HOUSTON INDEPENDENT SCHOOL DISTRICT
DEBT MANAGEMENT POLICY

STATEMENT OF PURPOSE

The purpose of this policy is to establish guidelines governing the issuance, management, and reporting of all debt obligations issued by the Houston Independent School District (the "District") and the Public Facility Corporation (the "PFC") and to provide for the actions necessary to ensure proper implementation and compliance with this policy.

SCOPE

The District's Debt Management Policy applies to all debt instruments and, solely to the extent described herein, financial obligations as defined under Securities and Exchange Commission (SEC) Rule 15c2-12 (the "Rule") issued or incurred by the District or ~~and~~ the PFC regardless of the funding source for repayment or purpose for which issued.

OBJECTIVES

The objectives of this policy are to:

1. Establish a framework exercising prudence in the issuance of debt, compliance with debt covenants, and disclosure of information pertaining to such debt.
2. Reduce debt costs through consistent application of approved processes.
3. Maintain the financial integrity and public trust of the District and the PFC.
4. Comply with all applicable state and federal laws, regulations and contractual obligations, in the issuance, investment, and reporting of debt obligations.
5. ~~Help preserve~~ Ensure access to financial markets.

POLICY REVIEW

The Debt Management Policy will be reviewed and approved by the School Board (the "Board") on an annual basis and updated as necessary.

DELEGATION OF RESPONSIBILITY

The Chief Financial Officer will have the responsibility for ensuring the District's compliance with the Debt Management Policy. Day-to-day activities will be managed by the District's investment officers which are the Chief Financial Officer, ~~Deputy Chief Financial Officer,~~ Treasurer, and Assistant Treasurer. The Treasurer will provide a report to the Board at least annually detailing debt management activities and adherence to the policy.

ETHICS DISCLOSURES

All financing team members (which include~~s~~ but ~~is~~ are not limited to the Financial Advisor, Bond Counsel, and Disclosure Counsel) will be required to provide full and complete disclosure relative to any and all agreements with other financing team members, board members, key District personnel, and outside parties~~'~~ subject but not limited to Chapter 176 of the Texas Government Code. Parties will be governed by the District's board policy concerning conflict of interest disclosures. In general, no agreements will be permitted which would compromise a firm's ability to provide independent advice which is solely in the best interest of the District.

TAX LAW COMPLIANCE STATEMENT

The District will comply with all federal tax code ~~and~~ regulations and applicable state statutory regulations in the issuance and structuring of debt obligations.

The District will comply with federal arbitrage and rebate rules as set forth in the Internal Revenue Code of 1986 and interpreted and updated through rulings by the Internal Revenue Service and regulations by the U.S. Treasury Department.

Arbitrage rules govern both the investment of bond proceeds (investment rules) and the reporting and remitting of excess interest earnings (rebate rules) to the federal government. The District utilizes Bond Counsel and a contracted third-party arbitrage compliance specialist to aid in compliance with applicable regulations.

SECURITIES LAW COMPLIANCE STATEMENT

The District will comply with all applicable federal and state securities laws, including continuing disclosure undertakings entered into in connection with the issuance of municipal securities.

The District will promote compliance with the Securities Exchange Act of 1934 and Rule 15c2-12 promulgated thereunder, each as amended and interpreted by the SEC.

The District may utilize Disclosure Counsel, Bond Counsel, and its Financial Advisor (and any other Counsel deemed necessary by the District) to assist in compliance with applicable securities laws and continuing disclosure undertakings.

POST ISSUANCE COMPLIANCE PROCEDURES

The District has adopted written post issuance compliance procedures in order to ~~insure~~ ensure adherence to federal tax and securities law requirements.

CAPITAL PLANNING AND DEBT ISSUANCE

Debt issuance is considered one component of capital financing. Planning for debt issuance will be made in conjunction with other methods of financing capital improvements ~~such as the District's "*Pay As You Go*" renovation program~~.

TYPES OF AUTHORIZED DEBT

As of the date hereof, the District is authorized by the Texas Education Code and the Texas Government Code to issue the following types of debt:

