

WEBB COUNTY
DEBT MANAGEMENT POLICY

Amended by Commissioners Court on January 13, 2020

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TITLE: DEBT MANAGEMENT POLICY

EFFECTIVE DATE: January 13, 2020

Section 1: PURPOSE

- 1.1 The purpose of this policy is to provide guidance regarding the issuance, management, continuing evaluation and reporting on all debt obligations issued by Webb County, Texas (the “County”). The Webb County Commissioners Court recognizes there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the County’s debt position. Debt decisions should be the result of deliberative consideration of all factors involved. This policy is intended to augment the deliberation process by addressing the methods, procedures and practices to be utilized to ensure effective and judicious fiscal management of County funds.

The terms of this Debt Management Policy (this “Policy”) are intended to comply with all applicable law governing County debt, including, but not limited to, Texas (“State”) law, federal tax and securities laws, Internal Revenue Service rules and regulations, United States Securities and Exchange Commission (“SEC”) regulations, Municipal Securities Rulemaking Board (“MSRB”) regulations, court rulings, and existing County debt covenants.

- 1.2 Debt Management shall be conducted with the primary objectives of:
 - a. Maintaining and/or improving the County’s existing credit rating;
 - b. Maintaining access to capital; and
 - c. Minimizing borrowing costs.

Section 2: SCOPE

- 2.1 This Policy shall govern debt obligations issued by the County. The County may also desire to issue debt obligations on behalf of external agencies, non-profit corporations, or other authorities for the purpose of construction or acquisition of infrastructure or other assets that further the goals and objectives of County government. In that case, the County shall take reasonable steps to confirm the financial feasibility of the project and the financing solvency of any necessary borrower, and shall take all reasonable precautions to ensure the public purpose and financial viability of such transactions. [This Policy does not apply to the County’s Capital Lease Program. The County Capital Lease Program will comply with GASB statement no. 87 Leases].

Section 3: ROLES AND RESPONSIBILITIES

- 3.1 As provided by the Texas Local Government Code, each member of the Commissioners Court has a fiduciary responsibility in the management of the County’s indebtedness. All debt programs are to be made in accordance with applicable State and federal law. The Commissioners Court will approve all County indebtedness.

- 3.2 The County Budget Officer and Executive Administrator for Commissioners Court have the primary responsibility for making debt financing recommendations to the Commissioners Court.
- 3.3 The County Budget Officer, Executive Administrator for Commissioners Court and County Auditor, or his designee, will coordinate all activities necessary to issue debt, including, but not limited to:
 - a. Review of resolutions or orders provided by bond counsel;
 - b. Review of offering memoranda provided by financial advisors; and
 - c. Review of all related financial analyses.
- 3.4 The County Budget Officer and Executive Administrator for Commissioners Court, or his designee, will implement and oversee the Capital Project Process for County offices and departments pursuant to Section 20 of this policy.
- 3.5 The County Budget Officer and Executive Administrator for Commissioners Court, or his designee, will recommend to the Commissioners Court a financing team consisting of bond counsel, financial advisors, and underwriters.
- 3.6 The Office of the County Auditor and County Treasurer are responsible for assuring that all debt service payments are made in a timely manner to the appropriate trustees/paying agents.
- 3.7 The Office of the County Auditor is responsible for preparing the annual continuing disclosure and the County's financial advisor and bond counsel are responsible for reviewing and approving the continuing disclosure pursuant to SEC Rule 15c2-12.
- 3.8 The Office of the County Auditor is responsible for the annual estimation of the cumulative rebate amount (arbitrage) for each debt issuance as defined in section 148(f)(2) of the Internal Revenue Code of 1986, as amended (the "Code"). These annual estimates are for both external and internal reporting purposes.
- 3.9 The Office of the County Auditor is responsible for ensuring compliance with the filing requirements with the Internal Revenue Service related to arbitrage and rebate as set forth in Section 19 of this policy.
- 3.10 Offices and departments administering projects financed with debt funding are responsible for complying with Section 15 of this Policy regarding notices of Listed Events, Section 17 of this Policy relating to private business use, and with Section 6 relating to project expenditures.
- 3.11 The Office of the County Auditor is responsible for general recordkeeping and will maintain a copy of the following documents on file at all times, including but not limited to:
 - a. Annual financial statements;
 - b. Reports of any examinations by the Internal Revenue Service of the County's financings;
 - c. Documentation of allocation of bond proceeds to expenditures;

- d. Copies of bond documents and related contracts;
- e. Records of expenditures of bond proceeds; and
- f. Lists or schedules of all debt-financed County-owned facilities or equipment with depreciation schedules.

Such records will be maintained for the life of the related bonds (including any Refunding Bonds) plus three years.

