



# CARROLLTON

## T E X A S

*Where Connections Happen*

# DEBT MANAGEMENT POLICY

November 2024

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## 1. PURPOSE

1.1 The purpose of this Policy is to:

- Provide guidelines for the debt planning process to ensure affordability for taxpayers and ratepayers is maintained, short- and long-term financial strength is conserved, City's strategic goals are achieved, and a low cost of capital and construction costs are achieved considering market conditions.
- Provide guidelines for acceptable debt types, maximum maturities, appropriate debt structure practices, and suitable use of debt proceeds to manage the cost of capital, maximize credit ratings, and mitigate risks associated with debt.
- Provide guidelines for an efficient and cost-effective debt issuance process in compliance with applicable state and federal laws and regulations, existing obligation covenants, and the City's Charter Article V Bonds, Warrants, and other Obligations of Indebtedness.
- Provide guidelines to ensure post-issuance compliance with state and federal securities laws and regulations.
- Set forth roles and responsibilities related to debt management, issuance, and post-issuance compliance processes.

1.2 This Policy and related manual and procedures apply to the City of Carrollton's debt obligations issued on or after the date of this Debt Management Policy.

## 2. RELATED POLICIES AND PROCEDURES

- City of Carrollton, Texas City Charter
- Debt Disclosures and Post-Issuance Procedures (Issuance Procedures)
- Private Business Use (PBU) Guidelines and Procedures (PBU Procedures)
- Investment Policy
- Capital Leasing Procedures

## 3. DEBT ISSUANCE PLANNING AND BOND ELECTIONS

### 3.1 Debt Planning

3.1.1 The primary responsibility for developing financing recommendations rests with the Chief Financial Officer (CFO). The CFO will make recommendations to the City Council for consideration and approval.

- No financing commitment can be entered into without prior approval by the City Council.

3.1.2 Debt shall only be issued to fund projects or needs included in the City's multi-year Capital Improvement Plan (CIP). The CIP shall:

- Be updated annually and in coordination with the development of the City's operating budget.
- Identify the estimated costs and potential funding sources for each capital project proposal.

3.1.3 Bond funding for any property or facility where private business use (PBU) may occur should be avoided, instead the City should use pay-go funding sources.

3.1.4 Short- term and long- term impact analysis of debt service costs shall be performed when developing financing recommendations as part of the annual budget and multi-year budget to:

# Debt Management Policy

- Ensure pay-as-you-go sources are utilized as much as possible to finance capital projects.
- Determine the impact of current and proposed financing recommendations on the City's debt service tax rate or current and future service fees.
- Ensure required tax rate and service fees affordability.
- Ensure compliance with existing covenants and this Policy's limits.
- Ensure compliance with Internal Revenue Service (IRS) regulations, including PBU percentage limitations.
  - A bond package which includes funding for any property or facility where a PBU exists, or there is the potential for a PBU, shall limit the funding for that property or facility to eight percent (8%), in the aggregate, of the total bond proceeds prior to the final pricing of the bonds, including the PBU percentages for any refunding bonds.
  - In order to remain compliant with federal laws, related to any property or facility where a PBU exists, or there is the potential for a PBU, the City shall limit the funding for that property or facility to ten percent (10%), in the aggregate, of the total bond proceeds after the final pricing of the bonds, including the PBU percentages for any refunding bonds.
  - A PBU allocation may be determined in more than one method. However, to avoid inadvertent violations, the entire facility or property should be used as the basis for calculating the allocation. Future PBU contracting on a facility or property or location where bonding has attached shall not be permitted, without the approval of the CFO and the City Attorney.

