City of Coppell, Texas
Debt Management Policy

I. Purpose

The purpose of this policy is to establish parameters and provide guidance governing the issuance, management, continuous evaluation of and reporting on all debt obligations issued by the City of Coppell, and to provide for the preparation and implementation necessary to ensure compliance and conformity with this policy. Advantages of a debt policy are as follows:

- Enhances the quality of decisions by imposing order and discipline
- Promotes consistency and continuity in decision making
- Identifies objectives for staff to implement
- Demonstrates a commitment to long term financial planning objectives
- Regarded positively by the rating agencies

II. Policy Statement

Under the governance and guidance of Federal and State laws and the City's Charter, ordinances and resolutions, the City may periodically enter into debt obligations to finance the construction or acquisition of infrastructure and other assets; or to refinance existing debt for the purpose of meeting its governmental obligation to its residents. It is the City's desire and direction to ensure that such debt obligations are issued and administered in such fashion as to obtain the best long term financial advantage to the City and its residents, while making every effort to maintain and improve the City's bond ratings.

The City shall not issue debt obligations or utilize debt proceeds to finance current operations of City Government.

III. General Debt Governing Policies

The City establishes the following policies concerning the issuance and management of debt:

- The City will not issue debt obligations or use debt proceeds to finance current operations or normal maintenance.
- Debt financing includes general obligation bonds, certificates of obligation, tax notes, revenue bonds, lease/purchase agreements and other obligations permitted to be issued under Texas law.
- Net Debt is defined as the total of all general obligation bonds and certificates of obligation outstanding less any amount that will be paid from user fees or other specific revenues even though legally there is an ad valorem tax pledge.

- The City shall review its outstanding debt annually for the purpose of determining if the financial marketplace will afford the City the opportunity to refund an issue and lessen its debt service costs. As a general rule, the present value savings of a particular refunding should exceed four percent (4%) of the refunded maturities, unless a restructuring or bond covenant revision is necessary in order to facilitate the ability to provide services or issue additional debt in accordance with established debt policies.

- The City will utilize debt obligations only for acquisition, construction, reconstruction ~~or~~ renovation, or equipping of capital improvement projects that cannot be funded from current revenue sources or in such cases where it is more equitable to the users of the project to finance the project over its useful life.

- The City will measure the impact of debt service requirements of outstanding and proposed debt obligations on a single year, five, ten and twenty year periods. This analysis will consider debt service maturities and payment patterns as well as the City's commitment to a pay as you go philosophy.

- The City will seek the advice and services of the Financial Advisor in performing the bond issuance process. The City will also seek the advice of Bond Counsel as to the legality and tax exempt status of any obligations.

- The City shall use a competitive bidding process in the sale of debt unless the nature of the issue or conditions in the municipal bond market warrant a negotiated sale. The City shall attempt to award the bonds based on a true interest cost (TIC) basis. However, the City may award bonds based on a net interest cost (NIC) basis as long as the Financial Advisor agrees that the NIC basis can satisfactorily determine the lowest and best bid.

- The City intends to issue all debt as fixed rate debt in order to provide budget certainty and guard against interest rate volatility.

- Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. A credit enhancement, while costly, will usually bring a lower interest rate on debt and a higher rating from the rating agencies, thus lowering overall costs. During debt issuance planning, the Financial Advisor will advise the City whether or not a credit enhancement is cost effective.

- The bond proceeds will be invested in accordance with the City's investment policy. Interest earnings received on the investment of bond proceeds shall be used to assist in paying the costs associated with the capital project.

- The City is committed to continuing disclosure of financial and pertinent credit information relevant to the City's outstanding securities and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure

IV. Debt Limits

- The State of Texas statutes do not prescribe a legal debt limit on the amount of outstanding bonds.

- The State Constitution provides that the ad valorem taxes levied by the City for general purposes and for the purpose of paying the principal and interest on the City's indebtedness must not exceed $2.50 for each $100 of assessed valuation of taxable property. The Attorney General of the State of Texas will permit allocation of $1.50 of the $2.50 maximum tax rate for the payment of general obligation debt service.

- The charter for the City of Coppell, Texas does not provide for a debt limit.

V. Specific Debt Ratios and Measurement

This section of the debt management policy establishes the target debt ratios and measurements for the City.

As the City periodically addresses its ongoing needs, the City Manager and the City Council must ensure that future elected officials will have the flexibility to meet the capital need of the City. Since neither State law nor the City Charter provides any limits on the amount of debt which may be incurred, this policy establishes targets which should provide future flexibility.

Purposes of Issuance – the City will issue debt obligations for acquiring, constructing, reconstructing, renovating or equipping Capital Improvements or for refinancing existing debt obligations. Projects must be designated as public purpose projects by the City Council prior to funding.

Maximum Maturity – All debt obligations shall have a maximum maturity of the earlier of: a) the estimated useful life of the Capital Improvements being financed; or b) twenty years; or c) in the event they are being issued to refinance outstanding debt obligations, the final maturity of the debt obligations being refinanced, unless a longer term is recommended by the Financial Advisor.

Net Debt to Assessed Value - Assessed valuation shows the fiscal size of the tax base. The City shall strive to maintain a ratio of Net Debt to Assessed Value of properties in the City at or below three percent (3%).

Bond Covenants and Laws – The City shall comply with all covenants and requirements of the bond resolutions, the State and Federal laws authorizing and governing the issuance and administration of debt obligations.