

ORDINANCE NO. \_\_\_\_\_

AN ORDINANCE OF THE CITY OF MESQUITE, TEXAS,  
REVISING THE DEBT MANAGEMENT POLICY; PROVIDING A  
REPEALER CLAUSE; PROVIDING A SEVERABILITY CLAUSE;  
AND DECLARING AN EFFECTIVE DATE THEREOF.

WHEREAS, the City Council of the City of Mesquite, Texas ("City Council") adopted a Debt Management Policy for the City of Mesquite, Texas (the "City") with the passage of Ordinance No. 3889 on September 18, 2007; and

WHEREAS, the Debt Management Policy of the City was revised with the passage of Ordinance No. 4083 on April 5, 2010; and

WHEREAS, the Debt Management Policy of the City is reviewed annually by the City Manager and the Finance Director, and any revisions to the City's Debt Management Policy are to be presented to the City Council for its consideration; and

WHEREAS, the City Manager and Finance Director are proposing that the Debt Management Policy of the City be further revised by the adoption by the City Council of the Debt Management Policy attached hereto as Exhibit "A" and made a part hereof for all purposes; and

WHEREAS, the City Council has reviewed the proposed revisions to the Debt Management Policy of the City and has determined that such revisions are appropriate and that the adoption by the City Council of the Debt Management Policy attached hereto as Exhibit "A" is in the best interest of the City and its citizens.

NOW, THEREFORE, BE IT ORDAINED BY THE CITY COUNCIL OF THE CITY OF MESQUITE, TEXAS:

SECTION 1. That all of the above recitals are hereby found to be true and correct factual determinations of the City and are hereby approved and incorporated by reference as though fully set forth herein.

SECTION 2. That the City Council hereby approves and adopts the Debt Management Policy attached hereto as Exhibit "A" and made a part hereof for all purposes as the Debt Management Policy of the City of Mesquite, Texas.

SECTION 3. That the Debt Management Policy adopted by this ordinance shall supersede the debt management policies attached to Ordinance Nos. 3889 and 4083.

SECTION 4. That the Debt Management Policy adopted by this ordinance shall be reviewed annually by the City Manager and the Finance Director, and any recommendations for revisions will be presented to the City Council for its consideration.

SECTION 5. That all ordinances or portions thereof in conflict with the provisions of this ordinance, to the extent of such conflict, are hereby repealed. To the extent that such ordinances or portions thereof are not in conflict herewith, the same shall remain in full force and effect.

SECTION 6. That should any word, sentence, clause, paragraph or provision of this ordinance be held to be invalid or unconstitutional the validity of the remaining provisions of this ordinance shall not be affected and shall remain in full force and effect.

SECTION 7. That this ordinance and the Debt Management Policy attached hereto as Exhibit "A" shall take effect immediately upon passage of this ordinance.

DULY PASSED AND APPROVED by the City Council of the City of Mesquite, Texas, on the 7th day of January 2019.

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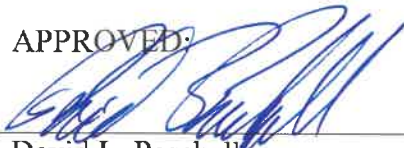
Stan Pickett  
Mayor

ATTEST:

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Sonja Land  
City Secretary

APPROVED:



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David L. Paschall  
City Attorney



Financial Policy  
Debt Management

City of Mesquite  
Finance Department

Effective Date: \_\_\_\_\_

### **PURPOSE**

The City recognizes the foundation of any well managed debt program is a comprehensive debt policy which functions in conjunction with the City's Capital Improvement Program. This debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The City recognizes its binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to a debt policy helps to ensure that the City maintains a sound debt position and that credit quality is protected.