1. Limited Tax Bonds – Bonded debt requiring voter approval secured through levying, pledging, assessing, and collection of the debt service portion of the District's ad valorem taxes, within the limits prescribed by law. Bonds must mature within 40 years ~~of issuance date~~ subject to federal tax law.
2. Tax Anticipation Notes and Revenue Anticipation Notes - Debt issued and secured by the District. Proceeds may be used for any lawful use but must have a maturity less than one year.
3. Delinquent Tax Notes – Proceeds of these negotiable notes may be used for any maintenance purposes. Notes may not have a maturity greater than 20 years, subject to federal tax law.
4. Time Warrants – Warrants may be payable out of any available funds of the District and may be utilized for construction, repair, or renovation of school building facilities. Warrants are limited to 15 years maturity and the District may not have more than $1,000,000 outstanding at any time.
5. Maintenance Tax Notes and Contractual Obligations – Debt issued for the rehabilitation and improvement of building systems (HVAC, roof, etc.) and for the purchase of buses, computers, furniture, and other moveable personal property. Payable from maintenance taxes with a maturity not to exceed 20 years and 25 years, respectively.
6. Lease Purchase Agreement – Debt issued through the formation of a Public Facility Corporation for the construction of any necessary facility. PFC Bonds are secured by lease payments payable from certain of the District's state funds and any other lawfully available funds paid by the District to the Public Facility Corporation, subject to annual appropriation by the District. Maximum maturity is 25 years, subject to federal tax law.
7. Refunding Bonds – Debt issued to refinance existing District or PFC outstanding bonded debt. Refunding Bonds will generally not be issued unless the total debt service on the refunding bonds is less than that of the refunded bonds. Exceptions may be approved where debt is being restructured, such as a conversion from variable to fixed rate debt. Refunding bonds will not have a maximum maturity exceeding that of the refunded bonds unless there is a reason to extend maturity for restructuring purposes.

FINANCIAL OBLIGATION

SEC Rule 15c2-12 has been amended, and effective February 27, 2019, any continuing disclosure agreements after such date must include events addressing financial obligations which are identified as material. The SEC definitions of Financial Obligation are:

(i) Debt obligation;

(ii) Derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or

(iii) Guarantee of (i) or (iii); provided, however, the term financial obligation shall not include municipal securities (as defined in the Securities Exchange Act of 1934, as amended) as to which a final official statement has been provided to the MSRB consistent with SEC Rule 15c2-12.

(iv) If the District incurs a material Financial Obligation, the District has reporting obligations under its continuing disclosure agreements and will consult with its Financial Advisor and Disclosure Council, as required under this policy.

DEBT STRUCTURE

The District will consider a range of debt structures which , when combined, allow for flexibility in responding to future events, continue to emphasize credit rating considerations, and correspond with the useful life of assets for which such debt is incurred.

The issuance of debt obligations will be considered within the following three categories:

1. Cash Flow Financing – Tax Anticipation Notes (TANS) and Revenue Anticipation Notes (RANS) will be issued in anticipation of current fiscal year taxes and revenues. This structure will be appropriated, issued, and retired within the current fiscal year.

2. Short-Term Debt – Debt which is issued for a maturity not greater than seven (7) years. Debt appropriate to this structure can include Maintenance Tax Notes, Delinquent Tax Notes, Time Warrants, Contractual Obligations, Lease Purchase Agreements, and Revenue Bonds.

3. Long-Term Debt – Debt issued for any term longer than seven (7) years up to any maximum term allowable by law. Long-Term debt may be issued for any asset which has a useful life greater than seven (7) years, or which will extend the useful life of an asset by more than seven (7) years. Debt structures appropriate to this category include Limited Tax Bonds, Maintenance Tax Notes, Contractual Obligations, Lease Purchase Agreements, and Refunding Bonds.

Structural considerations for Short-Term Debt include:

1. Each debt issuance will be issued with an average maturity no greater than the average life of the assets being financed.

2. The maximum maturity will be no greater than the maximum useful life of any asset class being financed by the ~~bond~~ issue.

Structural considerations for Long-Term Debt include:

Long-Term Debt will be considered when the asset's useful life lends itself to such financing and the District's estimated future taxes and revenues are sufficient to pay the estimated principal and interest payments.

1. Limited Tax Bonds will be issued, with voter approval, for capital improvements which have been identified through the Capital Improvement Program.
    a. Variable Rate Debt – Variable rate debt provides the ability to capture historically lower short-term interest rates and adds flexibility in managing interest rate exposures and total debt levels due to early payment options. When used prudently, the issuance of variable rate debt can be a useful component of the District's debt structure. Variable rate debt will not constitute more than 25% of the District's total net debt.
    b. Other Authorized Structures – The Board may consider any type of structure which has the effect of providing the lowest cost of funds, providing additional flexibility, or enhancing/maintaining credit ratings, including but not limited to:
        i. Fixed, variable, and/or stepped coupon debt.
        ii. Capital appreciation bonds, deep discount bonds, zero coupon bonds, and premium bonds.
        iii. Mandatory and optional call features.
        iv. Short and/or long coupon maturities.
        v. Municipal bond insurance.
        vi. Other legal structures not listed above.
    c. Unauthorized Structures – The District will not utilize interest rate swaps or other similar derivative products.