- 3.12 The Office of the County Auditor, Budget Officer and Executive Administrator for Commissioners Court, or his designee, have general oversight of the post-issuance compliance of bond financings and will review compliance matters on a regular basis. To that end, the County will endeavor to identify training opportunities and educational materials regarding post-issuance compliance, including training on compliance with SEC Rule 15c2-12 amendments effective February 27, 2019.
- 3.13 The County Budget Officer and Executive Administrator for Commissioners Court, or his designee, will prepare material events disclosure in accordance with SEC Rule 15c2-12 and Section 15 hereof, as needed.

Section 4: REPORTING

- 4.1 The County Budget Officer and Executive Administrator for Commissioners Court, or his designee, will report to the Commissioners Court:
 - a. A projected list of expected capital needs for the year;
 - b. An annual debt issuance schedule for capital projects;
 - c. An updated five-year capital improvement plan as part of the budget;
 - d. Certification that the County is current on all debt service payments; and
 - e. Disclosure of any bond covenant violations or defaults over the past year.
- 4.2 The Office of the County Auditor is responsible for reporting monthly in its financial report a schedule that includes outstanding debt requirements as well as Commercial Paper activity. These reports will include principal and interest requirements, due dates for each, and related interest rates.
- 4.3 The Office of the County Auditor is responsible for preparing the annual continuing disclosure and the County's financial advisor and bond counsel are responsible for reviewing, approving, and submitting the continuing disclosure pursuant to SEC Rule 15c2-12.

Section 5: ORGANIZATIONS AFFECTED

- 5.1 All County offices and departments must comply with the guidelines and procedures set forth in this Policy.

Section 6: USE OF DEBT INSTRUMENTS

- 6.1 Debt financing will not generally be considered appropriate for any recurring purpose such as current operating and maintenance expenditures. The County will use debt financing for the acquisition of capital assets and capital improvement projects under the following

circumstances:

- a. The acquisition of all debt funded assets and debt funded projects must be approved by Commissioners Court;
 - b. The capital asset or a project's useful life will be equal to or exceed the term of the financing;
 - c. Revenues sufficient to service the debt, whether from future property taxes, user fees, or other specified and reserved resources will be available;
 - d. Review and approval of the total project budget, including personnel services, travel and remunerations, operational costs, supplies and materials and capital expenditures, by the County Budget Officer and Executive Administrator for Commissioners; and
 - e. Compliance with the appropriate provisions of State law and the Code.
- 62 Operating expenditures required to implement capital improvement projects will be funded using debt financing in accordance with Subchapter C, Chapter 271, Texas Local Government Code, as amended; Chapter 1201, Texas Government Code, as amended; Chapter 1431, Texas Government Code, as amended; and other applicable State law. These expenses could include but not be limited to ancillary charges necessary to put the project in place in its intended location, and ancillary charges necessary to place the asset in its intended condition for use.
- 63 Debt financing will not generally be used for maintenance expenses, training, feasibility studies, or any current operating expenditures other than those described in Section 6.2 hereof.
- 64 Debt financing will not generally be used for functional consulting. Functional consulting includes activities such as training, troubleshooting, and running reports during training.
- 65 Per Governmental Accounting Standards Board (GASB) guidelines, activities associated with developing and installing computer software projects will be divided into three stages of project development:
- a. Preliminary project stage, which includes the conceptual formulation and evaluation of alternatives, the determination of the existence of needed technology, and the final selection of alternatives;
 - b. Application development stage, which includes the design of the chosen path, including software configuration and software interfaces, coding, installation of hardware and testing, including the parallel processing phases and data conversion phases; and
 - c. Post-implementation/operation stage, which includes training and application maintenance.

Only activities associated with the application development stage will be debt-financed.

- 66 Direct costs of materials and services consumed in developing or obtaining internal-use computer software, including payroll-related costs devoted directly to the project, may be financed with debt.

- 6.7 Generally, personnel required to implement a project should be contract employees or temporary employees. However, with prior approval of the Commissioners Court and for projects with a total cost greater than \$5 million, County employees may be employed for implementation of a project and those costs may be debt-financed during the application development stage. The cost of these County employees will not exceed 5 percent of the project amount to be financed.

