

**CITY OF CORPUS CHRISTI, TEXAS**

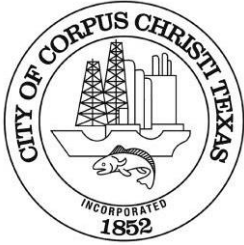
# **DEBT MANAGEMENT POLICY**

**May 05, 2026**

# DEBT MANAGEMENT POLICY

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# Debt Management Policy

## Section 1

### PURPOSE AND OBJECTIVES

#### 1.1 Purpose

The Director of Finance & Procurement for the City of Corpus Christi, Texas (the “City”) is charged by the City Manager with the responsibility for prudently and properly managing any and all debt incurred by the City. The following policy provides the methods, procedures, policies and practices which, when exercised, ensure the sound fiscal management of the City’s debt program. All City offices and departments must comply with the guidelines and procedures set forth in this policy.

The purpose of this policy is to provide guidance regarding the issuance, management, continuing evaluation and reporting on all debt obligations issued by the City. The Corpus Christi City Council recognizes that there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the City’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 City funds.

The terms of this Debt Management Policy (the “Policy”) are intended to comply with all federal and state laws governing debt, including, but not limited to, Texas law, Internal Revenue Service rules and regulations, United States Securities and Exchange Commission (SEC) regulations, Municipal Securities Rulemaking Board (MSRB) rules and regulations, and the existing City debt covenants and City of Corpus Christi home rule Charter (“City Charter”) provisions.

#### 1.2 Objectives

Debt Management shall be conducted with the primary objectives of:

- \* Maintaining or enhancing the City’s existing credit rating for all categories of short and long-term debt, consistent with the financial policies and bond covenants approved by the City Council;

- \* Complying with applicable bond covenants and federal tax laws to ensure continued tax exemptions or tax credits;
- \* Maintaining access to capital;
- \* Minimizing borrowing costs; and
- \* Maximizing financial flexibility.

## **Section 2**

### **SCOPE**

- 2.1** This Policy shall govern debt obligations issued by the City that finance the construction or acquisition of infrastructure and other assets or to refinance existing debt. The City 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 City government. In that case, the City 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.
- 2.2** This Policy applies to all short-term and long-term debt securities issued by the City. This may include general obligation bonds, certificates of obligation, revenue bonds (including revenues from the City's utility systems, special assessments, and tax increment), commercial paper, long-term capital leases, certificates of participation, tax notes, tax anticipation notes, bank notes, equipment notes, private placements, letters of credit, and other similar credit or liquidity facilities or other debt instruments authorized pursuant to State law.

## **Section 3**

### **ROLES AND RESPONSIBILITIES**

- 3.1** All debt programs will be made in accordance with applicable federal and state regulations, subject to applicable law. The City Council will approve the issuance of all City bond indebtedness.
- 3.2** The Director of Finance & Procurement has the primary responsibility for making debt-financing recommendations to the City Council and has responsibility for the appropriate management of the City's debt program.
- 3.3** The Director of Finance & Procurement, or the designee thereof, will coordinate all activities necessary to issue debt, including, but not limited to:
- Selection of financial advisor and bond counsel;
  - Verifying compliance with City Charter;
  - Review of ordinances and resolutions prepared by bond counsel;
  - Review of all documents necessary to issue debt prepared by bond counsel;

- Review of offering memoranda or other disclosure documents provided by financial advisors; and
- Review of all related financial analyses.

