City of Hutchins

Debt Management Policy

Adopted August 1, 2022
The City of Hutchins (“the City”) recognizes that the foundation of any well-managed debt program is a comprehensive debt management and post issuance policy outlining the parameters for issuing new debt and managing the existing debt portfolio, identifying the types and amounts of permissible debt, providing guidance to decision makers regarding the purposes for which debt may be issued, and verifying that the IRS regulations regarding post issuance compliance are met to preserve the tax-exempt status of the City’s bonds.

I. DEBT MANAGEMENT POLICY

1.0 POLICY
Adherence to a debt management policy helps ensure that the City maintains the current or an improved bond rating in order to minimize borrowing costs and preserve access to credit.

The City’s Debt Management Policy (“the Debt Policy”) provides guidance for staff to:

a. Ensure high quality debt management decisions;

b. Ensure support for debt issuances both internally and externally;

c. Impose order and discipline in the debt issuance process;

d. Promote consistency and continuity in the decision-making process;

e. Ensure that the debt management decisions are viewed positively by rating agencies, investment community and taxpayers; and

f. Demonstrate a commitment to long-term financial planning objectives.

2.0 SCOPE
This Policy applies to all debt instruments issued by the City regardless of the funding source. Funding sources can be derived from, and debt secured by, 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.

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 and bond proceed funds, and that proceeds from long-term debt will not be used for current operations but rather for capital improvements, and related expenses, and other long-term assets in accordance with State law and City ordinances.

The City will seek all possible federal and state reimbursement for mandated projects and/or programs. The City will pursue a balanced relationship between issuing debts and pay-as-you go financing as dictated by prevailing economic factors and as directed by the City Council.

Other objectives include:

a. Bonds shall be paid back within a period not to exceed, and preferably sooner than, the expected useful life of the capital project;

b. Decisions shall be made based on a number of factors and will be evaluated against long-term goals rather than a short-term fix; and
c. Debt service and bond proceed funds shall be managed and invested in accordance with all federal, state and local laws and in conjunction with the Tax Compliance Certificate of each bond issue to assure availability to cover project costs and debt service payments when due.

4.0 IMPLEMENTATION
The Policy requires:

a. Payment of principal and interest on all outstanding debt in full and timely manner;
b. Incurrence of debt for those purposes permissible under State law and under the direction of City Council;
c. Development, approval and financing of capital improvements in accordance with City Code and the capital improvement budgeting process;
d. Structuring of principal and interest retirement schedules to: (1) achieve a low borrowing cost for the City, (2) accommodate the debt service payments of existing debt, and (3) respond to perceptions of market demand. Shorter maturities shall always be encouraged to demonstrate to rating agencies that debt is being retired at a sufficiently rapid pace;
e. Selection of a method of sale that shall maximize the financial benefit to the City;
f. Effective communication with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the City; and
g. Full, complete, and accurate disclosure of financial conditions and operating results in every financial report, bond prospectus and Annual Information Statement (“AIS”). All reports shall conform to guidelines issued by the Government Finance Officers Association (“GFOA”), Securities and Exchange Commission (“SEC”), and the Internal Revenue Service (IRS) to meet the disclosure needs of rating agencies, underwriters, investors, and taxpayers.

5.0 STRUCTURE OF DEBT
Debt service shall be structured to the greatest extent possible to:

a. Match projected cash flows and pledged revenues;
b. Minimize the impact of future tax levies;
c. Maintain a consistent and as rapid as feasible payment of principal;
d. Maintain a level overall annual debt service payment structure; and
e. Equal the lesser of the useful life of the asset being financed or the maximum legal maturity for the obligations issued to finance the acquisition and construction of the asset.

5.1 Fixed Interest versus Variable Interest
The City generally issues fixed rate bonds primarily to protect the City against interest rate risk. The City has the option to issue variable rate bonds if market conditions warrant and Council approves it.

5.2 Other Considerations
Bonds are generally issued such that:

a. The average life is 20 years or less for general obligation bonds and revenue bonds, the City may choose a longer term for revenue bonds for projects whose lives are greater than 20 years.
b. Debt service 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.
c. 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 shall 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. City staff shall assess all financial alternatives for funding capital improvements prior to issuing debt.

Long-term general obligation debt, including certificates of obligation, or revenue bonds shall be issued to finance significant and desirable capital improvements. Proceeds of general obligation debt will be used only for the purposes approved by voters in bond elections or set forth in the notices of intent for certificates of obligation or to refund previously issued general obligation bonds, certificates of obligation or revenue bonds. All bonds shall be sold in accordance with applicable law.

6.1 Pay-As-You-Go Financing
Pay-as-you-go financing should be considered before issuing any debt. Pay-as-you go financing may include intergovernmental grants from federal, state and other sources, current revenues or fund balances, private sector contributions, and public/private partnerships. Once the City has determined that pay-as-you-go is not a feasible or sufficient financing option, the City may use bonds, loans, or other debt financing sources as deemed appropriate by City staff and approved by Council.