2. Refunding Bonds – Refunding bonds are utilized to restructure debt and to reduce District debt service costs.

    a. Current Refunding – A refunding which is settled within 90 days of a maturity date or an optional prepayment date. A current refunding will only be considered where a minimum net present value savings of 2% as a percentage of the total par amount refunded can be produced. Exceptions may be approved where debt is being restructured, such as a conversion from variable rate to fixed rate debt.

    b. Advance Refunding – A refunding settled more than 90 days in advance of a maturity date or an optional prepayment date. An advance refunding will only be considered where a minimum net present value savings of 4% as a percentage of the total par amount refunded can be produced and is subject to the legality of such structure under then current federal tax law. Exceptions may be approved where debt is being restructured, such as a conversion from variable rate to fixed rate debt. Changes to federal tax law in 2017 have generally prohibited tax-exempt advance refunding bonds. Any proposed advance refunding must comply with all current federal law requirements if they are issued on a tax exempt basis.

3. Other Types of Long-Term Debt – Maintenance Tax Notes, Contractual Obligations, and Lease Purchase Agreements will be utilized where specific facts show these types of financings to be in the best interests of the District.

DEBT LIMITS / CAPACITY

The District will evaluate legal debt limitations and debt affordability ratios in developing debt issuance plans.

Legal Debt Limitations

Section 45.0031 of the Texas Education Code requires that prior to the District issuing bonds, the District must demonstrate the ability to pay debt service on both the proposed bonds and all then currently outstanding bonds at a tax rate not to exceed $0.50 per $100 of assessed valuation.

Tax Rate Limitations

The District voted a maximum combined tax rate under Article 2784g, Vernon's Texas Civil Statutes. This election established that the District's maximum tax rate, including both Maintenance & Operations and Debt Service can be no greater than $1.70 per $100 of assessed valuation , including a maximum rate of $1.00 per $100 of assessed valuation for debt service. In addition to the Article 2784g limitations, the District's Maintenance & Operations tax rate is further limited by state law, including Chapter 48 of the Texas Education Code.

Debt Affordability Ratios

1. Ratio of Net Bonded Debt to Assessed Value
2. Ratio of Net Bonded Debt Per Student
3. Ratio of Total Debt to Assessed Value
4. Ratio of Total Debt Per Student

DEBT ISSUANCE PROCESS

PREFERRED METHOD OF SALE

The Board may choose any authorized method of sale including competitive sales, negotiated sales, limited offering and private placements. The Board may utilize alternative types of sales if deemed more advantageous to the District as a result of market or other conditions.

Refunding issues will typically be conducted on a negotiated basis.

Competitive sales are preferred for the sale of short-term debt, TANS, and other non-bonded debt. Negotiated sales may be utilized if deemed more advantageous to the District (including limited or private placements).

REFUNDING POLICY

Restructuring debt through a refunding will be deemed appropriate if in an advance refunding the net present value savings as a percentage of the refunded aggregate principal amount is greater than or equal to 4%. A current refunding requires a 2% net present value threshold to be deemed appropriate. Lower net present value savings may be utilized if the intent is to decrease the average maturity of the refunded debt. Exceptions may also be approved where debt is being restructured, such as a conversion from variable rate to fixed rate debt.

SELECTION AND USE OF SERVICE PROVIDERS

Financial Advisor

The Financial Advisor will:

1. Make recommendations to ensure that the District's bonds are issued at the lowest possible interest cost at the time of pricing and are structured in accordance with the District's financing guidelines.
2. Coordinate, along with the District's Disclosure Counsel, the preparation of the Notice of Sale, Preliminary Official Statement, and Official Statement and other such market documents necessary in the marketing of debt obligations.
3. Will act as the District's agent in arranging for the printing of offering documents.
4. When necessary prepare a uniform bid form containing provisions recognized by the municipal securities industry as being appropriate for the obligations to be offered for sale.
5. Assist in obtaining the Permanent School Fund Guarantee through the Texas Education Agency, when available.
6. Assist with obtaining credit enhancements if necessary or appropriate.
7. Assist the District with subscription for State & Local Government Series ("SLGS") where necessary and appropriate.
8. Represent the District at the pricing for the purpose of tabulation and comparison of bids and make a recommendation as to the acceptance or rejection of such bids.
9. Work closely with the District's Bond and Disclosure Counsel in the preparation of all appropriate legal proceedings and documents.
10. Assist with compiling and preparation of the District's Annual Disclosure Report and event notices in accordance with Securities and Exchange Commission (SEC) Rule 15c2-12.

11. Assist and make recommendations in determining debt issuance and repayment schedules which will be most beneficial to the District and acceptable to credit rating agencies.

