



# UNITED INDEPENDENT SCHOOL DISTRICT AGENDA ACTION ITEM

**TOPIC:** Approval of First Reading of Policy CCA (LOCAL)-Local Revenue Sources Bond Issues

**SUBMITTED BY:** Laida P. Benavides, CPA **OF:** Division of Finance

**APPROVED FOR TRANSMITTAL TO SCHOOL BOARD:** \_\_\_\_\_

**DATE ASSIGNED FOR BOARD CONSIDERATION:** July 17, 2019

**RECOMMENDATION:**

Administration is recommending to the Board of Trustees to approve the First Reading of Policy CCA (LOCAL)-Local Revenue Sources Bond Issues

**RATIONALE:**

The purpose of this policy is to provide guidance regarding the issuance, management, continuing evaluation and reporting on all debt obligations issued by the United Independent School District (the "District"). This policy is intended to augment the deliberation process by addressing the methods, procedures and practices to be utilized to ensure effective and judicious fiscal management of District funds.

**BUDGETARY INFORMATION:**

N/A

**BOARD POLICY REFERENCE AND COMPLIANCE:**

CCA (LOCAL) – Local Revenue Sources Bond Issues

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**Statement of Purpose** The purpose of this policy is to provide guidance regarding the issuance, management, continuing evaluation and reporting on all debt obligations issued by the United Independent School District (the "District"). This policy is intended to augment the deliberation process by addressing the methods, procedures and practices to be utilized to ensure effective and judicious fiscal management of District funds.

The terms of this Debt Management Policy (this "Policy") are intended to comply with all applicable law governing District debt, including, but not limited to, Texas ("State") law, federal tax and securities laws, Internal Revenue Service rules and regulations, United States Securities and Exchange Commission ("SEC") regulations, Municipal Securities Rulemaking Board ("MSRB") regulations, court rulings, and existing District debt covenants.

**Scope** This Policy shall govern debt obligations issued by the District.

**Objective** The primary objective is to sustain a prudent debt management program that emphasizes:

- a. Continuing financial stability;
- b. Maintaining and/or improving the District's existing credit rating;
- c. Preserving access to capital;
- d. Effective tax rate management;
- e. Minimizing borrowing costs; and
- f. Ongoing administrative oversight of the debt program.

**Debt Financing Guidelines** Debt financing will not generally be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The District will use debt financing for the acquisition of capital assets and capital improvement projects under the following circumstances:

- a. The acquisition of all debt funded assets and debt funded projects must be approved by Board of Trustees;
- b. The capital asset or a project's useful life will be equal to or exceed the term of the financing;
- c. Revenues sufficient to service the debt, whether from future property taxes, user fees, or other specified and reserved resources will be available;
- d. Review and approval of the total project budget, including personnel services, travel and remunerations, operational costs, supplies and materials and capital expenditures, by the Business and Finance area; and

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- e. Compliance with the appropriate provisions of State law and the Code.

The District shall consider a range of debt structures that, when combined, allow for flexibility in responding to future needs, does not utilize all available debt capacity, continue to emphasize credit considerations, and match well with the useful life of the assets for which debt is incurred.

**Structure and  
Type of Debt**

Debt service will be structured to match projected cash flows and minimize the impact on future property tax levies.

For all debt secured by ad valorem taxes, the term of the debt issuance should equal in accordance with applicable law.

The types of debt instruments to be issued by the District include:

1. General Obligation Bonds;
2. Refunding Bonds;
3. Commercial Paper; and
4. Any other debt instrument authorized for issuance by a District in accordance with Texas law.

Generally, tax-exempt debt will be issued. However, when required to meet District objectives, taxable debt may be issued.

**New Money Bonds**

New money general obligation bonds require voter approval to be issued and may be sold at a public or private sale. Proceeds must be used to meet capital requirements as identified by the District, presented to a citizen's bond committee, and formalized by the Board's capital improvement program. Capital improvements include but are not limited to:

1. The purchase of sites for school facilities;
2. The construction, acquisition, and equipping of school facilities;
3. The renovation of school facilities;
4. The purchase of school buses; and
5. Any other purpose legally available to the District pursuant to state law.

The District may issue new money bonds in either fixed rate or variable rate mode.