Section 7: STRUCTURE AND TYPE OF DEBT

- 7.1 Debt service will be structured to match projected cash flows and minimize the impact on future property tax levies.
- 7.2 For all debt secured by ad valorem taxes, the term of the debt issuance should equal the lesser of the useful life of the asset being financed or the maximum of 40 years in accordance with Chapter 1201, Texas Government Code, as amended. For all other debt, the term of the debt issuance should not exceed the useful life of the asset being financed.
- 7.3 The types of debt instruments to be issued by the County include:
- a. General Obligation Bonds (including limited tax bonds, unlimited tax road bonds, flood control tax bonds, and pass-through revenue and limited tax bonds);
 - b. Certificates of Obligation;
 - c. Revenue Bonds (including venue project revenue bonds);
 - d. Refunding Bonds;
 - e. Commercial Paper;
 - f. Tax Anticipation Notes; and
 - g. Any other debt instrument authorized for issuance by a County in accordance with the Texas Government Code or other applicable State law.
- 7.4 Individual revenue streams considered for proposed debt service should meet a minimum debt service coverage ratio test of 1.15 along with any appropriate revenue or contingency funds. Debt coverage is defined as total revenue divided by total debt service.
- 7.5 Generally, tax-exempt debt will be issued. However, when required to meet County objectives, taxable debt may be issued.

Section 8: DEBT LIMITS

- 8.1 The County will not exceed the debt issuance limits described in Article 3, Section 52 of the Texas Constitution and Chapter 1301 of the Texas Government Code, as amended.
- 8.2 The County shall use economic ratios as a tool to assist in providing an objective analytical approach to determine debt capacity for new projects. These ratios may include:
- a. Debt per capita;
 - b. Debt as a percent of statutory debt limit;
 - c. Debt as a percent of appraised valuation;
 - d. Debt service payments as a percent of governmental expenditures; or
 - e. Level of overlapping net debt of all local taxing jurisdictions.

- 8.3 The County will maintain a debt service fund balance of at least 15 percent of the annual debt service requirement for the fiscal year; provided; however, that this requirement shall comply with the provisions of the Code.

Section 9: METHOD OF SALE

- 9.1 The County may use competitive sales, negotiated sales, or private placements. When considering the method of sale, the County will take into consideration:
- a. Financial conditions;
 - b. Market conditions;
 - c. Transaction-specific conditions;
 - d. County-related conditions; and
 - e. Risks associated with each method.
- 9.2 Competitive sales are the preferred method under the following circumstances:
- a. A general obligation pledge or annual appropriation of general revenue;
 - b. Simple structure and financial analysis;
 - c. Stable financial market; and
 - d. Moderate par amount.
- 9.3 Negotiated sales are the preferred method under the following circumstances:
- a. A general obligation tax pledge, special revenue pledge, or a combination of general obligation tax and special revenue pledge;
 - b. Moderate to high par amount;
 - c. Simple structure transactions to complex transactions that require extensive financial modeling, credit analysis, premarketing effort, or that are interest rate sensitive; and
 - d. Stable or volatile financial markets.
- 9.4 Private placement is the preferred method under the following circumstances:
- a. Small issue size;
 - b. Questionable security for the issue; and
 - c. Overall cost savings to the County.

Section 10: REIMBURSEMENT RESOLUTION

- 10.1 As provided in Section 1201.042, Texas Government Code, as amended, and in accordance with Section 1.150-2 of the Regulations, the Commissioners Court may decide that it is in the County's best interest to pass a reimbursement resolution prior to the formal issuance of debt. The purpose of the resolution would be to announce the intent to reimburse the County for expenditures related to capital programs for which debt will be issued, and the appropriate fund (General Fund, Capital, etc.) could then be reimbursed once the debt is sold. The County will intend to reimburse itself within 18 months from the later of the date of the original expenditure or the date the property financed is placed into service (but in no event more than 3 years after the original expenditure is paid).

Section 11: REFUNDING OF DEBT

- 11.1 The County may elect to refund existing debt for reasons including, but not limited to, the following:
- a. To achieve net present value savings generally of at least 3 percent;
 - b. To change bond covenants on outstanding debt which impair efficient operations or prohibit necessary or desirable activities;
 - c. To restructure the debt service schedules associated with outstanding bond issues;
or
 - d. To alter bond characteristics such as call provisions or payment dates.
- 11.2 If a refunding is undertaken, the County will evaluate:
- a. Issuance costs that will be incurred;
 - b. Interest rates at which the Refunding Bonds can be issued;
 - c. Maturity dates of the refunded bonds;
 - d. Call date (if any) on the refunded bonds; and
 - e. Call premium (if any) on the refunded bonds.

Section 12: VARIABLE RATE EXPOSURE

- 12.1 The County may use variable rate debt (including Commercial Paper) to lower the cost of borrowing and provide a hedge against interest rate risk.
- 12.2 The County should establish a target of up to 20 percent of its total outstanding debt in a variable rate mode.
- 12.3 Variable rate debt should be converted to fixed rate debt as necessary to maintain the 20 percent target, to meet the particular needs of a financing program, or to lock in low long-term fixed interest rates.
- 12.4 When issuing variable rate debt, the County will have appropriate contingency plans in place, such as reserves or hedging instruments, to mitigate the risk associated with rising interest rate environments.