- 3.4** The Director of Finance & Procurement, or the designee thereof, will provide no less often than annually to the City Council:
- a. An annual debt issuance schedule for capital projects (included in the operating budget);
  - b. An updated ten-year capital improvement plan (included in the capital budget);
  - c. Certification that the City is current on all debt service payments;
  - d. Disclosure of any payment defaults since the prior report was made to the City Council; and
  - e. Disclosure of any other bond covenant violations or defaults since the prior report was made to the City Council of which the Director of Finance & Procurement has actual knowledge.
- 3.5** The Director of Management and Budget, or the designee thereof, will facilitate implementation of and oversee the Capital Improvement Plan for City offices and departments pursuant to Section 16 of this Policy.
- 3.6** The Director of Finance & Procurement, or the designee thereof, will recommend to the City Council a financing team consisting of bond counsel, financial advisor, and underwriters, to the extent required for each debt issue.
- 3.7** The Office of Management and Budget is responsible for reporting quarterly in its financial report a schedule that includes outstanding debt requirements as well as commercial paper activity and capital lease activity. These reports will include principal and interest requirements, dates for each, and related interest rates.
- 3.8** The City Treasurer is responsible for assuring that all debt service payments are made in a timely manner to the appropriate paying agents for the obligations issued by the City.
- 3.9** The Office of the Director of Finance & Procurement is responsible for preparing and submitting the annual continuing disclosure pursuant to SEC Rule 15c-12.
- 3.10** The City departments administering projects financed with debt funding are responsible for complying with Section 16 of this Policy.

## **Section 4**

### **SELECTION OF SERVICE PROVIDERS**

#### **4.1 Financial Advisor**

The Director of Finance & Procurement provides recommendations for the selection of a financial advisor for the City's debt program. The financial advisor will have comprehensive municipal debt knowledge and experience and may perform the following duties including but not limited to: comprehensive analyses of debt refinancing, recommendations for alternative financial structures; development of timing and sale of new issues; recommending whether the sale of the new issues be through a competitive bid sale, negotiated sale, or private placement; coordinating the market pricing of debt securities; issuing and disseminating the bond offering document and other disclosure requirements; coordinating with the underwriters of the bond issuance if the bonds are sold through a negotiated sale; seeking and obtaining ratings from the three major bond rating agencies; and providing guidance and advice about debt-related topics, as needed.

Due to the complex nature of the City's debt portfolio, it is important for the City to maintain continuity with a financial advisor who is familiar with the City's history in issuing bonds. The City reserves the right, however, to conduct a formal request for proposal or request for qualifications process to select its financial advisor.

#### **4.2 Bond Counsel**

The Director of Finance & Procurement coordinates with the City Attorney, the Deputy City Manager or Assistant City Manager, and the City Manager on the selection of bond counsel for all debt issues. Bond counsel will have comprehensive municipal debt knowledge and experience. When the bond counsel has been selected, they are responsible for providing an opinion to investors in two specific areas. The bond counsel must opine to investors that the securities are valid and legally binding obligations of the City. Then, the bond counsel will opine on whether the interest on the bonds is exempt from federal taxation. The bond counsel also prepares all bond documents necessary to execute the bond issuance. The bond counsel is responsible for coordinating with the City Attorney's office, City Secretary's office, and Finance Department, as well as the City's financial advisor, to ensure that all tasks associated with the bond issuance are completed within prescribed timeframes. To the extent required by State law, bond counsel is responsible for coordinating with the Office of the Attorney General and the Office of the Comptroller of Public Accounts of the State of Texas matters relating to the approval of City obligations. The City values continuity in maintaining a relationship with bond counsel due to the complexity of issues and laws related in issuing municipal bonds. However, the City reserves the right to conduct a formal request for proposal or request for qualifications process to select its bond counsel.

#### **4.3 Paying Agent/Registrar**

The City's financial advisor may conduct a request for proposal process to select the paying agent/registrar for each new issue and recommends the successful candidate for approval by City Staff. The successful candidate may not necessarily be the proposer with the lowest cost. A "best value" approach may be utilized in the selection.