**Refunding of Debt/  
Bonds** See Refunding Bonds section in CCA (Legal)

The District may elect to refund existing debt for reasons including, but not limited to, the following:

1. To achieve net present value savings generally of at least 3 percent;
2. To change bond covenants on outstanding debt which impair efficient operations or prohibit necessary or desirable activities;
3. To restructure the debt service schedules associated with outstanding bond issues;
4. To alter bond characteristics such as call provisions or payment dates; or
5. A refunding for debt restructuring may be considered to manage the District's tax rate if it does not materially diminish the District's ability to manage its debt portfolio.

If a refunding is undertaken, the District will evaluate:

1. Issuance costs that will be incurred;
2. Interest rates at which the Refunding Bonds can be issued;
3. Maturity dates of the refunded bonds;
4. Call date (if any) on the refunded bonds; and
5. Call premium (if any) on the refunded bonds.

**Variable Rate  
Bonds**

Variable rate bonds may be used as a tool to manage the debt program. Variable rate bonds shall be generally issued with short-term interest rate periods and at lower initial interest rates. When issued, variable rate debt shall consider the following:

1. The primary purpose shall be to reduce the cost of borrowing.
2. The variable rate bonds shall bear an initial interest rate as negotiated with the underwriter and, during the life thereof, as negotiated by the remarketing agent.
3. The interest rate mode may be:
  - a. Changed from time to time to a weekly rate, monthly rate, quarterly rate, semiannual rate, or term rate (each, a "Variable Rate"),
  - b. Changed to a flexible rate, or

- c. Converted to a fixed rate until stated maturity.
4. Variable rate bonds give 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 shall secure the following parties as required:
  - a. The remarketing agent helps to determine 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, if any. A remarketing agent need only be engaged prior to the time that a series of bonds is required to be remarketed. The District may negotiate with a remarketing agent that its obligation to remarket bonds represents a firm financial arrangement.
  - b. The liquidity provider, if required, 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.
  - c. The tender agent accepts the tendered bonds from the holders and notifies the District, remarketing agent, liquidity provider, and the bondholders of required mandatory or optional tender notices or rate changes.
5. In the absence of a liquidity provider, the District shall negotiate a soft put structure that incorporates a stepped rate in the event of a failed remarketing at the lowest rate obtainable in the then current market.
6. As a general rule, variable rate debt shall not exceed 30 percent of total bonds outstanding, although other factors may affect the amount allocated to such debt.

**Method of Sale**

The District may use competitive sales, negotiated sales, or private placements. When considering the method of sale, the District will take into consideration

- a. Financial conditions;
- b. Market conditions;
- c. Transaction-specific conditions;
- d. District-related conditions; and
- e. Risks associated with each method.

The preferred method of sale for the issuance of bonds shall be through a negotiated sale unless specific conditions exist that warrant a competitive or direct placement transaction.

**Reimbursement  
Resolution**

As provided in Section 1201.042, Texas Government Code, as amended, and in accordance with Section 1.150-2 of the Regulations, the Board of Trustees may decide that it is in the District's best interest to pass a reimbursement resolution prior to the formal issuance of debt. The purpose of the resolution would be to announce the intent to reimburse the District for expenditures related to capital programs for which debt will be issued, and the appropriate fund (General Fund, Capital, etc.) could then be reimbursed once the debt is sold. The District will intend to reimburse itself within 18 months from the later of the date of the original expenditure or the date the property financed is placed into service (but in no event more than 3 years after the original expenditure is paid).

**Unauthorized  
Structures**

The District shall not utilize swaps and other similar derivative products as a method of issuance.

The District shall avoid the use of capital appreciation bonds or high premium bonds except as it is necessary to meet debt management objectives.

**Restrictions/  
Limitations on Debt  
Issuance**

Maintenance Tax Limitations – The District is authorized to levy maintenance and operation taxes subject to approval of a proposition submitted to district voters under Section 45.003(d) of the Texas Education Code, as amended. [See CCG(LEGAL)]

Debt Tax Limitations – [See NEW DEBT in CCA(LEGAL)] The District may take into account any state assistance to which the District is entitled to in demonstrating the ability to pay debt service except as it negatively affects Tier I state funding.

The term of District bonds shall not exceed the amount authorized by law. In the case of refunding debt, the term of the debt shall not exceed the original term of the bonds being refunded.