3.1.5 In developing the recommendations, the CFO shall be assisted by the City Treasurer, Finance Director, Controller, Director of Engineering, and Director of Public Works. The roles and responsibilities related to debt planning are:

- The CFO shall:
  - Develop all financing recommendations as needed.
  - Ensure that all financing recommendations are approved by City Council and comply with existing obligation covenants and this Policy.
  - Ensure all projects to be financed comply with IRS regulations and PBU percentage limitations.
- City Treasurer shall:
  - Provide financial modeling and debt capacity projections to determine future financing.
  - Initiate all debt issuance and the implementation of financing recommendations at the direction of the CFO and City Council.
  - Review all projects to be financed to determine compliance with IRS regulations and PBU percentage limitations.
- City Attorney shall:
  - Review and approve all projects to be financed to ensure compliance with local and state laws, IRS regulations, and PBU percentage limitations.
- Director of Finance and Controller shall:
  - Participate in the planning and developing of financing recommendations as needed.

- Provide short-term and long-term impact analysis of debt service costs on the City’s operating budget and enterprise funds during the annual budget process, debt issuance process, and as required by credit rating agencies.
- Provide projections of ad valorem tax rate.
- Director of Engineering and Director of Public Works shall:
  - Prepare a five-year CIP in compliance with the City Charter including projected cost, timing of capital expenditures, and sources of funds for the projects.
  - The CIP should be provided to the CFO, Finance Director and City Treasurer as needed to plan capital needs for budget, bond issuance and bond referendum purposes.
- City Council may:
  - Order bond elections to authorize future bond issuance in accordance with the City’s capital plan.
  - Approve and issue indebtedness, by ordinance, which may include delegating the authority for issuance of such indebtedness (to the extent allowed by law) to the City Manager, CFO, or designees.
  - Approve budgets sufficient to provide for timely payment of principal and interest on all City indebtedness and provide the necessary sinking fund required by law on all outstanding debt obligations of the City.

## 3.2 **General Obligation (G.O.) Bond Elections**

### 3.2.1 Bond elections may:

- Be held when an estimated one (1) or two (2) year capacity of authorized unissued bonds remain, unless there is a compelling reason to accelerate or delay bond election timing as a result of changes to the CIP or other market considerations.
- Not exceed the City’s estimated ability to issue said bonds within a normal five (5)-year period and ensure tax rate and utility service fee affordability.
- Be coordinated by the City Treasurer in conjunction, with the CFO, Director of Engineering, City Secretary, Marketing Department, Capital Improvements Plan Advisory Committee (CIPAC), and Bond Counsel.
  - The CFO shall:
    - Approve the bond election capacity.
    - Approve all projects to be included in the bond election to ensure compliance with IRS regulations and PBU percentage limitations.
    - Coordinate, in conjunction with the Director of Engineering, CIPAC meetings as needed.
    - Ensure capital project analysis needs and status reports are provided as needed.
  - City Treasurer shall:
    - Provide financial modeling and debt capacity projections to determine bond capacity for upcoming bond elections.
    - Review all projects to be included in the bond election to ensure compliance with IRS regulations and PBU percentage limitations.

- Act as liaison to City Secretary, Bond Counsel, and the City’s Marketing Department.
- City Secretary shall:
  - Ensure Council-approved elections are called.
  - Post all required publications and notices.
  - File required election documents.
  - Ensure results are canvassed.
  - Provide documentation to the City Treasurer and Bond Counsel, as required by the Attorney General’s Office.
- The Director of Engineering and the Director of Public Works shall:
  - Coordinate, in conjunction with the CFO, CIPAC meetings as needed.
  - Provide capital project analysis needs and status reports as required.
  - Provide a list of proposed bond projects in compliance with the City Charter for upcoming bond elections previously approved by the CFO and City Attorney.
  - Present proposed projects to CIPAC and facilitate prioritization.
  - Provide a final list of CIPAC-recommended bond projects to the Council for approval of a bond election.
- CIPAC shall:
  - Advise and assist the City Council in developing the annual CIP and bond referendum master plan.
- Bond Counsel shall:
  - Be responsible for drafting bond related documents, including ordinances, election notices, and referendum propositions.
  - Submit required documentation for each issue of bonds or other public securities to the Attorney General’s Office for review and approval.