6.2 General Obligation Bonds
General obligation bonds may be used if the following criteria are met:
   a. The size of the issuance is $2 million or above;
   b. The G.O. bond funds are used for new and expanded facilities, major repair or renovations to existing facilities, or quality-of-life projects;
   c. The useful life of the capital asset acquired/constructed/improved will be ten (10) years or more, or the funds will extend the useful life of an asset for more than ten (10) years; and
   d. Voter authorization is given through approval in a bond election in accordance with State law.

6.2.1 The total dollar amount of G.O. bond election propositions recommended to the voters shall not exceed the City’s estimated ability to issue said bonds within a normal four (4) year period.

6.2.2 Reimbursement resolutions, if required for funds to be advanced prior to issuance of General Obligation bonds, may be used for projects funded through General Obligation bonds.

6.2.3 G.O. bonds may be used to fund quality-of-life projects that include, but are not
limited to, the City’s parks, libraries, non-public safety facilities, internet and entertainment, sports and amusement-type facilities.

### 6.3 Certificates of Obligation

It is the City's priority to fund the majority of capital projects with voter-approved debt. However, on occasion, it becomes necessary to seek additional financing in order to fund a particular non-quality of life project(s). COs will be issued for the following projects/acquisitions:

- Capital asset acquisitions (heavy equipment, vehicles, IT equipment, etc.)
- Rehabilitation and/or extension of the useful life of existing facilities
- Street resurfacing
- Unpaved Rights of Way
- ADA retrofitting/rehabilitation projects
- Street lighting
- Infrastructure projects (street and draining work)
- Emergency city facilities rehabilitation (storm water draining, etc.)
- Major core service facilities (police, fire, streets, etc.)

Notwithstanding the policy set forth herein and in section 5.1, certificates of obligation or other long-term debt may be considered if the following criteria are met:

- The need for the project is urgent and immediate;
- The project(s) is necessary to prevent an economic loss to the City;
- Source of revenue is specific and can be expected to cover the additional debt;
- The expected debt is the most cost effective financing option available.

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.

Reimbursement resolutions may be used for projects funded through certificates of obligations.

#### 6.3.1 Certificates of Obligations - Enterprise Fund

Certificates of obligation for an enterprise system will be limited to only those projects, which can demonstrate the capability to support the certificate debt either through its own revenues or through another pledged source other than ad valorem taxes and meet the same criteria as outlined in 6.2 above.

### 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.

7.0 METHODS OF SALE

The City’s debt obligations may be sold by competitive or negotiated sale methods. The selected method of sale depends upon the option which is expected to result in the lowest cost and most favorable terms to the City given the financial structure used, market conditions, and prior experience. When considering the method of sale, the City may consider the following issues:

a. Financial conditions;
b. Market conditions;
c. Transaction-specific conditions;
d. City-related conditions;
e. Risks associated with each method;
f. Complexity of the Issue – Municipal securities with complex security features require greater marketing and buyer education efforts on the part of the underwriter, to improve the investors’ willingness to purchase;
g. Volatility of Bond Yields – If municipal markets are subject to abrupt changes in interest rates, there may be a need to have some flexibility in the timing of the sale to take advantage of positive market changes or to delay a sale in the face of negative market changes;
h. Familiarity of Underwriters with the City’s Credit Quality – If underwriters are familiar with the City’s credit quality, a lower True Interest Cost (TIC) may be achieved. Awareness of the credit quality of the City has a direct impact on the TIC an underwriter will bid on an issue. Therefore, where additional information in the form of presale marketing benefits the interest rate, a negotiated sale may be recommended. The City strives to maintain an excellent bond rating. As a result, the Municipal Bond Market is generally familiar with the City’s credit quality; and
i. Size of the Issue - The City may choose to offer sizable issues as negotiated sales so that pre-marketing and buyer education efforts may be done to more effectively promote the bond sale.

7.1 Competitive Sale

In a competitive sale, bonds are awarded in a sealed bid sale to an underwriter or syndicate of underwriters that provides the lowest TIC bid. TIC is defined as the rate, which will discount the aggregate amount of debt service payable over the life of the bond issue to its present value on the date of delivery. It is customary for bids to be submitted electronically through a secure website.

7.2 Negotiated Sale

In a negotiated sale, the City chooses an underwriter or underwriting syndicate that is interested in reoffering a particular series of bonds to investors. The terms of the sale, including the size of the underwriter’s discount, date of sale, and other factors, are
negotiated between the two parties. Although the method of sale is termed, negotiated, individual components of the sale may be competitively bid. The components are subject to a market analysis and reviewed prior to recommendation by staff. Negotiated sales are more advantageous when flexibility in the sale date is needed or when less conventional bond structures are being sold. Negotiated sales are also often used when the issue is particularly large or if the sale of the debt issuance would be perceived to be more successful with pre-marketing efforts.

