Purpose

The purpose of this regulation is to establish responsibilities and guidelines for the issuance of debt obligations and to provide guidelines for the ongoing management of the District's debt portfolio. The regulation affirms the intent of the District to adhere to sound debt management practices within the highest industry, legal and governmental standards, while achieving the lowest cost of capital given established parameters.

Scope

The regulation applies to any debt obligation with a term of one year or longer that is payable from the Interest & Sinking Fund. It does not apply to short-term debt such as accounts payable or obligations incurred and normally paid within a short period of time, for example, 30 to 90 days.

Debt Management Objectives

The debt management objectives of the District are to:

1. Maintain financial stability.
2. Preserve public trust by:
   a. Completing debt programs within guidelines communicated to taxpayers; and
   b. Obtaining citizen input to formulate components of capital improvement programs funded with voter approved debt.
3. Provide sufficient debt capacity for current and future capital needs of the District.

The District will:

1. Formulate a multi-year capital improvement plan in conjunction with its financial advisor, demographer, facilities planner, architect, and bond committee, as applicable. The administration will review the capital improvement plan on an annual basis and recommend appropriate changes to the Board. The capital improvement plan will include:
   a. A timeline of the anticipated capital improvements needed and the projected cost thereof, given projected student enrollments and existing school facilities;
   b. A prioritization of such projects; and
   c. A preliminary financing plan that demonstrates the parameters for which such capital needs may be completed.
2. Repay its debt obligations as expeditiously deemed prudent given the applicable tax rate parameters and the District's

overall financing objectives [see GUIDELINES FOR REPAYMENT OF DEBT OBLIGATIONS].

3. Provide flexibility to manage annual debt service requirements and corresponding Interest & Sinking Fund tax rate. The District will structure its debt obligations with a call provision, if possible, to allow such obligations to be redeemed prior to final scheduled maturity. Generally speaking, the District, in consultation with the District's financial advisor, will select the earliest call provision given prevailing market conditions.

4. Minimize the District's interest and financing costs, including, but not limited to:

    a. Implementing debt strategies to achieve the lowest cost of capital given the District's established risk parameters, overall financing objectives, and prevailing market conditions [see COMPOSITION OF DEBT PORTFOLIO AND DEBT STRATEGIES].

    b. Refinancing the District's existing debt obligations at a lower interest rate as such opportunities are available [see GUIDELINES FOR REFUNDING DEBT OBLIGATIONS].

    c. Combining multiple debt sales into one sale, when economically feasible, in order to minimize issuance costs.

    d. Maximizing state funding assistance that may be available for the payment of debt.

5. Comply with all state and federal laws.

Allowable Purposes for the Issuance of Debt

The District regards the issuance of debt as a valuable management tool that must be judiciously utilized within the District's financial and legal operating environment. In general, the District may issue debt obligations to fund capital improvements within the District or to refinance the District's debt obligations. The following guidelines provide the permitted purposes for which the District may consider the issuance of debt:

1. The District may finance certain capital improvements, which include, but are not limited to:

    a. The purchase of land for future school facilities (school facilities in the context of this regulation include school buildings, career and technology centers, agricultural facilities, administrative facilities, athletic facilities, maintenance facilities, and the like).

b. The construction, acquisition, and equipment of school facilities.

c. The renovation of school facilities.

d. The purchase of school buses.

e. A refund for the District's outstanding debt obligations [see GUIDELINES FOR REFUNDING DEBT OBLIGATIONS]; and

f. Any other purpose legally available to the District pursuant to state law.

2. Long-term debt obligations may not be used:

a. To fund operating expenditures of the District that may not be capitalized;

b. For the purpose of investing; and/or

c. For the sole purpose of earning arbitrage.

Guidelines for Repayment of Debt Obligations

The purpose and useful life of capital improvement projects to be financed with debt obligations must be carefully considered when selecting an amortization period of debt obligations. The District will repay its debt in compliance with all federal, state, and local requirements and will seek to repay its debt in an expeditious manner within the District's overall financial objectives, the useful life of the project financed, and the source of repayment. Under no circumstances will the District amortize its debt obligations for a time period longer than the expected useful life of the project being financed. However, the amortization schedule must not restrict the District's ability to annually manage its Interest & Sinking Fund tax rate or severely limit the District's ability to issue future debt obligations.

1. Short-Term Capital Improvement Projects

a. Short-term capital improvement projects will be those projects that generally have a useful life of ten years or less. The following are guidelines to be used for the amortization of debt obligations issued for short-term capital improvements:

Description	Average Life of Debt Obligations
Software	5 Years
Computer Equipment	5 Years
Furniture, Fixtures, Equipment	10 Years
School Buses	10 Years
Stadium Turf	10 Years

2. Long-Term Capital Improvement Projects

   a. Long-term capital improvement projects will be those projects that generally have a useful life of more than ten years.

   b. Pursuant to state law, the District will amortize all debt obligations within the parameters established by state law.