Bond Counsel

Bond Counsel will provide the following services:

1. Certify that the District has the legal authority to issue the proposed bonds or other debt obligations.
2. Prepare orders, resolutions, tax certificates and other documents necessary to call, conduct and canvass bond elections and to issue bonds and other debt obligations.
3. Obtain approval of the bond issue or other debt issue by the Attorney General's Office.
4. Provide a legal opinion as to the validity and enforceability of the bonds and the exemption from federal income taxation of the interest.
5. Be available at the request of the District to attend all meetings, including those with rating agencies and state officials, called to discuss the legal aspects of the bonds proposed to be issued.
6. Coordinate closing of transactions.
7. Consult with District officials and the District's financial advisors in order to review certain information to be included in offering documents.
8. Provide written advice to the District enabling officials of the District to comply with applicable arbitrage requirements including yield restrictions and rebate requirements.

Disclosure Counsel

To the extent required, Disclosure Counsel will provide the following services:

1. Consult with and advise District officials, the District's administration and its Financial Advisor regarding any disclosure issues, including assistance in evaluating the materiality of such issues; preparation of the preliminary and final offering documents (including the notice of sale) for the bonds or other debt obligations.
2. Assist in the performance of any necessary due diligence investigation, including the review of diligence questionnaires, drafting diligence questions, and assistance with diligence calls or meetings, as appropriate.
3. Analysis of the requirements of SEC Rule 15c2-12 and the basis upon which such rule is satisfied.
4. Provide the District with a securities disclosure opinion in customary form reasonably satisfactory to the District and Disclosure Counsel.

5. Review Annual Continuing Disclosure Filings and Event Notices under the Rule.

Paying Agent/Registrar

The Paying Agent will:

1. Authenticate the bonds and facilitate transfers and exchanges.
2. Send/receive transfers of money at closing.
3. Maintain a listing of bondholders and applicable addresses.
4. Receive principal and interest payments from the District and remit to bondholders.
5. Represent bondholders in case of default if acting as trustee.

Rating Agencies

The District will obtain a credit rating from at least two nationally recognized bond rating agencies for the issuance of new money bonds. The District will obtain a credit rating from at least one nationally recognized bond rating agency for the issuance of refunding bonds. The District is not required to obtain credit ratings on private placements.

The District will endeavor to maintain effective relationships with the rating agencies.

Application for Permanent School Fund Guarantee

The District shall apply to the Texas Education Agency for approval under the Permanent School Fund Guarantee Program of the State of Texas for any debt issuance eligible to be guaranteed under the program.

DISCLOSURES

It is the District's policy to meet all disclosures required, including but not limited to disclosures necessitated under ~~the~~ SEC Rule 15c2-12. The District will work with the District's Financial Advisor in order to prepare and file the annual report with the Municipal Securities Rulemaking Board (MSRB) through the designated submission portal commonly referred to as EMMA (Electronic Municipal Market Access).

The District has established a disclosure review committee that is responsible for reviewing activity potentially requiring an event notice (including events (15) and (16) under SEC Rule 15c2-12) and any related disclosure. Any event notice identified by the disclosure review committee, should be made in a timely enough manner to meet the ten (10) business day requirements. The disclosure review committee will be comprised of the Chief Financial Officer, the Controller, the Treasurer, Bond and Disclosure Counsel, Financial Advisor and any other staff deemed appropriate by the financial management of the District. Each member of the disclosure review committee is expected to have a complete understanding of the events listed in the Rule.

INVESTMENT OF BOND PROCEEDS

Bond proceeds will be invested in segregated accounts and governed by the District's *Cash Management and Investment Policy*. The District's investment policy is established in accordance with the Public Funds Investment Act (PFIA), enacted within the Texas Government Code (2256), and by statutory regulations.

The District will competitively bid the purchase of investment securities and investment products with the exception of funds deposited in investment pools, money market funds, or interest earning bank deposits.

Interest income generated from bond proceeds shall be used solely to fund related capital expenditures or to service current and future debt payments.

The underwriters of a debt issue, but not the District's financial advisors, may bid to provide investment products. The District's financial advisors may conduct a competitive bid if requested to do so by the District.

MANAGEMENT OF DEBT SERVICE FUND

Investments in the Debt Service Fund are governed by the District's *CDA Local Policy*.

Investment securities and investment products will be purchased using a competitively bid process with the exception of funds deposited in investment pools, money market funds, or interest earning bank deposits.

The District shall target a minimum year-~~-~~end debt service fund balance of 10% of total current year debt service.

TRANSACTION RECORDS

The Treasurer will maintain complete records of decisions made in connection with each financing. Each transaction file shall include the official transcript for the financing, the final number runs, and a post-pricing summary of the debt issue. The Treasurer will prepare at least annually a report to the School Board which includes a policy compliance summary, detail of issuance transactions, and listing of current debt.