#### **4.4 Underwriters**

In a negotiated sale (see Section 9 - Methods of Sale), the Director of Finance & Procurement, after review with the Deputy City Manager or Assistant City Manger, the City Manager, and the Financial Advisor makes recommendations about which underwriting firms to include in the underwriting syndicate. The City issues Requests for Qualification (RFQ) approximately every three years to obtain an approved list of underwriters which is broken-out by sections: national scope, banking institutions, and regional scope. A diverse group of securities firms will be chosen based on past performance, demonstrated ability to resell, prior municipal issuance experience, and other factors including, without limitation, participation in bidding on competitive bond sales conducted by the City.

#### **4.5 Bond Insurer**

Credit quality and marketability of securities may be enhanced through the purchase of municipal bond insurance. The City pays a single premium and in turn, the bond insurer unconditionally guarantees the payment of principal and interest to the bondholders in case of a payment default. Prior to purchasing municipal bond insurance for an issue, the financial advisor will perform an analysis to determine the cost benefits to the City derived from obtaining municipal bond insurance. Bond insurance will only be utilized when it is economically feasible.

#### **4.6 Bond Rating Agency Application**

Prior to issuing new debt or to issuing refunding debt, the City will submit a rating application to at least two rating agencies. The Financial Advisor will carefully review any rating agency terms and conditions prior to the City accepting any such rating.

#### **4.7 Bond Rating/Bond Insurers' Presentation**

As often as deemed necessary, City staff and/or elected officials will either make a bond rating presentation directly to the analysts of selected rating agencies and/or the bond insurance companies, will hold conference call interviews with each of these

entities, or will invite each of the rating agencies and/or bond insurers to make a site visit to the City. For the presentation, staff compiles information relevant to the City's current economy, financial condition, and current initiatives to provide reference material for the rating agencies and bond insurers. When issues occur frequently, the rating agency application and offering document will be supplemented by a minimum of a written presentation of updated information about the City since the last rating application.

The City distributes the Annual Comprehensive Financial Report (ACFR) and the current operating and capital budgets to each of the three bond rating agencies, as well as to bond insurance companies. Financial information about the City is available on the City's website:

<https://www.corpuschristitx.gov/department-directory/finance-procurement/financial-transparency-reports/>.

## **Section 5**

### **USE OF DEBT INSTRUMENTS**

- 5.1** Debt financing will not be considered appropriate for any recurring purpose such as ordinary operating and maintenance expenditures. The City will use debt financing only for capital improvement projects and equipment purchases under the following circumstances:
- a. The project is included in the City's capital improvement plan budget;
  - b. The project is a result of growth-related activities within the community that require unanticipated and unplanned infrastructure or capital improvements by the City;
  - c. The project's useful life will be equal to or exceed the term of the financing;
  - d. The equipment has an expected useful life of at least the term of financing; and/or
  - e. There are revenues sufficient to service the debt, whether from future property taxes, user fees, or other specified and reserved resources.

## **Section 6**

### **STRUCTURE AND TYPE OF DEBT**

- 6.1** Debt service will be structured to match projected cash flows, minimize the impact of future property tax levies, and maintain a relatively rapid payment of principal.
- 6.2** The term of the debt issuance must equal the lesser of the useful life of the asset being financed or the maximum maturity permitted by State law for the obligations issued to finance the acquisition and construction of the asset.

**6.3** The types of debt instruments to be issued by the City include:

a. ***General Obligation Bonds*** -

The City generally issues general obligation bonds for general purpose capital improvements when benefits accrue to the entire community. General obligation bonds are also used when the expectation of the project is that it will not generate significant revenues to fund the project outright. The general obligation bonds are sold for a term no greater than the useful life of the project that is being funded through the issuance of the general obligation bonds.

The City pledges its “full faith and credit” and levies an ad valorem tax to repay the debt, consistent with State law and the City Charter. In order to issue general obligation bonds, the eligible voters of the City must authorize the amount to be issued through a bond election held for such purpose. For future bond elections, the City will make every effort to include the related utility relocation costs in the bond election for street projects in order to minimize any utility rate increases that would be associated to the cost of such related utility relocations. In the event that the utility relocation costs are not included in the bond election for street projects, then the City will disclose, at the time of the bond election, the impact of such costs on future utility rates.

b. ***Certificates of Obligation*** –

Under State law, the City has the opportunity to issue certificates of obligation. Although voter approval is not required, additional notification and public hearing requirements may apply, to the extent so provided by applicable State law.