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. 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 presented to the citizens of the District at the time of the applicable bond election.

Debt Ratios – The District shall also evaluate debt affordability ratios in developing debt issuance plans:

1. Ratio of net bonded debt to assessed value,
2. Ratio of net bonded debt per student, and
3. Ratio of debt service to general fund expenditures.

**District Finance  
Team**

The Superintendent has the primary responsibility for making debt financing recommendations to the board.

The District's finance team will include the Superintendent, the Associate Superintendent of Support Services, the Assistant Superintendent for Business and Finance, the Comptroller and the Accounting Manager who will work along with external finance professionals. The District's finance team will be responsible for:

1. Coordination of all activities necessary to issue debt, including, but not limited to:
  1. Review of resolutions or orders provided by bond counsel;
  2. Review of offering memoranda provided by financial advisors; and
  3. Review of all related financial analyses.
2. Responsible for making debt-financing recommendations to the Board of Trustees in order to ensure sufficient cash flow is available to meet capital improvement project cash requirements. These cash requirements would set the basis for the debt issuance schedule.
3. Responsible for making a recommendation to the Board of Trustees a financing team consisting of bond counsel, financial advisors, and underwriters.
4. Assure all debt service payments are made in a timely manner to the appropriate trustees/paying agents.

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5. Responsible for managing outstanding debt, structuring new money transactions, managing project funds and recommending maturity repayment schedules. Ensure debt maturities are structured so as to not exceed the useful life of the projects financed. Ensure call features are structured to provide maximum flexibility relative to costs.
6. Annually, review debt management practices, budget and financing considerations, and proposed debt transactions.
7. General oversight of the post-issuance compliance of bond financings and will review compliance matters on a regular basis. To that end, the District will endeavor to identify training opportunities and educational materials regarding post-issuance compliance, including training on compliance with SEC Rule 15c2-12 amendments effective February 27, 2019.

The District's financial advisor shall work with the District staff to:

1. Ensure that the District's bonds are issued at the lowest possible interest cost.
2. Assist in establishing maturities that complement existing debt service requirements and debt management objectives and are structured in accordance with the District's financing guidelines.
3. Assist in the preparation of the preliminary official statement and the final official statement
4. Secure the permanent school fund guarantee through the Texas Education Agency (TEA) or assist with other credit enhancement, if needed.
5. Evaluate bids submitted, when applicable, and recommend that they be accepted or rejected.
6. Prepared closing documents (e.g., closing memoranda) and monitor the closing process.
7. Prepare and submit the District's annual disclosure report in accordance with U.S. Securities and Exchange Commission (SEC) Rule 15c2-12 in consultation with bond counsel and the finance staff.

The District's bond counsel shall:



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1. Confirm that the District has the legal authority to issue the obligations.
2. Provide a legal opinion with respect to the validity of the bonds and other subjects, particularly the tax treatment of interest on the bonds for federal income tax purposes.
3. Supervise the bond proceedings, including preparation of documents necessary or appropriate for the authorization, issuance, sale, and delivery of the bonds.
4. Assist the District in various aspects of preparing or reviewing the preliminary and final official statements, private placement memorandum, or other form of offering, disclosure, or continuing disclosure document to be disseminated in connection with the sale or remarketing of, or over the life of, the bonds.
5. Work with the attorney general to obtain approval of the bond issue.
6. Coordinate the closing process with the financial advisor.

**Selection of  
Underwriters/Re  
marketing  
Agents**

The District shall select one or more underwriters/remarketing agents considered appropriate for the underwriting/remarketing of a particular issue. The District finance team shall set criteria deemed appropriate for the evaluation of underwriting/remarketing agent qualifications and shall present a roster of the recommended underwriters/remarketing agents that have met such criteria to the Board. Criteria for selection should include but is not limited to the following:

1. Knowledge of the District's debt management strategy and philosophy.
2. Public finance and Texas school district underwriting experience.
3. Access to capital markets.
4. Firm capitals,
5. Previous performance on District issues, and
6. Value of presentations to the District's finance team.

**Bond Rating  
Agencies**

The District shall obtain a credit rating from at least two nationally recognized bond rating agencies on all bond issues. The District shall strive to maintain excellent bond ratings through:

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- a. Strong financial management practices.
- b. Timely disclosure of annual financial information including the comprehensive annual financial report prepared by management and attested to by the external auditors; and
- c. Maintaining good relationships with bond rating agencies including site visits or meetings in person when required.