Section 13: INTEREST RATE SWAP AGREEMENTS

- 13.1 The County will consider the use of interest rate swap agreements on a case-by-case basis and consistent with State law and financial prudence.
- 13.2 Interest rate swap agreements may be used for the following purposes:
- a. To achieve significant savings as compared to other, non-derivative type products available in the bond market;

- b. To prudently hedge risk in the context of a particular financing or the overall asset/liability management of the County;
 - c. To incur variable rate exposure within prudent financial guidelines;
 - d. To achieve more flexibility in meeting overall financial objectives than available in conventional markets; or
 - e. To accomplish a financial objective not otherwise obtainable using traditional financing methods.
- 13.3 The County will not enter into an interest rate swap agreement without advice of an independent financial advisor and bond counsel.
- 13.4 The County may enter into an interest rate swap agreement if the counterparty has at least two long-term unsecured credit ratings at least equal to the County's long-term general obligation rating from Fitch Ratings, Moody's Investors Service, Inc. or S&P Global Ratings, and the counterparty has demonstrated experience in successfully executing interest rate swap agreements.
- 13.5 The County will select counterparties utilizing one of the Methods of Sale outlined in Section 9 of this Policy.
- 13.6 Before entering into an interest rate swap agreement, the County shall evaluate all the risks inherent in the transaction including counterparty risk, termination risk, rollover risk, basis risk, tax event risk, credit risk and amortization risk. Evaluation of risk will also include the following considerations:
 - a. Uncertainty with respect to the County's future debt obligations;
 - b. Effect on the County's credit quality;
 - c. Cumulative exposure to all risk factors identified;
 - d. Difficulty and costs associated with terminations; and
 - e. Limitations on the ability to refund the swap's underlying bonds.
- 13.7 The County will monitor interest rate swap agreements on a quarterly basis to ensure compliance with corresponding swap documentation.

Section 14: CONTINUING DISCLOSURE

- 14.1 **General.** The following policy contained in this Section 14 is intended to ensure compliance with federal securities law requirements applicable to the County's outstanding bonds for which it is an "Issuer" or "Obligated Party" as defined in SEC Rule 15c2-12, as amended (the "Rule").

The Rule requires certain information regarding an entity responsible for the repayment of a municipal security (an "issuer") be disclosed to the municipal marketplace. The SEC, in its most recent amendment to the Rule, enhanced the disclosure requirements of issuers in an effort to improve the quality and availability of information regarding outstanding municipal securities. In SEC Rel. No. 34-62184, accompanying an expansion of the Rule, the SEC summarized its "mandate to adopt rules reasonably designed to prevent fraudulent, deceptive or manipulative acts or practices in the market for municipal securities." The release reiterates the SEC's position that material non-compliance by an

issuer with past continuing disclosure obligations may warrant, without corrective actions, an underwriter being prohibited from underwriting such an issuer's municipal securities, and thus would prevent the issuer from accessing the municipal securities market.

The Commissioners Court acknowledges that, pursuant to the Rule, the County is required on an ongoing basis to provide certain financial and operating data to those persons and firms who own or are interested in purchasing the County's debt (whether previously or hereafter issued). Pursuant to the Rule, the County has entered into a number of undertakings, such as an agreement or a provision in a bond order or resolution, under the Rule (each, a "Continuing Disclosure Undertaking") regarding its debt and may be required to enter into a new Continuing Disclosure Undertaking with regard to any additional debt of the County.

Inasmuch as the Rule prevents an investment banking firm or underwriter from purchasing debt of the County in the absence of a Continuing Disclosure Undertaking and adequate assurances from the County that it will comply with the terms thereof, it is vital that the County maintain compliance with the Rule and the County's Continuing Disclosure Undertakings.

- 14.2 ***Disclosure Officer.*** The County should identify, on an annual basis, the individual or individuals (the "Disclosure Officer") representing the County that will be responsible for compiling and filing of the financial information and operating data, including the annual audit (collectively, the "Annual Reports") and notices of specified events ("Listed Event Notices") as required by the Rule, if necessary. In the absence of such delegation by the Commissioners Court, the Disclosure Officers shall be the County Auditor, Budget Officer and Executive Administrator for Commissioners Court of the County
- 14.3 ***Electronic Municipal Market Access.*** The Disclosure Officers will familiarize himself or herself with the SEC's Electronic Municipal Market Access ("EMMA") website. The Disclosure Officer will understand how to locate the County's debt on EMMA, but may rely on professional consultants to manage and file Annual Reports and Listed Event Notices on EMMA (the "Dissemination Agent"). If the County is serving as its own Dissemination Agent, the Disclosure Officer will establish a user identification and password for EMMA and become familiar with uploading documents onto EMMA.
- 14.4 ***Identifying and Understanding Existing Continuing Disclosure Obligations.*** The Disclosure Officer will, for each separate issue of debt to which the Rule applies, read the related Continuing Disclosure Undertaking and identify the following:
- The date by which the Annual Report must be filed;
 - The contents that need to be included in the Annual Report;
 - The Event Notices that must be filed; and
 - When Event Notices are required to be filed.