7.3 Private Placement
A private placement is a negotiated sale of debt securities to a limited number of selected investors including financial institutions or government agencies or authorities. The City may engage a placement agent to identify likely investors if deemed necessary. A private placement may be beneficial when the issue size is small, when the security of the bonds is somewhat weaker, or when a governmental lending agency or authority can provide beneficial interest rates or terms compared to financing in the public market.

8.0 REFUNDING OF DEBT
All forms of refunding debt shall be approved by Council in accordance with City ordinances and the Department of Finance and Administration in accordance with State law.

8.1 Advance Refunding
Advanced refunding and forward delivery refunding transactions for savings may be considered when the net present value savings as a percentage of the par amount of refunded bonds is approximately three percent.

8.2 Current Refunding
Current refunding transactions issued for savings maybe considered when the net present value savings as a percentage of the par amount of refunded bonds is approximately three percent.

8.3 Refunding for Debt Restructuring
From time to time, the City may also issue refunding debt for other purposes, rather than net present value savings, such as restructuring debt, changing covenants, or changing the repayment source of the bonds.

9.0 DEBT LIMITS
9.1 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 percent of the total assessed valuation of the City's tax rolls.

9.2 Since debt service payments represent a fixed expense of the City's total annual operating budget, debt service as a percent of total expenditures should not exceed 15%.
10.0 **MATURITY LEVELS**

10.1 Revenue Debt
The term of revenue debt shall not exceed the expected useful life of the capital asset being financed and in no case shall it exceed thirty years.

10.2 General Obligation Debt
The term of general obligation debt shall not exceed the State maximum of twenty years.

11.0 **MANAGEMENT OF DEBT SERVICE FUND**

11.1 Interest Earnings
Interest earnings on bond and loan proceeds shall be used solely to fund direct or related capital expenditures, or to service current and future debt payments.

11.2 Debt Service Reserves – General Obligation Bonds
Debt service reserves for general obligation bonds shall not be required.

11.3 Debt Service Reserves – Revenue Bonds
Debt service reserves for capital improvement or revenue bonds shall be maintained at levels required by controlling bond ordinances.

11.4 IRS Rules and Regulations
The City shall comply with all IRS rules and regulations including, but not limited to, arbitrage.

12.0 **RATINGS**

Adherence to a debt management policy helps insure that the City maintains the current or an improved bond rating in order to minimize borrowing costs and preserve access to credit. Toward that end, the City will take the following steps.

12.1 Strive to maintain good relationships with bond rating agencies as well as disclose financial reports and information to these agencies and to the public.

12.2 Obtain a rating from at least one nationally recognized bond-rating agency on all issues being sold in the public market.

12.3 Make timely disclosure of annual financial information or other requested information to the rating agencies.

13.0 **CONTINUING DISCLOSURE**

The City will take all appropriate steps to comply with federal securities laws, including, but not limited to, Securities and Exchange Commission ("SEC") Rule 15c2-12 the ("Rule"). The City will make annual and event disclosure filings to the MSRB via EMMA as required by the Rule and its continuing disclosure undertakings.
14.0 **SELECTION OF FINANCIAL ADVISOR**

The City shall retain an independent financial advisor for advice on the structuring of new debt, financial analysis of various options, including refunding opportunities, the rating review process, the marketing and marketability of City debt obligations, issuance and post-issuance services, the preparation of offering documents (each, an “Official Statement”) and other services, as necessary. The City will seek the advice of the financial advisor on an ongoing basis. The financial advisor will perform other services as defined by the agreement approved by the City Council. The financial advisor will not bid on nor underwrite any City debt issues in accordance with MSRB rules.

15.0 **SELECTION OF BOND COUNSEL**

The City shall retain bond counsel for legal and procedural advice on all debt issues. Bond counsel shall advise the City Council in all matters pertaining to its bond ordinance(s) and/or resolution(s). No action shall be taken with respect to any obligation until a written instrument (e.g., Certificate for Ordinance or other legal instrument) has been prepared by the bond attorneys certifying the legality of the proposal. The bond attorneys shall prepare all ordinances and other legal instruments required for the execution and sale of any bonds issued which shall then be reviewed by the City Attorney and the Finance Director. The City will also seek the advice of bond counsel on all other types of debt and on any other questions involving federal tax or arbitrage law. Special counsel may be retained to protect the City's interest in complex negotiations.

II. **POST ISSUANCE POLICY**

*To be provided separately by City of Hutchins’ financial advisor to the City*

III. **DEBT MANAGEMENT AND POST ISSUANCE POLICY REVIEW**

This Debt Management and Post Issuance Policy shall be reviewed at least once every two years by the City Council. Any modifications to this Policy, at any time, shall be approved by City Council.