## 4. DEBT MANAGEMENT AND LIMITS

### 4.1 Net Direct Debt Management Limits

- 4.1.1 Net direct debt is the City’s long-term obligations supported by ad valorem tax revenues. Debt supported with a pledge of non-tax revenue sources is excluded from this definition, even if such debt is secured by ad valorem taxes.
- 4.1.2 Levy of ad valorem to pay for net direct debt shall comply with federal and state regulations.
  - Article 11, Section 5, of the Texas Constitution limits the City’s maximum ad valorem tax rate to \$2.50 per \$100 of taxable assessed valuation.
  - Administratively, the state Attorney General will permit allocation of \$1.50 of the \$2.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.
- 4.1.3 Net direct debt service shall:
  - Not exceed forty percent (40%) of the ad valorem tax levy annually.

- Be monitored towards a goal of twenty to thirty percent (20 – 30%) of operating revenues to ensure expenditure flexibility for the City.
- 4.1.4 Total net direct debt shall not exceed two percent (2%) of ad valorem taxable assessed valuation to ensure taxpayer affordability. Total net direct debt excludes debt of overlapping jurisdictions.
- 4.1.5 The General Obligation Debt Service Fund shall maintain at least within the range of twelve point three percent (12.3%) to twenty percent (20%) fund balance of the total annual general obligation debt service requirements to ensure the City’s ability to meet debt service payments. The interest and sinking fund will be included as part of the Debt Service Fund minimum required balance.
  - The interest and sinking fund shall be depleted at least once a year (on each August 15), except for a reasonable carryover amount not expected to exceed the greater of one year’s earnings on that fund or 1/12th of the annual debt service on the outstanding bonds. The interest and sinking fund shall be used primarily to achieve a proper matching of revenues of the City and debt service.

## 4.2 Waterworks and Sewer Systems Revenue Bonds Debt Management Limits

- 4.2.1 The Water and Sewer Systems (the “System”) revenue debt service fund shall maintain at least the average annual debt service of all revenue bonds secured by the net revenues of the System, where:
  - Net revenues are defined to include the gross revenues of the System, consisting of all income, receipts and revenues of every nature derived or received from the operation and ownership (excluding refundable meter deposits, restricted gifts, and grants in aid of construction) of the System, including earnings and income derived from the investment or deposit of moneys in any special funds or accounts created and established for the payment and security of the bonds similarly secured and other obligations payable solely from and secured only by a lien on and pledge of the net revenues, less the maintenance and operating expenses of the System.
  - Maintenance and operating expenses include contractual payments which under Texas laws and its provisions are established as operating expenses and which therefore have a senior right to payment from the gross revenues to the pledge that secures the payment of the bonds similarly secured.
- 4.2.2 Water and Sewer Systems Revenue bonds shall only be issued when the net earnings of the System for the last completed fiscal year or for twelve (12) consecutive months out of the fifteen (15) months preceding the adoption of the ordinance authorizing the issuance of new bonds, are at least equal to:
  - 1.25 times the average annual debt service for all bonds similarly secured to be outstanding after giving effect to the issuance of the new bonds then being issued.
  - 1.10 times the maximum annual debt service payments to be paid in a fiscal year for the bonds similarly secured to be outstanding after giving effect to the issuance of the new bonds then being issued.
- 4.2.3 City will fix, maintain, charge, and collect rates and fees for services rendered by the System which shall produce gross revenue in each fiscal year sufficient to:
  - Pay all necessary and reasonable maintenance and operating expenses of the System.
  - Produce net revenues sufficient to pay the principal of and interest on the bonds similarly secured and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the bonds similarly secured, and other obligations or evidence of indebtedness issued or incurred that are payable only from and secured solely by a lien on and pledge of the net revenues of the System.

- Produce net revenues equal to at least 1.20 times the average annual debt service for the bonds similarly secured and outstanding.