14.5 *Preparing and Submitting the Annual Report.*

Preparing Annual Audited Financial Statements. The County will begin the process of completing its audited financial statements as soon as practicable after the close of each fiscal year. Such audited financial statements should be completed generally at least one month prior to the date the Annual Report must be filed.

Preparation of Tables and Other Information. The Disclosure Officer will identify any information that is required to be included in the Annual Report, but is not part of the County's audited financial statements, and contact the sources necessary to compile such information as soon as possible after the close of each fiscal year. The County should consider adding any information required by its Continuing Disclosure Undertakings not already included in its audited financial statements, into a supplementary information section of its audited financial statements.

Submission of Annual Report. Following the compilation of the information that is to be included in the Annual Report and prior to the date on which the Annual Report must be filed, the Disclosure Officer will submit the Annual Report to its Dissemination Agent for further submittal to EMMA or, if serving as its own Dissemination Agent, will submit the Annual Report directly to EMMA.

Review of EMMA. Following the submission of the Annual Report to EMMA by the Dissemination Agents or Disclosure Officers, as applicable, the Disclosure Officers should review the EMMA website to confirm that the Annual Report has been posted. If the Annual Report has not been posted, the Dissemination Agent should be notified, or the Disclosure Officer should file the Annual Report, as applicable.

Section 15: LISTED EVENTS AND NOTICE FILINGS

15.1 The County will file Listed Event Notices in accordance with the provisions of the Rule. Effective for debt of the County subject to the Rule and issued on or after February 27, 2019, the events that the County will provide a notice for are:

- a. principal and interest payment delinquencies;
- b. nonpayment related defaults, if material;
- c. unscheduled draws on debt service reserves reflecting financial difficulties;
- d. unscheduled draws on credit enhancements reflecting financial difficulties;
- e. substitution of credit or liquidity providers, or their failure to perform;
- f. adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the security, or other material events affecting the tax status of the security;
- g. modifications to rights of bond owners, if material;
- h. bond calls, if material and tender offers;
- i. defeasance;

- j. release, substitution, or sale of property securing repayment of the security, if material;
- k. rating changes;
- l. bankruptcy, insolvency, receivership, or similar event of the County, which will occur as described below;
- m. the consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
- n. appointment of a successor or additional trustee or the change of name of a trustee, if material;
- o. incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and
- p. default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.

15.2 Identifying and Reporting Listed Events.

Understanding the Listed Events. The Disclosure Officers should be aware of the "Listed Events" (found in each Continuing Disclosure Undertaking) necessitating the filing of an Event Notice. If clarification is required regarding what is meant by each such Listed Event, the County's bond counsel and municipal or financial advisor should be contacted to clarify the meaning.

Filing Event Notices. Each such notice shall be filed by the Disclosure Officers, or by the Dissemination Agent, if any, on behalf of the County, with EMMA no later than ten (10) business days after the occurrence of a Listed Event.

Review of EMMA. Following the submission of an Event Notice to EMMA by the Dissemination Agent or Disclosure Officers, as applicable, the Disclosure Officers should review the EMMA website to confirm that the Event Notice has been posted. If the Event Notice has not been posted, the Dissemination Agent should be notified, or the Disclosure Officers should file the Event Notice, as applicable.

Occurrence of a Listed Event. The Disclosure Officer should contact bond counsel and municipal or financial advisor if he or she has any questions regarding the occurrence of a Listed Event, and whether such occurrence may require the filing of an Event Notice.

Incurrence of and Amendments to Material Financial Obligations; Events Occurring Under Terms of Material Financial Obligations that Reflect Financial Difficulties. As of the date hereof, the Rule contains, among others, the following new Listed Events (the "Rule Amendments"):

(15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and

(16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties.....

The term "Financial Obligation" means a: (A) debt obligation; (B) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (C) guarantee of (A) or (B). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

Listing of Financial Obligations Incurred Prior to Date County is Subject to the Rule Amendments. It is hereby the policy of the County that the County Auditor or designated staff shall identify and list all existing Financial Obligations by reaching out to the County Purchasing Agent, Civil Legal Division, and other applicable departments of the County.

