



Policy

SECTION	Finance	DATE ISSUED	August 27, 2014
SUBJECT	Debt Management	REVISED DATE	October 25, 2017
ORIGINATOR	Chief Financial Officer	APPROVAL LEVEL	Board of Directors

PURPOSE: The purpose of this policy is to establish guidelines for the management of debt for the Trinity River Authority (Authority). The Authority issues debt to fund water and wastewater infrastructure and some capital purchases. The Authority is also authorized to issue conduit debt for pollution control activities for outside entities. The types of debt that can be issued are long-term bonds, long-term or short-term notes, and short-term Extendable Commercial Paper (ECP). For matters not addressed in the policy, legal requirements will prevail.

I. RESPONSIBILITIES AND STANDARDS OF CARE.

Those involved in the debt management process will act as responsible stewards and refrain from business activities that cause or create the appearance of conflicts of interest, or that impair the ability to make impartial financing decisions.

The Authority shall consider the current debt service payments over the life of outstanding bonds and attempt to maintain level debt service payments after issuing new bonds.

Debt issuance schedules shall be determined based on anticipated funding needs and delivered so that interest cost is minimized.

II. CAPITAL IMPROVEMENT PLANNING.

Authority Regional Management will develop a multi-year Capital Improvement Plan (CIP) that identifies projects to be constructed within five years and likely sources of funding. The CIP will be reviewed by the Executive Management of the Authority prior to the annual budget process. The review process shall include a strict examination of the necessity, costs and benefits of proposed improvements. The scope of review will be commensurate with the costs associated with each proposed improvement. In cases deemed appropriate, management will secure an independent review of the necessity, costs and benefits of proposed improvements.

The Authority will attempt to maintain an affordability target that limits new debt to an average of the principal payments scheduled during the next five years with the end goal to achieve level debt service from year to year, while reviewing the structure of each issue to achieve the most appropriate amortization.

The following guidelines shall be observed in capital planning and budgeting:

- A. Capital items and associated land acquisitions should be included in the capital budget;
- B. Eligible capital items to be considered are assets that last longer than five years and have a cost that exceeds \$50,000; and,
- C. Repair and replacement of deteriorating infrastructure can be included if the life of the asset is extended or service capacity increased.

Proposed capital projects will be reviewed and prioritized by a cross-departmental team to ensure overall consistency with the Authority's goals and objectives. Compliance with permits to operate facilities granted by the Texas Commission on Environmental Quality and/or the United States Environmental Protection Agency will be of primary importance when making project funding decisions.

Finance, Northern Region, Southern Region, Construction Services and Land Rights management will have regular bond fund budget meetings to assess current project status, planned construction projects, unencumbered bond proceeds, financing options and the effect of proposed financing activity on current debt levels.

The Regional Managers will make financing requests to the CFO as part of the annual budget process.

III. ENGINEERING COST ALLOCATION.

At present, the Authority capitalizes nearly all engineering expenses it incurs. The Authority will gradually increase cash financing of engineering services related to capital assets, with the ultimate goal of allocating the majority of engineering costs to operating funds. In most cases, operating funds must be used for all engineering, studies or other expenditures not related to capital assets.

IV. ISSUING DEBT.

The Authority will use the services of an independent Financial Advisor (FA) 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 Authority debt obligations, issuance and post-issuance services, the preparation of offering documents and other services, as necessary. The FA shall not bid on nor underwrite any Authority debt issues. The Authority will be informed by the FA of changes in state and federal legislation related to debt management.

Bonds may be sold through competitive sales, negotiated sales or private placement.

Long-term debt shall be issued at a fixed rate of interest. At a minimum, interest will be paid in the first fiscal year after a bond sale and principal will be paid no later than the second fiscal year after the bond issue. Bond maturity should not extend beyond 20 years under normal circumstances.

Variable rate short-term debt may also be used for construction and land acquisition for the Central Regional Wastewater System. A risk assessment and a determination of the operational requirements to monitor and maintain the proposed variable rate debt structure shall be made to determine whether the potential benefits outweigh the potential costs (including the worst-case scenario) in using this structure. A stress test that reviews performance of the debt instrument at various interest rates and in the situation where the instrument fails (for example, in remarketing) shall be performed. The Authority will budget and collect revenue based on long-term rates. The difference from the budgeted debt service and actual debt service may be used for future debt payments or to redeem outstanding commercial paper.

The goal of the ratio of variable rate debt to long-term debt is 25% per system.

All public notice requirements shall be observed for any meeting of the Authority's Board where debt issuance is an agenda item.

V. MANAGEMENT AND MONITORING OF DEBT.

The CFO shall develop and manage procedures to ensure that post-sale requirements are met including:

- A. Project compliance regarding private business use;
- B. Expenditure of proceeds within the legally allowable construction period and accounting sufficient to trace expenditures to debt proceeds;
- C. Documents related to debt issuance shall be retained for the life of an issue plus three years or the life of the refunding of the issue plus three years;
- D. Continuing disclosure requirements under the Securities and Exchange Commission Rule 15c2-12 shall be completed by a contracted party under the direction of the Manager of Cash and Capital Projects (MCCP);
- E. An arbitrage consultant shall be used to determine compliance with federal law;
- F. The Authority will maintain debt service reserve funds at the average annual principal and interest requirements of all outstanding bonds as required by the bond resolutions. Debt service reserve funds and operating reserve compliance will be monitored;
- G. Refunding opportunities will be monitored by the FA. A net present value savings of at least 3% for advance refundings and 2% for current refundings shall be the goal;
- H. All outstanding debt and related information shall be included in the Annual Financial Report; and,
- I. Budgeted net revenues will equal at least 1.0 times annual debt service on all outstanding and proposed bonds throughout the life of the bonds.

After all projects budgeted under a particular bond issue have been completed, the Authority will close the bond fund on the General Ledger and any remaining monies will be transferred

to the relevant Interest and Sinking fund to be used in the payment of future debt service or as otherwise deemed appropriate following consultation with bond counsel.

APPROVED FOR ISSUANCE:

J. KEVIN WARD
General Manager

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