## 4.3 Redemptions, Defeasance and Refunding of Obligations

4.3.1 The City shall consider refunding, redeeming, or defeasing outstanding obligations to:

- Reduce the amount of debt outstanding if resources are available.
- Generate interest savings.
- Restructure debt service and eliminate covenants.
- Manage the General Fund cash or tax levy.
- As a guideline, unless a refunding is being evaluated to restructure debt service or for other non-economic reasons, a current refunding should only be considered if such transaction is expected to generate net present value savings. An advance or forward refunding should only be considered if such a transaction is expected to generate net present value savings in excess of three percent (3%) of the refunded bonds.

4.3.2 The City shall perform an analysis to determine the best financial outcome for the City. The following information should be considered:

- Projected or targeted savings stated as:
  - An annual amount each year.
  - A net present value amount.
  - Net present value as a percentage of refunded par of bonds.
- Cost of issuance impact on savings.

## 5. DEBT STRUCTURING

5.1 The City shall:

- Issue short-term and long-term debt in compliance with this Policy.
- Not enter into a financing commitment without prior approval by the City Council, based upon the recommendation of the CFO.
- Not enter into any debt swap or derivatives contracts.

### 5.2 Short-Term Debt

5.2.1 Short-term obligations shall:

- Be used to finance only projects or portions of projects for which the City ultimately intends to issue long term debt (interim financing) to decrease issuance and interest costs.
- Be used to take advantage of short-term interest rates in a market where long-term rates are expected to decline soon.
- Be backed with a tax or revenue pledge, or a pledge of other existing and available resources.



- Be used to finance assets with a short-term useful life. If short-term useful life assets are financed concurrently with long-term debt to provide for transaction efficiencies, the portion of bonds issued for short-term purposes shall not exceed the useful life of the financed asset when combined with the long-term debt replacement. The final bond numbers provided by the City's Municipal Advisor shall clearly demonstrate the breakout of short-term and long-term financing components.

## 5.3 Long-Term Debt

### 5.3.1 Long-term debt shall not be used for current operations except for:

- Certain operational costs, such as engineering or architectural design, as required for a new facility's construction.
- Initial outlays for equipment, fixtures, and furniture required for a new facility construction, major renovation of a facility, or tear down and rebuild of a facility.
- For legal and fiscal fees associated with bond issue.

### 5.3.2 Long-Term debt shall:

- Only finance projects or needs identified in the CIP.
- Be issued as tax-exempt debt to reduce costs when possible.
  - Taxable debt shall be issued in consultation with the Municipal Advisor and Bond Counsel when it provides flexibility in user and management contracts of the financed property or facility and refunding opportunities not available with tax-exempt debt.
- Not exceed thirty (30) years, with the life of the asset to be equal or greater to the last maturity of the debt issue.
- Be issued primarily as fixed rate bonds to protect the City against interest rate risk.
  - Variable rate bonds shall be issued in consultation with the Municipal Advisor and only if market conditions warrant consideration of such a structure. Variable rate debt shall be used judiciously and shall not exceed fifteen percent (15%) of total City debt.
- Be issued with call or redemption options in consultation with the Municipal Advisor or Underwriter as a tool to manage the City's debt portfolio to create future financial flexibility and to take advantage of market conditions.
- Be issued with principal and interest payment structured to achieve level debt service payments with payment dates similar to other bond series but may vary if beneficial for the City to manage debt service, credit rating, and tax burden.
- Be issued when reasonable expectations exist that proceeds will be utilized within the three (3) to five (5) year period established by IRS regulations and Internal Revenue Code Section 148.

### 5.3.3 The City shall adopt a resolution of intent to reimburse expenditures related to capital projects with proceeds of an obligation that will be issued in the following year if circumstances require advanced funding.

### 5.3.4 The City may issue the following long-term obligations:

- Bonds.
- Certificates of Obligation
- Anticipation Notes.