The County Auditor shall thereafter identify any amendments to the listed existing Financial Obligations prior to the date on which any such amendment will be adopted or become effective, and work with bond counsel or disclosure counsel to determine which of any such amendments are "agreements to covenants, events of default, remedies, priority rights, or other similar terms"which affect holders of the debt subject to the Rule Amendments, and are "material" and should therefore be disclosed in an Event Notice.

Listing of Financial Obligations Incurred on or after the Date the County is Subject to the Rule Amendments. It is hereby the policy of the County that the Disclosure Officers be notified prior to the adoption or approval of any Financial Obligation to be entered into by or on behalf of the County that reasonably could be reportable (i.e., Financial Obligations that could reasonably be seen to affect holders of County debt subject to the Rule Amendments and be material). The Disclosure Officers shall take measures to advise all applicable County Elected Officials, Department Heads, and consultants of this policy.

For each Financial Obligation so identified, determined to be material, and included on the list, the terms should be summarized and include:

- a. Date of incurrence;
- b. Principal amount;
- c. Maturity;
- d. Amortization;
- e. Interest rate or method of rate calculation, including any default or gross-up rates;
- f. Security for payment;
- g. Events of default and acceleration, if applicable;
- h. Termination events; and

- i. "Most favored nation" clauses (permitting holder of obligation to obtain the benefit of more favorable covenants negotiated with holders of other County financial obligations).

The Disclosure Officers shall establish a system for identifying, before any such Financial Obligation becomes effective, and listing any such Financial Obligations hereafter entered into by the County, and upon identification, determining if such Financial Obligation has the potential to materially impact the security or source of repayment of any of the County's debt that is subject to the Rule Amendments. A sample form for identifying these Financial Obligations is attached hereto as EXHIBIT A.

Upon identification of any Financial Obligation meeting the materiality standard identified in the preceding paragraph, the Disclosure Officer shall establish a process for identifying and monitoring any agreement to covenants, events of default, remedies, priority rights, or other similar terms under such Financial Obligation.

The Disclosure Officers shall further establish a process for identifying the occurrence of any default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any Financial Obligation (whether existing prior to or after the effective date of the Rule Amendments), the occurrence of any of which reflect financial difficulties of the County.

- 15.3 ***Record Retention.*** The County should retain the transcript containing the documents related to each issue of municipal securities of the County. The County will retain electronic and paper copies of each Annual Report submitted to EMMA. The County will retain electronic and paper copies of each Listed Event Notice submitted to EMMA. The County should retain all source data used to complete the Annual Report. The Disclosure Officer should establish a system to index the aforementioned documents.

The aforementioned documents identified in this Section 15.4 should be retained for a period of at least six years following the maturity, prepayment or redemption of the related issue of debt.

15.4 Training; Reports.

Training. Promptly following the implementation of this Policy and no less than on an annual basis, the Disclosure Officers shall receive training from a qualified consultant regarding the requirements of the Rule and the implementations for the County and future sales of its debt. If the Disclosure Officers should no longer be an officer, consultant, or staff member of the County, a new Disclosure Officers shall receive such training as soon as possible upon appointment.

Consultants. In meeting his or her obligations as Disclosure Officers under this Policy, the Disclosure Officers may, upon notice to and approval by the Commissioners Court, engage a consultant with expertise as to compliance with the Rule to act as Dissemination Agent. Such a consultant will be required to have demonstrated the ability to provide full and timely information to EMMA as required by the Rule and to provide competent advice to the Disclosure Officer as to whether and when a Listed Event has taken place. The costs of any Dissemination Agent services shall be charged to the proceeds of the related debt so long

as available, and subsequently shall be paid from the General Fund of the County. The retention of a Dissemination Agent does not negate the responsibility of the governing body or the Disclosure Officer to comply with this Policy.

Reports. The Disclosure Officers shall make a report to the Commissioners Court in an information item at the regular meeting following his or her submission of each Annual Report and any report of a Listed Event hereunder.

Section 16: EXPENDITURE OF BOND PROCEEDS

- 16.1 A list of projects will be developed to ensure compliance with federal and State law.
- 16.2 The County Budget Officer, Executive Administrator for Commissioners Court and the Auditor's Office will monitor the expenditure of bond proceeds, to ensure expenditures are made in a timely manner for the purposes for which the bonds were authorized.
- 16.3 With respect to the reimbursement of any expenditure paid prior to the date of issue of any bonds, the County Budget Officer, Executive Administrator for Commissioners Court and the Auditor's Office will monitor compliance with the requirement of the Regulations that such reimbursement allocation to bond proceeds is made not later than 18 months after the later of (i) the date the original expenditure is made or (ii) the date the project is placed in service, but in no event more than three years after the original expenditure is paid. Furthermore, the Budget Officer, Executive Administrator for Commissioners Court and the Auditor's Office will monitor compliance with the requirement of the Regulations that such reimbursement allocation is for the reimbursement of the expenditures paid on or after 60 days prior to the date of a reimbursement resolution (including for this purpose a bond order or resolution).

