitive sale, the City will award the bonds to the underwriting firm whose bid results in the lowest True Interest Cost. In the case of a negotiated sale, the Managing Director of Finance will determine the best method of selection, taking into consideration all factors involved in each particular sale. Underwriters must be subject to and compliant with all regulatory, state and federal authorities.

15.5. Trustees and Paying Agents
The Managing Director of Finance will determine the best method of selection of Trustees and Paying Agents, taking into consideration all factors involved. However, the City reserves the right to conduct a formal request for proposal or request for qualifications process in selecting Trustees and Paying Agents. Trustees and Paying Agents (or their applicable holding company) shall have a combined capital and surplus of at least $50,000,000 and be subject to and compliant with all regulatory, state and federal authorities.

15.6. Rebate Consultant
The city will seek the advice of a Rebate Consultant to advise, prepare and submit arbitrage rebate reports to the external Auditor and IRS. The Managing Director of Finance will determine the best method of selection of the Rebate Consultant, taking into consideration all factors involved.

The City values continuity in maintaining a relationship with a Rebate Consultant due to the multiyear nature of the reporting process and the complexity of issues. However, the City reserves the right to conduct a formal request for proposal or request for qualifications process in selecting a Rebate Consultant

PART II-ONGOING DEBT ADMINISTRATION

16.0 RATINGS

The city's goal is to achieve and maintain the highest possible bond ratings that result from managing the City to best meet the needs and goals of the citizens. To that end, prudent financial management policies will be adhered to in all areas. Full disclosure of operations will be made to the bond rating agencies. The city staff, with the assistance of the financial advisors and bond counsel, will prepare the necessary materials for presentation to the rating agencies.

The City will strive to maintain good relationships and lines of communication with bond rating agencies as well as disclose financial reports and information to these agencies and to the public. The City will obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold on the public market.

Timely disclosure of annual financial information, including other relevant information will be provided to the rating agencies. The Comprehensive Annual Financial Report (CAFR) will be prepared by management and attested to by an external audit firm. The rating agencies will also be notified in advance when the city begins preparation for a debt issuance, and the Managing Director of Finance will be responsible for coordination and interaction during the bond rating process and periodic rating reviews.

Timely disclosure of any pertinent financial information that could potentially affect the City's credit rating will also be presented to the ratings agencies, required information repositories, bond insurance companies insuring City of DeSoto debt, and commercial banks providing liquidity support. The Finance Office will be responsible for ongoing interaction and involvement with the rating agencies.

17.0 SECONDARY MARKET DISCLOSURE

The goal of the Financial Services Department is to be transparent and meet all regulatory, legal and contractual disclosure requirements. SEC 15c2-12 regulations require municipal debt issuers to provide specified financial and operating information for fiscal years beginning on January 1, 1996, or later. The annual update of financial information and timely notice of certain specified events is to be sent to the Municipal Securities Rulemaking Board (MSRB). Additionally, issuers must notify the State Information Depositories (SIDs) if one exists.

Municipal debt issuers will be obligated to provide ongoing disclosure on the status of the following material events:

a. Principal and interest payment delinquencies
b. Nonpayment-related defaults
c. Unscheduled draws on reserves
d. Unscheduled draws on credit enhancements
e. Substitution of credit or liquidity providers, or the failure to perform
f. Adverse tax opinions or events affecting the tax-exempt status of the security
g. Modifications to rights of security holders
h. Bond calls
i. Defeasances
j. Matters affecting collateral
k. Rating changes

17.1. Disclosure Compliance Officer

The Managing Director of Financial Services will be designated as the "Compliance Officer" for disclosure requirements. The city will seek the advice of a Disclosure Consultant to advise, prepare and file disclosure reports. The Managing Director of Finance will determine the best method of selection of the Disclosure Consultant, taking into consideration all factors involved.

The City values continuity in maintaining a relationship with a Disclosure Consultant due to the importance and complexities of the reporting process. However, the City reserves the right to conduct a formal request for proposal or request for qualifications process in selecting a Disclosure Consultant.

18.0 ARBITRAGE LIABILITY MANAGEMENT

It is the city's policy to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law. Federal arbitrage legislation is intended to discourage entities from issuing tax-exempt obligations unnecessarily. In compliance with the spirit of this legislation, the city will not issue obligations except for identifiable projects with very good prospects of timely initiation. Obligations will be issued as closely in time as feasible to the time contracts are expected to be awarded so that they will be spent quickly.

18.1. Arbitrage Rebate Responsibility

Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the advice of Bond Counsel and other qualified experts will be sought whenever questions about arbitrage rebate regulations arise. The city will contract for arbitrage rebate services with an Arbitrage Rebate Consultant.