**Management of  
Bond Proceeds**

Debt proceeds will be invested in accordance with the District's Investment Policy or as otherwise permitted in the order or resolution authorizing the issuance of the debt. Investment 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.

**Compliance**

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

**Federal Arbitrage  
and Rebate  
Compliance**

The District shall take all necessary steps to comply with the requirements that "rebateable arbitrage earnings" on the investment of "gross proceeds" of bonds, within the meaning of section 148(f) of the Internal Revenue Code, be rebated to the Federal government.

**Continuing  
Disclosure**

The District shall ensure compliance with federal securities law requirements applicable to the District's outstanding bonds for which it is an "Issuer" or "Obligated Party" as defined in SEC Rule 15c2-12, as amended (the "Rule").

The Board of Trustees acknowledges that, pursuant to the Rule, the District is required on an ongoing basis to provide certain financial and operating data to those persons and firms who own or are interested in purchasing the District's debt (whether previously or hereafter issued). Pursuant to the Rule, the District has entered into a number of undertakings, such as an agreement or a provision in a bond order or resolution, under the Rule (each, a "Continuing Disclosure Undertaking") regarding its debt and may be required to enter into a new Continuing Disclosure Undertaking with regard to any additional debt of the District.

**Disclosure Officer.** The District should identify, on an annual basis, the individual or individuals (the "Disclosure Officer") representing the District that will be responsible for compiling and

filing of the financial information and operating data, including the annual audit (collectively, the “Annual Reports”) and notices of specified events (“Listed Event Notices”) as required by the Rule, if necessary. In the absence of such delegation by the Board of Trustees, the Disclosure Officer shall be the Superintendent, or designee, of the District.

***Electronic Municipal Market Access.*** The Disclosure Officer will familiarize himself or herself with the SEC’s Electronic Municipal Market Access (“EMMA”) website. The Disclosure Officer will understand how to locate the District’s debt on EMMA, but may rely on professional consultants to manage and file Annual Reports and Listed Event Notices on EMMA (the “Dissemination Agent”), which is District’s financial advisor.

***Identifying and Understanding Existing Continuing Disclosure Obligations.*** The Disclosure Officer will, for each separate issue of debt to which the Rule applies, read the related Continuing Disclosure Undertaking and identify the following:

- The date by which the Annual Report must be filed;
- The contents that need to be included in the Annual Report;
- The Event Notices that must be filed; and
- When Event Notices are required to be filed.

***Preparing and Submitting the Annual Report.***

- ***Preparing Annual Audited Financial Statements.*** The District will begin the process of completing its audited financial statements as soon as practicable after the close of each fiscal year. Such audited financial statements should be completed generally at least one month prior to the date the Annual Report must be filed.
- ***Preparation of Tables and Other Information.*** The Disclosure Officer will identify any information that is required to be included in the Annual Report, but is not part of the District’s audited financial statements, and contact the sources necessary to compile such information as soon as possible after the close of each fiscal year. The District should consider adding any information required by its

Continuing Disclosure Undertakings not already included in its audited financial statements, into a supplementary information section of its audited financial statements.

- *Submission of Annual Report.* Following the compilation of the information that is to be included in the Annual Report and prior to the date on which the Annual Report must be filed, the Disclosure Officer will submit the Annual Report to its Dissemination Agent for further submittal to EMMA or, if serving as its own Dissemination Agent, will submit the Annual Report directly to EMMA.
- *Review of EMMA.* Following the submission of the Annual Report to EMMA by the Dissemination Agent or Disclosure Officer, as applicable, the Disclosure Officer should review the EMMA website to confirm that the Annual Report has been posted. If the Annual Report has not been posted, the Dissemination Agent should be notified, or the Disclosure Officer should file the Annual Report, as applicable.