Section 17: PRIVATE BUSINESS USE

- 17.1 Private business use exists if proceeds of the issue or the property to be financed by the bond proceeds are used directly or indirectly by any nongovernmental person in that person's trade or business. Private business use may occur due to arrangements (typically contractual) that give nongovernmental persons special legal entitlements with respect to the use of bond-financed property (including a sale or other transfer of bond-financed property to a nongovernmental person). Further, a bond issue is considered to have private security or payments if the payment of the debt service of an issue is either (a) secured directly or indirectly by property or payments derived from private business use or (b) to be derived from payments for a private business use. The tax-exempt status of governmental bonds may be jeopardized if both (a) the private business use associated with an issue of bonds exceeds five percent (and, in certain circumstances, ten percent) of the proceeds of an issue and (b) the private security or payments associated with an issue exceeds five percent (and, in certain circumstances, ten percent) of the proceeds of such issue.

- 172 If any action will create private business use or private payments as outlined above, the County will take measures designed to preserve the intended federal income tax status of that issue of bonds.

Such measures may include ensuring that any agreement falls into an applicable exception under the private business use rules, making a determination that private use will not exceed the applicable limit, or such other action as may be recommended by bond counsel, including taking remedial actions with respect to the bond issue.

It is recognized that certain of the County's bond issues may be structured to take into account projected private business use of the facilities being financed with such issue. For such issues, the County will monitor any changes relating to the type or amount private business use of such facilities and, if necessary, will take measures designed to preserve the intended federal income tax status of that issue of bonds as described above.

- 173 No more than five percent of the proceeds of an issue of bonds may be used to make loans or arrangements that allow a nongovernmental party to defer payments that it is obligated to make with respect to the financed property or the bonds.

Section 18: INVESTMENT OF DEBT PROCEEDS

- 18.1 Debt proceeds will be invested in accordance with the County's Investment Policy or as otherwise permitted in the order or resolution authorizing the issuance of the debt.
- 18.2 Interest earned on proceeds from bonds, Certificates of Obligation, Commercial Paper, or other short-term or long-term debt (excluding capital lease proceeds) is generally allocated to the Interest Income Fund by Series. Commissioners Court may take action to allocate interest earned to respective series projects and/or Debt Service Fund.
- 18.3 Interest earned on proceeds from bonds, Certificates of Obligation, Commercial Paper, or other short-term or long-term debt (excluding capital lease proceeds) allocated to the Debt Service Fund shall be used solely to pay current and future debt service payments, any related issuance cost, and any rebate in accordance with Section 19 hereof.

Section 19: ARBITRAGE/REBATE

- 19.1 The County will follow a policy of full compliance with all arbitrage rebate requirements of the Code and will perform (via contract consultant) arbitrage calculations for each debt issue subject to rebate on an annual basis. All necessary rebate liability will be filed and paid when due.
- 19.2 Additionally, the Office of the County Auditor may choose to hire a rebate analyst to monitor compliance with rebate and yield restriction rules on an annual basis.

Section 20: CAPITAL PROJECT PROCESS

- 20.1 As set forth in Section 3 of this Policy, the County Budget Officer and Executive Administrator for Commissioners Court are responsible for making debt-financing recommendations to the Commissioners Court. In order to ensure sufficient cash flow is

available to meet capital improvement project cash requirements, an annual debt issuance schedule is required. The Capital Project Process will provide the basis for the annual debt issuance schedule.

- 20.2 During the annual budget process, each office or department will complete the Capital Request Form for each project to be considered for adoption by Commissioners Court. The form requires offices and departments to detail the different phases of the project, a timeline for each phase, and cost per phase.
- 20.3 Upon approval of a new capital project, the information provided on the Capital Request Form will be used to develop the annual debt issuance schedule to meet the cash requirements of each project.

Section 21: POST-ISSUANCE TAX COMPLIANCE

- 21.1 The County acknowledges that as the issuer of debt obligations subject to the Code, it is responsible for post-issuance compliance with respect to such debt obligations.
- 21.2 After the debt is issued, and as project expenses are incurred, the County Auditor's Office, County Budget Officer and Executive Administrator for Commissioners Court will periodically ensure continued compliance with the aforementioned laws and guidelines.
- 21.3 Corrective action may be required if, for example, it is determined that bond proceeds were not properly expended, the County is not in compliance with the arbitrage requirements imposed by the Code, or the County has taken a deliberate action (e.g., sale of bond-financed property) that results in impermissible levels of private business use.
- 21.4 If the County determines or is advised that corrective action is necessary with respect to any debt issued, the County will, as may be applicable, in a timely manner:
- Seek to enter into a closing agreement under the Tax-Exempt Bonds Voluntary Closing Agreement Program described in Notice 2008-31 (or any successor notice thereto);
 - Take remedial action described under Section 1.141-12 of the Regulations; and/or
 - Take such other action as recommended by bond counsel.
- 21.5 Any issues of non-compliance will be resolved by the County Budget Officer, Executive Administrator for Commissioners Court and the County Auditor's Office with the assistance of the County's bond counsel and financial advisors.