The Managing Director of Financial Services will be responsible for identifying the amount of unspent debt proceeds including interest, which is on hand and for ensuring that, to the extent feasible, the oldest proceeds on hand, are spent first.

The Arbitrage Consultant will maintain a system for computing and tracking the arbitrage rebate liability. The Consultant will notify the city within 60 days of year-end of the amount of accrued liability. They will also be responsible for notifying the city two months in advance of when a rebate of excess arbitrage earnings is due to the Internal Revenue Service.

The city's bond counsel and financial advisor shall review in advance any arbitrage rebate payments and forms sent to the Internal Revenue Service.

The expenditure of obligation proceeds will be tracked in the financial accounting system by type of issue. Investments will be pooled for financial accounting purposes and may, at the discretion of The Managing Director of Financial Services, be pooled for investment purposes. When investments of bond proceeds are co-mingled with other investments, the city shall adhere to the Internal Revenue Service rules on accounting allocations.

Arbitrage rebate costs shall be charged as negative interest revenue to the funds in which the related obligation proceeds were originally deposited.

18.2. Two Year Spend-out Option

Arbitrage rebate legislation offers a safe harbor whereby obligations issued for construction will be exempt from arbitrage rebate if certain rules are adhered to and the proceeds are spent within two years. However, if this option is elected and not all the proceeds are spent according to the prescribed schedule, penalties are imposed. The option should be considered when circumstances indicate the city will with certainty be successful in achieving a two-year spend out goal. Such circumstances may include, but are not limited to the following:

a. Obligations are issued to finance a variety of small construction projects, not large projects that might be unexpectedly delayed after the issuance. In addition, the requirements and goals for spend out are understood and firmly committed to by project management.

b. Obligations are issued for a single, large high priority project with a relatively short construction period and there is a high level of commitment to speedy completion.

When the two year spend out option is elected, debt will be issued for an estimated one year of expenditures to provide for unexpected delays of up to a year without incurring penalties. The exercise of the two year spend out option will always be coordinated with Bond Counsel and the Financial Advisor.

19.0 INTERNAL INTERIM FINANCING

In order to defer the issuance of obligations when sufficient non-restricted reserve funds are on hand, consideration shall be given to appropriating them to provide interim financing for large construction contracts or parts of contracts. When the appropriations are subsequently re-financed with the proceeds of obligations or other resources, the non-restricted reserve funds shall be repaid. When expenditures are reimbursed from debt issuances, applicable state law and the Internal Revenue Service rules on reimbursements will be complied with so that the reimbursements may be considered expenditures for arbitrage purposes. Requirements are in general:

a. The city shall declare its intention to reimburse an expenditure with debt proceeds before paying the expenditure, and will exclude costs such as design and engineering fees or cost of issuance;
b. Reimbursement bonds must be issued and the reimbursement made within one year after the expenditure was made or the property financed by the expenditure was placed in service, whichever is later; and
c. The expenditure to be reimbursed must be a capital expenditure.

20.0 DEBT MANAGEMENT POLICY REVIEW

The Audit and Finance Committee will review these policies annually and significant changes may be made with the approval of the Managing Director of Financial Services and City Manager. Significant policy changes, as determined by the Managing Director of Financial Services, will be presented to the City Council for confirmation.

APPENDIX A

DESCRIPTIONS of DEBT OBLIGATIONS/ALTERNATIVES

DEBT TYPE	DESCRIPTIONS
General Obligation Bonds (GOs)	A municipal bond backed by the credit and "taxing power" of the issuing jurisdiction rather than the revenue from a given project. These bonds may only be issued with approval of the majority of a popular vote approval through a referendum. Items on a bond referendum authorize a specific amount of bonded debt for particular purposes. Libraries, parks and public safety facilities are all examples of projects that could be financed with GO bonds. Tax levy pledged as security for bonds.
Certificates of Obligation (COs)	Certificates of obligation (CO) can be issued without voter approval, by ordinance approval by a vote of the city council upon recommendation by the Managing Director of Financial Services and City manager. COs may be used for smaller projects and emergency needs that could not have been foreseen in a bond election as well as projects that need to be completed regardless of voter approval, such as construction and rehabilitation of water and sewer lines, street construction and maintenance, etc. COs that carry only an ad valorem tax pledge can be used for land acquisition or to fund a legal judgment. COs that are backed by a revenue pledge as well as the tax pledge, can be issued for any lawful purpose. Tax levy and/or Revenue pledged as security for bonds.
Public Property Finance Contractual Obligations (PPFCOs)	A lease/purchase financing arrangement that is structured to be in compliance with the Public Property Financing Act for the acquisition of Personal Property and Equipment. Alternatives for Lease/Purchase include Anticipation Notes, Tax Notes, Revenue Debt and Project Financing.
Anticipation Notes	A number of short-term instruments are used primarily to meet the cash flow needs of local governments. Revenue anticipation notes (RANs), tax anticipation notes (TANs) or simply tax notes, grant anticipation notes (GANs), and bond anticipation notes (BANs) provide government with cash to meet short-term cash needs while awaiting revenue from the applicable sources. Anticipation notes require approval of the legislative body; that approval typically expires if not used within a specified length of time since they are linked to a particular revenue source at a particular time. Tax levy and/or Revenue source used as pledge of Security. In Texas, maturities for any moneys used for short term operating expenses cannot extend beyond one year and must mature no later than the next fiscal year. Tax notes used for capital improvements cannot extend beyond seven years.
Assessment Bonds	Used to finance local public improvements, provided that improvement benefits the parcels of land to be assessed such as streets, streetlights, landscaping sidewalks and sewers.

