CHAPTER 15:C DEBT MANAGEMENT POLICY

SECTION 15.01: PURPOSE AND OVERVIEW

The Town of Prosper recognizes that the foundation of any well-managed debt program ~~is a~~are comprehensive debt management and post issuance policies that are fully integrated with the long-term capital plan and related five-year operating budget forecasts. ~~y~~This policy outlines~~ing~~ the need to identify all possible non-debt capital plan funding sources first, and then establishes parameters for issuing new debt and managing the existing debt portfolio. ~~;~~It identifies~~ying~~ permissible and preferred~~the~~ types, structures and amounts of ~~permissible~~ debt; providing guidance to decision makers regarding the purposes for which debt may be issued. This policy is aligned and compliments Chapter 16: Debt Post Issuance-Monitoring and Compliance Policy.~~; and verifying that the IRS regulations regarding post issuance compliance are met to preserve the tax- exempt status of the Town's bonds.~~

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

The Town's Debt Management Policy ("the Debt Policy") provides guidance for staff to promote:

1. ~~Ensure h~~High quality debt management decisions;
2. ~~Ensure s~~Support for debt issuances both internally and externally;
3. ~~Impose o~~Order and discipline in the debt issuance process;
4. ~~Promote c~~Consistency and continuity in the decision making process;
5. A positive perception of the debt management program ~~Ensure that the debt management decisions are viewed positively~~ by rating agencies, investment community and taxpayers; and
6. ~~Demonstrate a~~A commitment to long-term financial planning objectives.

SECTION 15.02: SCOPE

This Policy applies to all debt instruments issued by the Town regardless of the funding source. Funding sources can be derived from, and debt secured by, ad valorem taxes, general Town revenues, enterprise fund revenues or any other identifiable source of revenue that may be identified for appropriate pledging for bonded indebtedness.

SECTION 15.03: OBJECTIVES

The primary objective of this Policy is to ensure that the Town 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 Town ordinances.

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

Other objectives include:

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

2. 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

3. 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.

SECTION 15.04: IMPLEMENTATION

The Policy requires:

1. Payment of principal and interest on all outstanding debt in full and timely manner;

2. Incurrence of debt for those purposes permissible under State law and the home-rule charter of the Town;

3. Development, approval and financing of capital improvements in accordance with Town Code and the capital improvement budgeting process;

4. Structuring of principal and interest retirement schedules to: 1) achieve a low borrowing cost for the Town, 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;

5. Selection of a method of sale that shall maximize the financial benefit to the Town;

6. Effective communication with bond rating agencies to ensure complete and clear understanding of the credit worthiness of the Town; and

7. 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.

SECTION 15.05: STRUCTURE OF DEBT

Debt service shall be structured to the greatest extent possible to:

1. Target projected cash flows and pledged revenues;
2. Minimize the impact on future tax levies;
3. Target a consistent and as rapid as feasible payment of principal;
4. Maintain a level overall annual debt service payment structure; and
5. Target the equal or 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.

A. Fixed Interest versus Variable Interest

The Town generally issues fixed rate bonds primarily to protect the Town against interest rate risk. The Town has the option to issue variable rate bonds if market conditions warrant and Council approves it.

B. Other Considerations

Bonds are generally issued such that:

1. The ~~average life~~final maturity is 20 years or less for general obligation bonds and revenue bonds, the Town may choose a longer term for revenue bonds for projects whose lives are greater than 20 years.
2. Debt service interest is paid in the first fiscal year after a bond sale, and principal is targeted to commence no later than the second fiscal year after the debt is issued. However, the Town may defer principal for a longer period of time in order to maintain a specific I&S tax rate or a certain level of debt service.

~~3.~~ Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the Town. The targeted maximum length to call is 10 years. ~~However, the Town may opt for a call date longer than 10 years in order to achieve the necessary goals of the particular issue.~~

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SECTION 15.06: FINANCING ALTERNATIVES

The Town shall develop a level of cash and debt funded capital improvement projects that provide the citizens with the desired amount of Town services at the lowest cost. Town 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.

A. 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 Town has determined that pay-as-you-go is not a feasible or sufficient financing option, the Town may use bonds, loans, or other debt financing sources as deemed appropriate by Town staff and approved by Council.