Section 22: DEFINITIONS

- a. Arbitrage - Arbitrage is the profit that results from investing tax-exempt debt proceeds in higher-yielding taxable securities. In general, Internal Revenue Service (IRS) Regulations require that positive arbitrage earnings be rebated back to the federal government.
- b. Bond order or resolution - The contract that sets forth the promises of a bond issuer and the rights of investors relating to the bonds.
- c. Bond covenant - A clause in a bond order or resolution that either requires or forbids some act by the issuer; the issuer is obligated to comply with the covenant by virtue of issuing its bonds.
- d. Call Provisions - A clause in a bond order or resolution granting the issuer the right to pay off or redeem all or part of an issue prior to the maturity date.
- e. Capital Lease - A contract for the purchase of capital equipment through installment payments.
- f. Certificates of Obligation - The Certificate of Obligation Act (Subchapter C, Chapter 271, Texas Local Government Code, as amended) permits a County to issue certificates of obligation for the purpose of paying contractual obligations incurred in the construction of public works and the purchase of materials, supplies, equipment, buildings, professional services and real property. Certificates of obligation are normally secured by ad valorem tax revenue (and a minimal amount of other revenue), and after published notice with no petition from residents for an election, there is no requirement for voter approval.
- g. Code - The Internal Revenue Code of 1986, as amended.
- h. Commercial Paper - Short-term, unsecured promissory notes usually backed by a line of credit with a bank. Maturities do not exceed 270 days.
- i. Competitive sales - A sale whereby the issuer determines the bond structure and solicits bids. The bonds are then awarded to the underwriting firm that submits the lowest interest costs for the debt.
- j. Continuing disclosure - An agreement or covenant of an issuer made for the benefit of the owners of the debt for so long as the issuer remains obligated to advance funds to pay the debt which includes a requirement to provide certain updated financial information and operating data to the MSRB annually within six months after the end of each fiscal year, and to provide notices of certain listed events.
- k. General Obligation Bonds - Bonds backed by the annual levy of an ad valorem tax as necessary, within the limits prescribed by law (if any), to pay off the bonds; issued upon approval by the public in an election.

- l. Interest rate swap agreement - An agreement entered into in connection with the issuance of debt by an issuer or in connection with debt already outstanding, with a counterparty to provide for an exchange of payments based upon fixed and/or variable interest rates.
- m. Issuance costs - The expenses associated with the sale of new securities, including such items as underwriter's spread, printing, legal fees, and rating costs.
- n. Negotiated sales - A sale whereby the issuer selects an underwriter in advance so that the underwriter can assist with determining the appropriate structure of the bonds.
- o. Private placement - A sale whereby the issuer sells the bonds directly to a qualified institutional buyer or accredited investor.
- p. Regulations - The applicable proposed, temporary, or final Treasury regulations promulgated under the Code or, to the extent applicable under the Code, under the Internal Revenue Code of 1954, as such regulations may be amended or supplemented from time to time.
- q. Refunding Bonds - Bonds issued to retire a bond already outstanding.
- r. Revenue Bonds - Bonds issued where the money raised to pay off the bonds comes from a non-tax revenue source or a special/specific enterprise fund.
- s. Tax Anticipation Notes - Short-term notes issued in anticipation of collection of taxes to finance current operations, with repayment from anticipated tax receipts.
- t. Variable rate debt - Debt with interest rates that fluctuate based upon an index or pricing procedure; this type of debt often offers lower interest rates and shorter maturities.

EXHIBIT A

Financial Obligations Questionnaire

*[Fill out a separate page for each Financial Obligation
Deemed to Affect Holders of Bonds Subject to Rule Amendments and to be
Material]*

Type of Financial Obligation (debt, derivative, guarantee)	Name of Financial Obligation	Date of Incurrence	Principal Amount Outstanding	Final Maturity
Amortization (level, balloon, other):				
Interest Rate:	If fixed, list TIC/NIC:	If variable, basis for calculation:	Default Rate	Gross-Up Rate
Security (note all that apply):	AV Taxes	Other Taxes (describe)	Revenues (describe):	Other (describe):
Events of Default:				
Events of Acceleration:				
Termination Events:				
“Most Favored Nations” Clause?				
Other Covenants:				