**Listed Events  
and Notice  
Filings**

The District will file Listed Event Notices in accordance with the provisions of the Rule. Effective for debt of the District subject to the Rule and issued on or after February 27, 2019, the events that the District will provide a notice for are:

1. principal and interest payment delinquencies;
2. nonpayment related defaults, if material;
3. unscheduled draws on debt service reserves reflecting financial difficulties;
4. unscheduled draws on credit enhancements reflecting financial difficulties;
5. substitution of credit or liquidity providers, or their failure to perform;
6. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;

7. modifications to rights of bond owners, if material;
8. bond calls, if material and tender offers;
9. defeasance;
10. release, substitution, or sale of property securing repayment of the security, if material;
11. rating changes;
12. bankruptcy, insolvency, receivership, or similar event of the District, which will occur as described below;
13. the consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
14. appointment of a successor or additional trustee or the change of name of a trustee, if material;
15. incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
16. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

***Identifying and Reporting Listed Events.***

*Understanding the Listed Events.* The Disclosure Officer should be aware of the "Listed Events" (found in each Continuing Disclosure Undertaking) necessitating the filing of an Event Notice. If clarification is required regarding what is meant by each such Listed Event, the District's bond counsel and municipal or financial advisor should be contacted to clarify the meaning.

*Filing Event Notices.* Each such notice shall be filed by the Disclosure Officer, or by the Dissemination Agent, if any, on behalf of the District, with EMMA no later than ten (10) business days after the occurrence of a Listed Event.

*Review of EMMA.* Following the submission of an Event Notice to EMMA by the Dissemination Agent or Disclosure Officer, as applicable, the Disclosure Officer should review the EMMA website to confirm that the Event Notice has been posted. If the Event Notice has not been posted, the Dissemination Agent should be notified, or the Disclosure Officer should file the Event Notice, as applicable.

*Occurrence of a Listed Event.* The Disclosure Officer should contact bond counsel and municipal or financial advisor if he or she has any questions regarding the occurrence of a Listed Event, and whether such occurrence may require the filing of an Event Notice.

*Incurrence of and Amendments to Material Financial Obligations; Events Occurring Under Terms of Material Financial Obligations that Reflect Financial Difficulties.* As of the date hereof, the Rule contains, among others, the following new Listed Events (the "Rule Amendments"):

(15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and

(16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.....

The term "Financial Obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

*Listing of Financial Obligations Incurred Prior to Date District is Subject to the Rule Amendments.* It is hereby the policy of the District that the District's finance staff shall identify and list all existing Financial Obligations by reaching out to other applicable offices and departments of the District.

The District's finance staff shall thereafter identify any amendments to the listed existing Financial Obligations prior to the date on which any such amendment will be adopted or become effective, and work with bond counsel or disclosure counsel to determine which of any such amendments are "agreements to covenants, events of default, remedies, priority rights, or other similar terms" ....which affect holders of the debt subject to the Rule Amendments, and are "material" and should therefore be disclosed in an Event Notice.

*Listing of Financial Obligations Incurred on or after the Date the District is Subject to the Rule Amendments.* It is hereby the policy of the District that the Disclosure Officer be notified prior to the adoption or approval of any Financial Obligation to be entered into by or on behalf of the District that reasonably could be reportable (i.e., Financial Obligations that could reasonably be seen to affect holders of District debt subject to the Rule Amendments and be material). The Disclosure Officer shall take measures to advise all applicable District staff and consultants of this policy.

For each Financial Obligation so identified, determined to be material, and included on the list, the terms should be summarized and include:

1. Date of incurrence;
2. Principal amount;
3. Maturity;
4. Amortization;
5. Interest rate or method of rate calculation, including any default or gross-up rates;
6. Security for payment;
7. Events of default and acceleration, if applicable;
8. Termination events; and
9. "Most favored nation" clauses (permitting holder of obligation to obtain the benefit of more favorable covenants negotiated with holders of other District financial obligations).

The Disclosure Officer shall establish a system for identifying, before any such Financial Obligation becomes effective, and listing any such Financial Obligations

hereafter entered into by the District, and upon identification, determining if such Financial Obligation has the potential to materially impact the security or source of repayment of any of the District's debt that is subject to the Rule Amendments.

Upon identification of any Financial Obligation meeting the materiality standard identified in the preceding paragraph, the Disclosure Officer shall establish a process for identifying and monitoring any agreement to covenants, events of default, remedies, priority rights, or other similar terms under such Financial Obligation.

The Disclosure Officer shall further establish a process for identifying the occurrence of any default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any Financial Obligation (whether existing prior to or after the effective date of the Rule Amendments), the occurrence of any of which reflect financial difficulties of the District.