ORDINANCE NO. 3889

AN ORDINANCE OF THE CITY OF MESQUITE, TEXAS, ADOPTING A DEBT MANAGEMENT POLICY; PROVIDING A REPEALER CLAUSE; PROVIDING A SEVERABILITY CLAUSE; AND DECLARING AN EMERGENCY.

WHEREAS, the City Council has determined the need to formalize City policy regarding policy and procedures for debt management.

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

SECTION 1. That the City Council hereby adopts the City of Mesquite's Debt Management Policy attached hereto as Exhibit "A."

SECTION 2. That the policy hereby adopted shall be reviewed annually by the City Manager and the Finance Director, and recommendations for revisions will be presented to the City Council for its consideration.

SECTION 3. 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or portions thereof in conflict with the provisions of this ordinance, to the extent of such conflict, are hereby repealed.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 4. 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 5. That the need to formalize City policy regarding policy and procedures for debt management to protect public interest creates an urgency and an emergency for the preservation of the public health, safety and welfare, and requires that this ordnance shall take effect immediately upon passage.

DULY PASSED AND APPROVED by the City Council of the City of Mesquite, Texas, on the 18th day of September, 2007.

David Paschall
Mayor Pro Tem

ATTEST:

Judy Womack
City Secretary

APPROVED:

B. J. Smith
City Attorney

City of Mesquite
Debt Management Policy
September 2007

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 Cash and Debt Coordinator, Budget Director, and 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 financings 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 improvement 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, certificates of obligation, personal property contractual obligations, 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.

Public Property Finance Contractual Obligations
Public property finance contractual obligations may be issued to finance the acquisition of personal property. The life of the obligations shall not exceed the useful life of the personal property being financed. These obligations may be backed with a tax or revenue 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 is 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 an 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 financing 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 experience 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
- The portion of the City's property tax rate levied for general obligation debt service shall not exceed 35% of the total tax rate
- The City will maintain net earnings coverage of 1.5 times the average annual principal and interest requirement 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 two major rating agencies prior to the issuance of new debt. 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 Analysts, 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 the 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.