## 5.3.5 Bonds

- Bonds shall:
  - Be the preferred method to fund capital projects.
  - Be used only for projects clearly benefiting the broad public interest and identified in the capital improvements plan.
- General Obligation bonds shall be issued when approved by a majority of qualified electors voting, unless the G.O. bonds are being issued to refund a prior issue.
- Revenue Bonds shall be issued in response to public needs without voter authorization.

## 5.3.6 Certificates of Obligations

- Certificates of Obligations shall not be used to pay a contractual obligation to be incurred if a bond proposition to authorize the issuance of bonds for the same purpose was submitted to the voters during the preceding five (5) years and was not approved.
- Certificates of Obligations shall be used for capital projects or capital expenditures that meet the criteria below and when financing with pay-as-you-go funds by the City is not possible:
  - Capital projects or capital expenditures that are legally required, and penalties or fines could be imposed on the City if the project is not completed by the imposed deadline.
  - Capital projects or capital expenditures for the health, safety, and welfare of the citizens that are urgent and unanticipated.

## 5.3.7 Anticipation Notes

- Anticipation Notes shall not be issued to pay a contractual obligation to be incurred if a bond proposition to authorized bonds for the same purpose was submitted to the voters during the preceding five years and was not approved, except if the City is issuing the note for:
  - A case of public calamity to act to promptly relieve the necessity of the residents or preserve the property of the City;
  - A case to preserve or protect the public health of the residents;
  - A case of unforeseen damage to public machinery, equipment, or other property;
  - Cleanup, mitigation, or remediation of a natural disaster; or
  - Complying with a federal court order, with a state or federal law, rule, or regulation if the City has been officially notified of noncompliance with law, rule, or regulation.
- Anticipation Notes shall be authorized:
  - By Council pursuant to an ordinance. Anticipation Notes allow municipalities to issue debt without notice of intent.
  - To finance projects or acquisitions that could also be financed with Certificates of Obligation, General Obligation Bonds, and Revenue Bonds.
- Anticipation Notes shall be used when:
  - The need for financing is so urgent that time does not permit the issuance of long-term debt.

- The need for financing is so small that the total cost of issuance of long-term debt including carrying costs of debt proceeds not needed immediately is significantly higher.
- Secured and repaid by a singular pledge of revenue, taxes, or the proceeds of a future debt issue.
- Matured before the seventh (7<sup>th</sup>) anniversary of the date the Attorney General approves the issue.
- Repaying interfund borrowing or a borrowing that occurred twenty-four (24) months prior to the date of issuance.

### 5.3.8 Capital Leasing

- Capital leasing shall comply with the City's Capital Leasing Procedures.

## 6. Method of Sale

6.1 The City shall use several methods of debt issuance, including competitive, negotiated, and private placement.

- The City intends to use a rotation of competitive and negotiated bond sales for its long-term debt issuances.

6.2 The City, in consultation with the Municipal Advisor, shall consider the following factors when determining a method of sale:

- Market conditions (interest rate environment and investor demand).
- Structure of the financing, including security, covenants, pledged revenue, and investor familiarity with the transaction.
- Size and complexity of the bond issue.
- Credit quality and bond ratings of the issue.

6.3 The City shall consider a private placement structure if it is cost beneficial and / or provides superior transaction efficiency for the City in consultation with the Municipal Advisor.

## 7. Outside Professional Services

### 7.1 Municipal Advisor

7.1.1 The Municipal Advisor shall be recommended by the CFO and City Treasurer, and appointed by the City Council, in compliance with applicable laws and City policies.

7.1.2 The Municipal Advisor shall:

- Be qualified under the rules of the Municipal Securities Rulemaking Board (MSRB) and comply with all rules and regulations promulgated by Securities and Exchange Commission (SEC).
- Have documented experience in providing municipal advisory services for governments similar to the City.
- Provide confirmation and proof of registration with the SEC.

- Provide written confirmation of financial fiduciary responsibility to the City and disclose all relationships to any other transaction participant outside the transaction that could give the rise to, or the appearance of, a conflict of interest.