### **RESPONSIBILITY**

The primary responsibility for developing financing recommendations rests with the Finance Director. In developing the recommendations, the Finance Director shall be assisted by the Manager of Budget and Financial Analysis and the Manager of Accounting. Their responsibilities include:

- Meet as necessary in preparation for a debt issue
- Review changes in state and federal legislation
- Annually review the provisions of ordinances authorizing issuance of obligations
- Maintain schedules of projected debt service costs and repayment sources for general obligation, revenue bonds and other debt instruments

The following shall be considered in developing financing recommendations:

- The effect of the proposed debt issue on the tax rate and other potential sources of funding
- Trends in interest rates
- Dates that proceeds of the sale are needed to fund the projects
- Principal maturity dates
- Options for interim financing including interfund borrowing
- Cash available for funding capital projects
- Costs associated with issuing debt
- Other factors as identified

### **Bond Counsel**

Bond Counsel is responsible for issuing an opinion as to the legality and tax exempt status of the debt being issued, preparation of the documents authorizing the issuance of the debt obligations, and closing documents to complete the sale. The City may also seek the advice of Bond Counsel on other types of financing and on any other questions involving federal tax or arbitrage law related to debt financing.

### **Financial Advisor**

The City will seek the advice of the Financial Advisor for all debt issuances. The Financial Advisor will advise on the structuring of obligations to be issued, inform the City of various options, advise the City as to how choices will impact the marketability of the City's obligations and provide other services as defined in their contract. To ensure independence, the Financial Advisor will not bid on nor underwrite any City debt issues.

### **CAPITAL IMPROVEMENT PROGRAM**

The City will maintain a multi-year Capital Improvement Program identifying projected capital needs for major projects to be funded through debt issuance or with available cash. A list of proposed capital improvements projects to be funded with the next debt issuance will be presented to the City Council for consideration during the annual budget preparation process along with estimated debt service costs. The City Council will determine which projects will be funded in the next debt issuance. The City Council may also approve other capital projects prior to the actual debt issuance if sufficient funds are available for debt service costs.

### **DEBT INSTRUMENTS**

The City will normally have one debt issuance per year that could include general obligation bonds, certificate of obligation bonds, revenue bonds and/or other debt instruments. In certain circumstances, the City Council may approve additional debt issues during the year.

### **LONG-TERM DEBT**

Long-term obligations will not be used for operating purposes. The life of the obligations will not exceed the useful life of the projects financed. Debt service structure will approximate level debt service unless operational matters dictate otherwise.

### **General Obligation Bonds and Certificates of Obligation**

General Obligation Bonds and Certificates of Obligation may be issued to finance construction and/or renovation of permanent improvements, property acquisition, major equipment purchases, and other similar projects approved by the City Council as well as legal, fiscal, engineering, and other professional services in connection with such projects in accordance with State Law. These obligations may be backed with a tax or revenue pledge, or a pledge of other available resources.

### **Revenue Bonds**

Revenue Bonds may be issued to finance construction and/or renovation of permanent improvements, property acquisition, major equipment purchases, and other similar projects approved by the City Council as well as legal, fiscal, engineering and other professional services in connection with such projects in accordance with State Law. These obligations may be backed with a revenue or tax pledge, or a pledge of other available resources.

### **Other Debt Instruments**

The City may issue debt with a pledge from special revenue sources such as 4-B Sales Tax, Tax

Increment Finance Zones and Public Improvement Districts. The City Council may consider the issuance of taxable bonds or private activity bonds if they determine the circumstances warrant.

### **Capital Leases**

Acquisition of property or equipment may be financed through capital leasing when market conditions dictate or if it determined to be the most efficient way of finance. Leasing shall not be considered when available funds are on hand for the acquisition unless the interest expense associated with the lease is less than the interest that can be earned by investing the funds on hand or when other factors such as budget constraints or vendor responsiveness override the economic consideration.

### **Other Funding Sources**

From time to time, other types of financing may become available. Examples would be funding from State Agencies such as the State Infrastructure Bank, State Energy Conservation Office and Texas Water Development Board. If any opportunity for funding such as this arises, a written analysis will be prepared comparing the City's normal financing method to the other type of financing. Based on this analysis and other relevant factors, the Finance Director will recommend which method of finance to pursue.

### **SHORT-TERM DEBT**

The City does not normally issue short-term debt. Consideration of such an issue will require City Council authorization.