Certificates of obligation may be secured by a combination of ad valorem taxes and revenues from a source that the City is authorized by State law to encumber for a public purpose, e.g., solid waste.

Certificates of obligation may be issued to finance projects in cases where user fees charged for the use of the projects financed are pledged to repay the certificates of obligation. Examples include: Solid Waste, Marina, Hotel Occupancy Tax, etc.

Certificates of obligation are available for governments when the eligible improvements being sought are necessary for the health, safety and welfare of the government’s citizens, in circumstances where cost overruns on a general obligation bond-financed capital improvement may have occurred, or where financial opportunities unexpectedly arise to leverage funds from other entities and reduce the City's capital cost for a community improvement. Also, certificates of obligation may be issued where the timing of the construction of an eligible capital improvement and the expense of calling a bond election for a single proposition would, in the opinion of City staff and with the approval of the City Council, warrant the issuance of certificates of obligation to finance the capital improvement.

c. ***Revenue Bonds*** –

Revenue bonds are secured by a specific source of revenue. There is no ad valorem tax pledge. Revenue bonds are issued to pay for improvements that benefit the users that repay the debt through user fees. The City issues revenue bonds primarily for the City's Airport and Utility Systems. State law does not require an election for the issuance of revenue bonds.

Typically, the City is required to fund a reserve fund that has on deposit an amount no less than the average annual debt service requirements on outstanding revenue bonds, as a contingency in the event revenues that are collected for services provided are not sufficient to satisfy debt service requirements. Another method to provide for such reserves is the use of a credit facility (such as a surety bond) in lieu of cash or eligible investments in the amount of the average annual debt service requirements on the outstanding revenue bonds. The costs of both methods are evaluated prior to a revenue bond issue. The City fully complies with debt service and reserve funding requirements set forth in any and all bond covenants.

When revenue bonds are issued or are outstanding, coverage requirements consistent with the bond covenant will be maintained, typically at a level no less than 1.25 times the average annual debt service requirements on the outstanding revenue bonds. The City maintains that it will collect rates and charges at all times that are necessary to produce gross revenues and other pledged revenue in each fiscal year equal to the greater of either:

- Amounts sufficient to pay all current operating expenses plus amounts sufficient to produce net revenue for each fiscal year at least equal to 1.25 times the average annual principal and interest requirements on all revenue bonds outstanding; or
- Amounts sufficient to pay the sum of all current operating expenses, the average annual principal and interest requirements on the outstanding priority bonds; required deposits to the reserve fund for revenue bonds, and amounts required to pay any other obligations reasonably anticipated to be paid from gross revenues during the fiscal year.

Additionally, the City maintains an operational reserve. One operating ratio that is utilized is for the days' operating coverage to generally be 90 days – meaning that maintaining revenue sufficient to cover 90 days of operating expenses is targeted. Although this ratio is not mandated by the City's bond covenants, it is one that is utilized by the City's management.

The City may also issue bonds and other obligations that are secured by revenues generated within a designated geographic area of the City, such as a tax increment reinvestment zone or a public improvement district. Covenants pertaining to the coverage requirements, reserve funds and other financial considerations will be

developed, working with the City's financial advisor and bond counsel, to ensure that any obligations issued will be creditworthy and marketable.

d. ***State Revolving Loan Funds*** –

The State of Texas administers various revolving loan funds, which are available to Texas political subdivisions in accordance with the statutory authority granted to state agencies to fund loans and regulations of the state agency with respect to the specific loan program. The Director of Finance & Procurement, working with the City's financial advisor, will explore financing opportunities under State loan programs to determine if financial or other benefits may help the City in pursuing loans from such state agencies.