## 7.2 Bond Counsel

7.2.1 Bond Counsel shall be employed by the City Attorney, in compliance with the City Charter, based upon the recommendation of the CFO and City Treasurer, in compliance with applicable laws and City policies.

7.2.2 Bond Counsel shall:

- Provide a written opinion on all debt issued by the City affirming that the City is authorized to issue the debt and that all statutory requirements have been met.
- Be retained prior to any formal action on the transaction and have documented legal experience and expertise in the area of municipal finance.
- Disclose all relationships to any other transaction participant outside the transaction that could give the rise to, or the appearance of, a conflict of interest of Bond Counsel.

## 7.3 Underwriter

7.3.1 In a negotiated bond sale, the Underwriter team shall be appointed by the CFO and City Treasurer in consultation with the City's Municipal Advisor using the following criteria:

- Participation (number of bids) in prior City of Carrollton competitive bond sales.
- Competitiveness (ranking among all bids) of submitted bids in prior competitive bond sales.
- Relevant experience, familiarity with the markets, the obligations' structure, and debt covenants.
- Market penetration.
- References.

7.3.2 The Underwriter shall:

- Not serve as the Municipal Advisor to the City in the same transaction as set forth in the MSRB Rule G-17.
- Disclose all relationships to any other transaction participant outside the transaction that could give the rise to, or the appearance of, a conflict of interest.

## 7.4 Other Service Providers

7.4.1 Professional services such as verification agent, escrow agent, and / or arbitrage compliance specialist shall be appointed by the CFO and City Treasurer in consultation with the City's Municipal Advisor.

7.4.2 Professional services providers shall:

- Have documented experience related to debt with similar structure and for governments similar to the City.
- Disclose all relationships to any other transaction participant outside the transaction that could give the rise to, or the appearance of, a conflict of interest.

## 8. Issuance and Post-Issuance Compliance

8.1 This Policy and the City's Issuance Procedures will serve as a guide to ensure compliance with all applicable federal and state laws and regulations, SEC regulations, and bond covenants.

8.2 The City shall always retain the services of Bond Counsel and qualified Arbitrage Compliance Specialists.

### 8.3 Compliance Officer and Responsibilities

8.3.1 The Chief Financial Officer has been designated as the Compliance Officer for all City of Carrollton outstanding bonds.

8.3.2 The Compliance Officer shall:

- Remain responsible for all issuance and post-issuance compliance activities but shall designate by title the positions to undertake certain required activities in this Policy and the City's Issuance Procedures.
- The Compliance Officer shall consult with the appropriate personnel, including the City Attorney, Bond Counsel, and Arbitrage Compliance Specialist, prior to responding to regulatory inquiries and / or audit of existing obligations.

### 8.4 Debt Service Payments

8.4.1 The City Treasurer shall be responsible for paying all short - and long-term debt principal and interest payments in a timely and accurate manner.

### 8.5 Investment of Bond Proceeds

8.5.1 The City Treasurer shall:

- Receive any bond proceeds on behalf of the City and ensure they are invested in accordance with Bond Documents, the City's Investment Policy, and any applicable state and federal laws.
- Provide direction and manage the length of time the bond proceeds are to be invested.

### 8.6 Issuance and Post-Issuance Debt Disclosures and Reporting

8.6.1 The City shall comply with all disclosures, continuing disclosures, and reporting requirements in accordance with:

- SEC Rule 15c2-12.
- Federal law, state law, and state transparency certification rules and guidelines.
- Agreements that it has entered or will enter in connection with debt issuance.
- This Policy and the City's Issuance Procedures.

8.6.2 Financial information posted on City's website or media shall:

- Be reviewed and approved by the Compliance Officer or designees to ensure accuracy, consistency, and completeness of the information.
  - No financial information shall be released without express approval of the Compliance Officer or designees, except as required by law.