DEBT TYPE	DESCRIPTIONS
Revenue Bonds	Revenue bonds are special obligation debt backed by revenue generated by a revenue generating system. This can be water and sewer revenues, either individually or together, parking garage revenues, revenues from specific operations such as stadiums, or other revenue producing facilities. The ability of a jurisdiction to levy and collect taxes cannot be pledged for repayment. Debt service payments come from the revenue generated by the system or facility (parking garage, water system, toll road etc.) financed with the bond proceeds and is the source of credit backing. Revenue debt often does not count against constitutional or statutory debt limitations faced by city governments and the need to keep property tax rates as low as possible. Because the pledge of security is not as great as that of general obligation bonds, revenue bonds may carry a slightly higher interest rate than G.O. bonds; however, they are usually considered the second-most secure type of municipal bonds.
Capital Lease/Purchase	For Tax exempt acquisition of real and personal property. Backed by the projected revenues or operating appropriations. Able to be refinanced.
Commercial Paper	Unsecured short-term promissory note issued by entities, with maturities ranging from 2 to 270 days.
Tax Increment Financing District (TIF)	Tax-increment financing (TIF) of infrastructure and other municipal improvements is a process that uses the increased tax revenue from escalating property values in the area where improvements are made to service the debt incurred. The city establishes a TIF authority to oversee improvements made to the district. Within the set boundaries of the district, the property value of each district is “frozen” for purposes of general revenue. The city continues to receive this amount in general fund revenue. The authority sells tax-increment bonds to finance the planned improvements that may include street and street lighting improvements, parks and green areas and utility upgrades. The effort may also include improvements to abandoned property or the sale of such property to developers at less than market value in order to stimulate development. If all goes well, the assessed value of property rises and the incremental property tax revenue is pledged to service the debt.
Public Improvement District (PID)	A municipality can create a Public Improvement District (“PID”) under Chapter 372, Texas Local Government Code. A PID is an economic development tool that is available to both cities and counties. It provides a vehicle for a developer to obtain a source of funds for infrastructure in a project from assessments made upon property located within the project so that the developer does not have to encumber his own funds for these purposes. PID revenues may only be used for infrastructure improvements that will benefit the public, such as streets, water and sewer lines. For Specific Improvements and specific benefactors. Securitized by pledged Assessments.

APPENDIX B

Summary Table

The following table summarizes the most commonly used financing alternatives:

CAPITAL FINANCING ALTERNATIVES FOR TEXAS CITIES & COUNTIES

Instrument	General Obligation Bonds	Certificates of Obligation	Revenue Bonds (2)	Public Property Finance Contractual Obligations	Tax Notes	Lease Purchase
Purpose	General Purpose	General Purpose	Enterprise Systems	Personal Property	General Purpose	Real and Personal Property
Voter Authorization	Yes	No (1)	No	No	No	No
Source of Payment	Taxes	Taxes and/or Revenues	Revenues	Taxes	Taxes	Project Revenues (3) or M&O Fund
Interest Rates	Strongest Credit Best Rates	Same as General Obligation Bonds	Approximately 10-15 Basis Points Higher than General Obligation Bonds and Certificates of Obligation	Comparable to General Obligation Bonds and Certificates of Obligation	Comparable to General Obligation Bonds and Certificates of Obligation	Approximately 50 to 60 Basis Points Higher than General Obligation Bonds or Certificates of Obligation

(1) Publication of notice required; petition during notice period could require election
(2) Not typically available for counties
(3) Certain personal property lease purchase obligations can be structured as ad valorem tax-backed