B. General Obligation Bonds

General obligation bonds may be used if the following criteria are met:

1. The size of the issuance is $1 million or above;

2. The GO bond funds are used for new and expanded facilities, major repair or renovations to existing facilities, or quality-of-life projects;

3. 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

4. Voter authorization is given through approval in a bond election in accordance with State law.

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

C. Certificates of Obligation

COs will be issued for the following projects/acquisitions:

1. Finance permanent improvements and land acquisition;

2. Acquire equipment/vehicles;

3. Leverage grant funding;

4. Renovate, acquire, construct facilities and facility improvements;

5. Construct street improvements;

6. Provide funding for master plans/studies;

7. Infrastructure projects (including street, water and sewer and ~~draining~~ drainage work)

8. Emergency Town facilities rehabilitation (storm water ~~draining~~drainage, etc.)

9. Major core service facilities (police, fire, streets, etc.)

Notwithstanding the policy set forth herein, 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. The project(s) is necessary to prevent an economic loss to the Town;

3. Source of revenue is specific and can be expected to cover the additional debt;

4. The expected debt is the most cost effective financing option available.

In addition, the ~~average~~ final 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.

D. Reimbursement Resolutions

Reimbursement resolutions, if required for funds to be advanced prior to issuance of ~~G~~general ~~O~~obligation ~~bonds~~debt, may be used for projects funded through General Obligation Bonds and Certificates of Obligation ~~bonds~~.

E. 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 though its own revenues, or another pledged source other than ad valorem taxes and meet the same criteria as outlined above.

F. Revenue Bonds

Revenue bonds ~~will~~ may 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.

G. 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 above will be considered for the use of these obligations.

SECTION 15.07: METHODS OF SALE

The Town'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 Town given the financial structure used, market conditions, and prior experience. When considering the method of sale, the Town may consider the following issues:

1. Financial conditions;

2. Market conditions;

3. Transaction-specific conditions;

4. Town-related conditions;

5. Risks associated with each method;

6. 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;

7. 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;

8. Familiarity of Underwriters with the Town's Credit Quality – If underwriters are familiar with the Town's credit quality, a lower True Interest Cost (TIC) may be achieved. Awareness of the credit quality of the Town 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 Town strives to maintain an excellent bond rating. As a result, the Municipal Bond Market is generally familiar with the Town's credit quality; and

9. Size of the Issue – The Town 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.

A. 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.

B. Negotiated Sale

In a negotiated sale, the Town 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.

C. Private Placement

A private placement is a negotiated sale of debt securities to a limited number of selected investors including financial institutions, government agencies, or authorities. The Town 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.

SECTION 15.08: REFUNDING OF DEBT

All forms of refunding debt shall be approved by Council in accordance with Town ordinances and the Department of Finance and Administration in accordance with state law.

A. 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.

B. 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.

C. Refunding for Debt Restructuring

From time to time, the Town 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.

SECTION 15.09: DEBT LIMITS

The total principal amount of general obligation bonds together with the principal amount of all other outstanding tax indebtedness of the Town to be repaid from the Debt Service Fund will be targeted to not exceed ~~six~~ four percent of the total assessed valuation of the Town's tax rolls.

The Town will target an I&S tax rate that makes up ~~35~~40% or less of the Town's total tax rate (M&O tax rate plus I&S tax rate).

The Enterprise Fund will target the net revenues available for debt service to exceed 125 times the outstanding revenue-backed debt service payments.

SECTION 15.10: MATURITY LEVELS

A. Revenue Debt

The ~~term~~ maximum maturity 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.

B. General Obligation Debt

The ~~term~~ maximum maturity of general obligation debt shall be targeted not to exceed twenty years.

SECTION 15.11: MANAGEMENT OF DEBT SERVICE FUND

A. 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.

B. Debt Service Reserves – General Obligation Bonds

Debt service reserves for general obligation bonds shall not be required.

C. Debt Service Reserves – Revenue Bonds

Debt service reserves for revenue bonds shall be maintained at levels required by controlling bond ordinances.

D. ~~IRS Rules and Regulations~~Legal Regulatory and Covenant Requirements

The Town shall comply with all ~~IRS rules and regulations~~Federal and State laws, SEC regulations and related contractual and covenant requirements. ~~including, but not limited to, arbitrage.~~See Chapter 16: Debt Post Issuance Monitoring and Compliance.

SECTION 15.12: RATINGS

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

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.

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

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

SECTION 15.13: CONTINUING DISCLOSURE

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

SECTION 15.14: SELECTION OF FINANCIAL ADVISOR

The Town 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 Town debt obligations, issuance and post- issuance services, the preparation of offering documents (each, an "Official Statement") and other services, as necessary. The Town 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 Town Council. The financial advisor will not bid on nor underwrite any Town debt issues in accordance with MSRB rules.

SECTION 15.15: SELECTION OF BOND COUNSEL

The Town shall retain bond counsel for legal and procedural advice on all debt issues. Bond counsel shall advise the Town 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 Town Attorney and the Director of Finance. The Town will also seek the advice of bond counsel on all other types of debt and on any other questions involving state law and federal tax or arbitrage law. Special counsel may be retained to protect the Town's interest in complex negotiations.

The Town of Prosper Debt Management Policy was approved the 11th day of July, 2017.

Harlan Jefferson, Town Manager