- Be accompanied by the following disclaimers:
  - “Unaudited” if the information, data, or reports have not been audited by the City’s external auditors.
  - This document and the information contained herein is not intended and shall not be used, or construed, as an offer to sell securities or as solicitation of an offer to buy securities. The information contained in this document is provided for general informational purposes only, is limited in scope and is not intended to contain all information that may be material to an investment decision concerning bonds, notes or other obligations of the City of Carrollton, TX (City) or any City enterprise, instrumentality, or related entity. No person should make an investment decision in reliance on the information contained herein. The information contained in this document has been obtained from City records and resources and other sources believed by the City to be reliable, but such information is not guaranteed. Any financial information contained in this document speaks only as of the date of the report or other source from which such information was obtained. The City undertakes no obligation to update any information included in this document. Information, estimates and expressions of opinion contained in this document are subject to change without notice and the inclusion of such information in this document does not imply that there has been no change in such information or the affairs of the City since the date of the report or other source from which such information, estimate or expression of opinion was obtained or the date of this document. No assumption should be made that any information has been updated beyond the date of the report or other source from which such information was obtained unless this document expressly states that such information constitutes an update of such information. This document includes forward-looking statements. Any forward-looking statement speaks only as of the date on which such statement is made, and the City does not undertake any obligation to update any forward-looking statement to reflect events or circumstances, including unanticipated events, after the date on which such statement is made. New factors emerge from time to time, and it is not possible for City staff to predict all of such factors, nor can City staff assess the impact of each such factor on the City’s operations or the extent to which any factor, or combination of factors, may cause actual results to differ materially from those expressed or implied in this forward-looking statement. The information in this document is not intended to replace any information or consultation provided by a professional financial advisor.

### 8.6.3 The Compliance Officer shall ensure:

- The Disclosure Group performs the duties established in these Policy and Issuance Procedures.
  - The Disclosure Group shall be comprised of the CFO, City Attorney, Director of Finance, Controller and City Treasurer.
- All sources of information, review notes, discussions, and disclosure decisions are properly documented and retained for future use or reference. This requirement includes items related to the Annual Comprehensive Financial Report (ACFR), Popular Annual Financial Report (PAFR), Adopted Annual Budget (Budget), and any disclosure documents including bond official statements, the Debt Credit Rating Agency Briefing Book, credit rating agency meetings and communications, press releases, investor communication, and required continuing disclosures (Disclosure Documents).
- All continuing disclosures and reporting are done in accordance with federal laws and this Policy.

### 8.6.4 The Disclosure Group shall ensure the activities below are performed in accordance with this Policy and the Issuance Procedures:

- Review of the ACFR, PAFR, and Budget to identify potential disclosure items by critically analyzing all financial, legal, regulatory, social, macroeconomic, and microeconomic events that could potentially impact the financial condition of the City and determine if disclosure is required.
- Review in advance the information included in the Disclosure Documents in a critical manner and not as a mechanical insertion of more current numbers to ensure all material disclosures are included.
- Consider and determine, on a periodic basis, the materiality and scope of information related to the City's disclosure requirements.
- Review all disclosures to ensure clarity, conciseness, materiality, and accuracy.
- Provide approval in writing of the ACFR, PAFR, and Disclosure Documents prior to public releasing.