3. Total Debt Portfolio

   a. The District may consider the following principal repayment targets for its total debt portfolio:

      (1) Five Years = Principal repayment target of 15 percent – 25 percent;

      (2) Ten Years = Principal repayment target of 40 percent - 50 percent;

      (3) Twenty Years = Principal repayment target of 65 percent – 75 percent;

      (4) Thirty Years = Principal repayment target of 85 percent - 95 percent; and

      (5) Thirty-five Years = Principal repayment target of 100 percent.

   b. To the extent such principal amortization requirements described in (1) above should limit the District's ability to annually manage its Interest & Sinking Fund tax rate or cost-effectively issue future debt obligations, the District will maintain its financial management flexibility by amortizing its debt obligations at a slower repayment rate than described above.

   c. To the degree the principal repayment targets described in (1) above are not met, should the District's taxable assessed valuation increase more than assumed within its multi-year capital improvement program and/or additional revenues are received for the payment of debt service, the District will, to the degree it is deemed financially feasible, use such excess funds to repay its debt obligations prior to final maturity, while maintaining an Interest & Sinking Fund tax rate within the parameters previously communicated to taxpayers.

Composition of Debt Portfolio

The District's debt portfolio may be comprised of two types of debt: Traditional fixed rate debt and variable rate debt. The District will select the most prudent debt structure at the time debt obligations are sold, given the District's targeted debt portfolio, prevailing and expected market conditions, and established risk parameters.

1. Traditional Fixed Rate Debt

Traditional fixed rate debts are obligations with interest rates that remain constant until the final maturity. The targeted percentage of traditional fixed rate debt within the District's debt portfolio must be between 70 percent - 100 percent.

2. Variable Rate Debt

Variable rate debts are obligations whose interest rates that "reset" on a periodic basis (i.e., daily, weekly, monthly, annually, and the like). The targeted percentage of variable rate debt within the District's debt portfolio will be 0 percent - 30 percent.

Guidelines for Refunding Debt Obligations

All refunding proposals should be reviewed by the District's administration and its financial advisor to determine the applicability, accuracy and potential benefits to the District. Each potential refunding program should be considered on its own merits and should be analyzed and structured to support current and future debt programs.

When reviewing the appropriateness of a refunding program, the evaluation process should be dynamic enough to consider all potential benefits to the District, such as lowering the District's interest cost, increasing the District's debt capacity, increasing flexibility to manage the District's debt portfolio, and the like. The following guidelines provide the general criteria the District will utilize when considering the implementation of a refunding program:

1. Criteria to be Utilized for a Refunding for Interest Cost Savings:

   a. A refunding program will produce sufficient interest cost savings to be deemed prudent and material given the inherent risks of the refunding program. A refunding utilizing traditional fixed rate debt may be considered if the "Present Value Savings as a Percentage of the Principal Amount of the Refunded Bonds" ratio is at least 3.0 percent.

b. The final maturity of the Refunding Bonds will not exceed the final maturity of the Refunded Bonds.

c. A refunding for savings will not materially diminish the District's ability to manage its debt portfolio or restrict the District's ability to cost-effectively issue additional debt obligations.

d. A refunding for savings will be combined with a "new money" issuance to achieve economies of scale regarding costs of issuance, when feasible and prudent.

2. Criteria to be Utilized for a Refunding for Restructuring Purposes:

a. Both callable and noncallable debt may be refunded for restructuring purposes. In higher interest rate environments, noncallable debt will be restructured prior to any callable debt, if possible.

b. A restructuring may be implemented to:

(1) Permit additional debt obligations to be sold more cost-effectively.

(2) Keep within the tax rate parameters communicated to voters of the District or to manage the District's Interest & Sinking Fund tax rate; and

(3) Add flexibility to the District's debt portfolio, given prevailing circumstances.

c. The costs associated with a restructuring (costs of issuance and additional interest cost, if any) will be evaluated in contrast to the expected benefit of the restructuring.

d. A restructuring should not materially diminish the District's ability to manage its debt portfolio or restrict the District's ability to cost-effectively issue additional debt.