### **METHOD OF SALE OF DEBT INSTRUMENTS**

#### **Negotiated versus Competitive Sale**

Debt may be issued through a negotiated sale or competitive bid. The City, in consultation with its Financial Advisor, shall select the method of sale by considering criteria such as:

- Market conditions such as pricing and volatility
- Flexibility
- Timing of issuance
- Potential for market disruptions
- Credit and issue size

The criteria used to select an underwriter in a competitive sale shall be the true interest cost. The criteria used to select an underwriter in a negotiated sale should include the following:

- Overall experience
- Marketing philosophy
- Distribution capabilities
- Previous experiences as managing or co-managing partner

The City may also select the underwriter through a request for proposals (RFP).

## **REFUNDING**

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when the refunding 1) produces a net economic benefit, 2) is needed in order to modernize covenants essential to operations and management, or 3) is required to restructure debt.

In general, advance refundings for economic savings will be undertaken when a net present value savings of at least two percent (2%) of the refunded debt can be achieved. Current refundings which produce a net present value savings of less than two percent will be considered on a case by case basis. Refundings with negative savings will not be considered unless there is a compelling operations or management reason.

## **DEBT ISSUANCE STANDARDS**

The following standards shall be used to determine the City's capacity to issue new debt:

- Debt will be structured for the shortest maturity period possible with a fair allocation of costs to current and future beneficiaries or users
- Debt will be structured to the lowest possible net cost to the City given the market conditions and the nature and type of security being issued
- Debt and related debt service shall be maintained within the following parameters
  - Total tax supported debt shall not exceed 5% of Total Assessed Value
  - Debt service cost shall not exceed 25% of operating revenues
  - The portion of the City's property tax rate levied for general obligation debt service shall not exceed 40% of the total tax rate
- The City will maintain net earnings coverage of 1.5 times the average annual principal and interest requirements for all indebtedness of the Water and Sewer Fund and 1.25 times the average annual principal and interest for all indebtedness of the Drainage Utility District.

## **CREDIT RATINGS**

The Director of Finance is responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort includes providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

The City shall request ratings from at least one major rating agencies prior to the issuance of new debt that will be sold in the open market. The City may provide a written and/or oral presentation to the rating agencies to help each credit analyst make an informed evaluation. The City will make every reasonable effort to maintain its high quality credit ratings.

## **CREDIT ENHANCEMENTS**

Credit enhancements are mechanisms which guarantee principal and interest payments. They include bond insurance and a line or letter of credit. During debt issuance planning, the Financial Advisor will advise the City whether or not a credit enhancement is cost effective under the circumstances and what type of credit enhancement if any, should be purchased.

## **MARKET DISCLOSURE**

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, and the general public to share clear, comprehensible, and accurate financial information. The City is committed to meeting secondary disclosure requirements on a timely and comprehensive basis.

Official statements accompanying debt issues, Comprehensive Annual Financial Reports, and continuous disclosure statements will meet (at a minimum), the standards articulated by the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analyst (NFMA), the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The Finance Department is responsible for ongoing disclosure to established national information repositories and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

## **ARBITRAGE LIABILITY MANAGEMENT**

The Finance Department is responsible for maintaining a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. This effort includes tracking investment earnings on bond proceeds, retaining an outside consultant to calculate rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt issues.

## **BOND COVENANT COMPLIANCE**

The Director of Finance is responsible for establishing policies and procedures so that the City remains in compliance with bond covenant requirements.

## **INVESTMENT OF BOND PROCEEDS**

All bond sale proceeds shall be invested in accordance with the City's Investment Policy.

## **CONDUIT FINANCINGS**

Conduit financings are securities issued by a government agency to finance a capital project of a third party such as a non-profit organization or other private entity. The City may sponsor conduit financings through the Mesquite Housing Finance Corporation, Mesquite Industrial



Development Corporation and Mesquite Health Facilities Corporation for those activities (e.g., housing, economic development, medical facilities) that have a general public purpose and are consistent with the City's overall service and policy objectives. Such conduit financings will not in any way pledge the City's credit for repayment of debt.

#### **MODIFICATION TO POLICIES**

This policy will be reviewed annually by the City Manager and Finance Director. Recommendations for change will be presented to the City Council for their consideration.