## 8.7 **Issuance and Post-Tax Issuance Compliance**

- 8.7.1 The City shall comply with all applicable requirements of federal and state tax laws and regulations related to documentation and filing, yield restriction limitations, arbitrage rebate, use of proceeds, use of financed project limitations, and recordkeeping.
- 8.7.2 The City shall retain the services of a qualified Arbitrage Compliance Specialist to assist in monitoring the compliance of its existing obligations with the rebate and yield restriction requirements of Section 148 of the Internal Revenue Code.
- 8.7.3 The Compliance Officer shall ensure duties related to issuance and post-tax issuance compliance established in this Policy and Issuance Procedures are performed:
- The City Treasurer is responsible for:
    - Monitoring of the use of facilities and property financed with bond proceeds to ensure compliance with federal tax laws and bond covenants.
    - Ensuring timely filing of Form 8038 by Bond Counsel after the issuance of the obligations.
    - Ensuring the timely completion of arbitrage yield restriction, rebate calculations and filings for each issue of bonds, and if applicable, the timely payment of yield reduction payments and / or rebate.
  - The Capital Program Administrator, head of the department responsible for the project allocated to bond proceeds, is responsible for:
    - Certifying their understanding and compliance with this Policy and the Issuance Procedures at the time of bond funds allocation and on an annual basis.
    - Planning, monitoring, and executing the CIP to ensure timely and adequate allocation of capital and bond proceeds to support compliance with federal tax laws.
    - Ensuring all agreements or contracts related to bond-financed facilities or property for total or partial management and administration of the facility or property, partial or total lease or licensing of the facility, sale of land, facilities or property, and other arrangements are reviewed and approved by the City Attorney, the Compliance Officer, and City Treasurer prior to execution.
    - Monitoring and reporting to the City Treasurer of any changes on the use of facilities or property financed with bond proceeds at the moment they are identified.

- The Director of Finance and Controller (or designees) are responsible for:
  - Establishing accounting procedures to ensure all financial transactions related to the allocation of bond proceeds, financed facilities or property, sources of funding, and investment of bond proceeds are timely and accurately recorded to ensure compliance with arbitrage and other tax law requirements.
  - Ensuring all financial transactions related to the allocation of bond proceeds are consistent with the purpose for which each bond issue was undertaken and in compliance with arbitrage and other tax law requirements.
  - Providing required financial information, reconciliations, and reports in a timely, accurate, and complete manner to develop all the calculations used to determine compliance with arbitrage and other tax law requirements annually, or as required by the Arbitrage Compliance Specialist.

## 8.8 Compliance Reviews and Corrective Action

8.8.1 The City Treasurer, under the supervision of the Compliance Officer, shall conduct post-issuance compliance reviews of each outstanding obligation issued by the City in accordance with this Policy and the Issuance Procedures:

- At least annually.
- At the time of any change in use of any facilities or property financed with bond proceeds.
- At the time of the occurrence or non-occurrence of any other event that could affect the tax status of the bonds as indicated in the tax certificate.

8.8.2 Annual reviews will focus on:

- The status of the proceeds of outstanding tax-exempt obligations at the end of the preceding fiscal year.
- The current use of financed facilities or property with proceeds of outstanding tax-exempt obligations and any events that occurred in the preceding fiscal year.
- The compliance of required continuing and material event disclosures for outstanding obligations issued by the City in the preceding fiscal year.

8.8.3 If any event of non-compliance is identified, the Compliance Officer, or designee, shall consult with the City Attorney and Bond Counsel as to the appropriate action to be taken to remedy the non-compliance, including payment of late payment interest, penalties on rebate, and yield reduction payments.

## 8.9 Records Retention

8.9.1 The City Treasurer is responsible for the retention of all documents related to debt issuance, compliance with federal tax regulations, post-issuance disclosures, and the City's Issuance Procedures to demonstrate City's compliance with all requirements of state and federal laws.

8.9.2 The Director of Finance and Controller are responsible for: recording and keeping records of all financial transactions related to the City's debt issuance including debt proceeds, discount, premium, refunding, debt services, bond proceeds allocation, and bond proceeds investments in accordance to accounting principles.

8.9.3 Records shall be kept in accordance with the [Texas State Library and Archives Commission Schedule](#).



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## 9. Training

- 9.1 The Compliance Officer, City Treasurer, Director of Finance, Controller, or designees shall attend post-issuance compliance training organized by the City's Municipal Advisor, Bond Counsel and Arbitrage Compliance Specialist, the IRS, National Association of Bond Lawyers, Government Finance officers Associations, or similar organizations at least once every two (2) years.

## 10. Other

- 10.1 This Policy and related procedures should be reviewed annually or as required by changes in federal, state, and local laws and regulations by the Compliance Officer, or designee. Any recommended changes shall be presented to the City Council for approval.