Method of Sale to Be Utilized

The District recognizes that each issuance of debt obligations has unique characteristics that will provide the basis for determining the appropriate method of sale. Such methods of sale include competitive, negotiated, and private placements. The conditions that indicate the appropriate method of sale are generally described below:

1. Competitive Sale – The District may consider a competitive sale of its debt obligations if:
    a. The debt market is stable and demand for the debt obligations is strong.
    b. The District can reasonably expect at least three bids will be received.
    c. Structural features and credit quality are conventional.
    d. Transaction size is manageable; and/or
    e. Volume of competing transactions is low.
2. Negotiated Sale – The District may consider a negotiated sale of its debt obligations if:
    a. An advance refunding is being completed.
    b. Debt market is volatile, demand for debt obligations is perceived to be weak, or the volume of competing sales is high.
    c. Coordination of multiple components of the financing is required.
    d. Substantial education of investors is required.
    e. Structural features or credit quality is unconventional.
    f. Large transaction size; and/or
    g. Retail participation is expected or desired to be high.
3. Private Placement – The District will consider a private placement of its debt obligations if it provides more advantageous financing terms than may be obtained in the national capital markets.

Parameter Debt Sales

The Board may designate the ability to approve the issuance of debt obligations to the District's administration, so long as the issuance of the debt obligations meets certain parameters approved by the Board and it is permissible pursuant to state law.

Credit Ratings and Credit Enhancement

The District will strive to secure and maintain the highest possible credit ratings based upon its stand-alone credit strength. It is the goal of the District to maintain a positive reputation in the debt markets through the maintenance and improvement of the relevant credit characteristics within its control.

1. Credit Ratings:

   a. For any new issuance of traditional fixed rate debt sold either through a competitive or negotiated sale, the District will obtain a credit rating from at least two nationally recognized rating agencies. The District will obtain a credit rating based upon the District's stand-alone credit strength, as well as a credit rating based upon any type of credit enhancement obtained for a particular debt issuance.

   b. For any new issuance of variable rate debt sold either through a competitive or negotiated sale, the District will utilize a credit rating from at least one nationally recognized rating agency.

   c. Based upon a recommendation from the District's financial advisor, the District will conduct the rating process either in person through a formal rating presentation or via a conference call.

   d. The District will be cooperative with the rating agencies and will provide all requested information in a timely manner.

2. Credit Enhancement:

   a. Permanent School Fund Guarantee Program – So long as the District's stand-alone credit ratings are rated below the ratings of the Permanent School Fund ("PSF") Guarantee Program of the state of Texas, the District will attempt to secure credit enhancement through the PSF Guarantee Program. Should the PSF Guarantee Program be out of capacity or have a credit rating lower than the District's stand-alone credit rating, the District will compare that costs and related benefits of other types of credit enhancement (i.e., bond insurance, and the like) and will select the option that results in the lowest interest cost at the time a debt obligation is sold.

   b. Bond Insurance – The District will consider the use of bond insurance when it provides an economic advantage for a sale of debt obligations. The District's financial advisor will compare the present value of the prospective interest savings produced by using bond insurance to the cost of such insurance. Bond insurance may be purchased when it results in a present value benefit. The District may solicit bids for bond insurance.

c. Liquidity/Credit Facilities – The issuance of variable rate debt may require the use of a liquidity facility and/or a credit facility. Letters of Credit ("LOC") and Standby Bond Purchase Agreements ("SBPA") will be considered as credit enhancement based upon their respective cost effectiveness. The District may solicit bids from qualified financial institutions established in this line of business and may select the "best value" based on price, financial stability, terms and conditions, market acceptance, and service.

Selection of Consultants

The administration may contract with outside professionals for assistance in fulfilling any of the obligations or objectives of the District or the administration under this regulation. The services to be provided by such professionals will be set forth pursuant to a contract. It is the responsibility of the administration to conduct periodic reviews of each professional to determine if the quality of service provided is commensurate with the fees charged by such professionals.

Generally, the District will consider engaging the following professionals to the degree necessary:

1. Financial Advisor – To assist with the planning and issuance of all debt and debt administration processes relating to the District's debt portfolio and future debt programs.
2. Bond Counsel – To consult with the District and its financial advisor on legal matters pertaining to the issuance of debt obligations. In addition, bond counsel will provide a written opinion, upon the issuance of a debt obligation, affirming that the District is authorized to issue the debt and that the District has met all constitutional and statutory requirements necessary for issuance. The written legal opinion should also include a determination regarding the debt obligation's federal income tax status, if applicable.
3. Demographer – To assist in reviewing and analyzing the demographic changes within the District and the corresponding projections of student enrollment. The District will incorporate such information assembled by its demographer within its multi-year capital improvement plan.

Selection of Underwriters for Negotiated Transactions – Fixed Rate Debt Obligations

The District will select a pool of qualified firms to serve as senior manager and/or co-manager for a five-year period (the "Underwriting Pool"). The District reserves the right to add or remove firms from the underwriting pool at any time and to shorten or lengthen the period of time for which the underwriting pool is in place. The District may add or remove firms from the underwriting pool at any time based on factors including, but not limited to: performance or change in staff or firm organization.

1. Selection Process – The criteria to be utilized in the selection of underwriters for the District's fixed rate negotiated sales will consider a firm's:
   a. Capital position;
   b. Institutional and retail sales network for municipal debt obligations;
   c. Experience underwriting Texas school district debt obligations;
   d. Experience underwriting municipal debt obligations;
   e. Financing ideas presented or other value provided to the District;
   f. Demonstrated commitment to Texas school districts;
   g. Prior performance on the District's negotiated sales;
   h. Performance on District's competitive sales;
   i. Local presence; and
   j. Potential conflicts of interest.

In determining its underwriting pool, the District will consider other compensated services currently being performed by potential underwriters to help ensure diversification among its financing team.

2. Underwriting Syndicate Selection – The size and composition of each underwriting syndicate formed for a particular negotiated sale of fixed rate debt will be based on:
   a. The dollar amount of debt obligations to be sold;
   b. The criteria listed at Selection Process above; and
   c. Underwriting participation in District's recent negotiated sales.

3. Post-Sale Evaluation of Underwriting Performance – After the completion of each transaction, the senior manager will be required to present a post-sale analysis to the District's financial advisor, which will include at a minimum:

   a. A summary of orders submitted and allocations (including designations) received by each firm;

   b. A comparison of the District's interest rates to the interest rates on comparable sales; and

   c. A review of market conditions at the time of pricing.

The District's financial advisor will evaluate the success of the underwriting versus the market at the time of sale, analyze each syndicate member's performance, and present such information to the District's administration.

4. Unsolicited Proposals – The District encourages the submission of unsolicited financing proposals from any firm and may accept proposals from firms that are not in its underwriting pool. A copy of each proposal will be provided to the District's financial advisor. All proposals should include a full analysis of risks and benefits associated with each financing alternative proposed and a description of previous experience with such financing technique, if any. The District reserves the right to issue a request for proposals for any product or transaction. If the District implements a financing alternative submitted by a firm that is not a member of its underwriting pool, the District may consider inclusion of such firm within the underwriting syndicate.

Selection of Underwriter / Remarketing Agent for Variable Rate Debt Obligations

The District will select qualified firm(s) to serve as an underwriter/remarketing agent for each series of the District's variable rate debt obligations. The District reserves the right to replace the remarketing agent or to utilize other remarketing agents at any time based on factors including, but not limited to: performance, change in staff or firm organization, and the like.

1. Selection Process – The criteria to be utilized in the selection of underwriters/remarketing agents for the District's variable rate debt obligations will consider a firm's:

   a. Capital position;

   b. Sales and distribution network for short-term municipal debt obligations;

c. Experience in providing underwriting/remarketing agent services for Texas school districts;

d. Experience in providing underwriting/remarketing agent services for municipal debt issuers;

e. Financing ideas presented or other value provided to the District;

f. Demonstrated commitment to Texas school districts;

g. Prior performance as remarketing agent on the District's variable rate issues;

h. Local presence; and

i. Potential conflicts of interest.

2. Evaluation of Remarketing Agent Performance – At least annually, the District's financial advisor will evaluate the performance of the remarketing agents versus the market performance of other comparable Texas school district financings and will present such information to the District's administration.

Ongoing Debt Management

1. Investment of Debt Proceeds Practices – Any investment of debt proceeds must be executed in accordance with the District's investment policy, legal covenants, and state and federal tax law limitations. The proceeds of debt or other obligations of the District are subject to the Public Funds Investment Act [see CDA(LEGAL)].

2. Compliance with Federal Arbitrage Rebate Regulations – The use and investment of debt proceeds will be monitored to ensure compliance with arbitrage restrictions. The District's administration will ensure that debt proceeds and investments are tracked in a manner that facilitates the completion of accurate rebate calculations and rebate payments, if any, on an annual basis.

3. Continuing Disclosure Requirements – The District will comply with the Securities and Exchange Commission (SEC) Rule 15c2-12 by filing with the Municipal Securities Rulemaking Board (MSRB) and the State Information Depository (SID), if applicable, annual financial statements and other financial and operating data required for the benefit of its debt holders no later than six months after the end of each fiscal year. The inability to make timely filings must be disclosed promptly. The District will also notify each MSRB and SID of any "material

events" (as defined pursuant to SEC Rule 15c2-12) promptly after such event has occurred.

Duties and Responsibilities

The District's administration is responsible for reviewing and monitoring the activities of the District to determine compliance with these general guidelines and restrictions. The administration will review the District's regulation on an annual basis and will review appropriate changes with the Board.