e. ***Refunding Bond*** –

The Director of Finance & Procurement, working with the City's financial advisor, will consider refinancing outstanding debt issues, as more fully discussed in Section 10 of this Policy.

f. ***Commercial Paper*** –

The City may establish a commercial paper program to provide interim (short-term) financing authority to fund capital improvements. The commercial paper notes are structured as bond anticipation notes, and as a condition to the issuance of the commercial paper notes, the City must provide sufficient liquidity to enable commercial paper noteholders to be paid upon the maturity of the commercial paper notes. The Director of Finance & Procurement, working with the City's financial advisor, will monitor the commercial paper market to ensure that the City is obtaining the lowest possible interest rates on any outstanding commercial paper notes, as well as to determine, based on the needs of the City and the then existing public debt market conditions, the timing of refunding outstanding commercial paper notes with long term fixed rate revenue bonds.

g. ***Tax Anticipation Notes / Tax Notes*** –

Chapter 1431, Title 9 of the Government Code defines and addresses the issuance of anticipation notes by municipalities, counties, eligible school districts, or eligible countywide districts. State law authorizes two different types of borrowings under this chapter: short-term anticipation notes and long-term anticipation notes (frequently referred to as “tax notes”).

(1) **Short-term Anticipation Notes** –

State law permits the City to issue short term notes in anticipation of ad valorem tax collections. The City will prepare budgets to ensure that there will be no need to issue tax anticipation notes to fund the budget. However,

should emergency situations arise, the Director of Finance & Procurement, working with the City's financial advisor, will advise the City Council on the necessity of City Council approving the issuance of tax anticipation notes. State law authorizes tax anticipation notes to have a maximum term of one year.

(2) Long-term Tax Notes -

State law also permits the City to issue long term notes to pay for the construction of an eligible public work; the purchase of materials, supplies, equipment, machinery, buildings, land, and rights-of-way for the City's authorized needs and purposes; and to pay for professional services, including a service by an engineer, architect, attorney, mapmaker, auditor, financial advisor, or fiscal agent. State law authorizes these tax notes to have a maximum term of seven years.

h. ***Capital Lease Financing and Equipment Notes –***

The Director of Finance & Procurement, working with the City's financial advisor, will review the equipment needs of City departments and determine financing options for acquiring or leasing equipment, either through presenting to the City Council for approval of lease or lease-purchase agreements with vendors to acquire equipment, or seeking the approval from the City Council to authorize the issuance and sale of notes or other short term obligations to borrow funds to acquire equipment.

i. Any other debt instrument authorized for issuance by the City in accordance with the Texas Government Code or other applicable law.

**6.4** Individual revenue streams considered for proposed debt service of revenue bonds should meet a minimum debt service coverage ratio test of 1.25 times average annual debt service, along with any appropriate reserve or contingency funds. Debt coverage is defined as total revenue divided by total debt service.

**6.5** Fixed Interest versus Variable Interest

The City primarily issues fixed rate bonds to protect the City against interest rate risk. The City has the option to issue variable rate bonds and may, if market conditions warrant, consider such a structure. Commercial paper notes, due to their short term maturities (270 days or less), are treated as variable rate obligations.

**6.6** Conduit Securities

The City has created, and may create, nonprofit corporations as authorized by State statutes that act as a conduit for tax-exempt financing. Those corporations include but are not restricted to: (1) Corpus Christi Housing Finance Corporation, (2) Corpus Christi

Industrial Development Corporation, and (3) the Coastal Bend Health Facilities Development Corporation.

These entities issue bonds for the benefit of unrelated commercial entities, and the City assumes no liability for the timely payment of debt issued by these entities. These bonds are not liabilities of the City or the respective corporations and are solely payable from revenues of the various commercial entities.

In addition, the City has created nonprofit corporations to assist the City in financing various public infrastructure improvements. Public funds, such as voter-approved sales taxes and tax increment revenues, may be made available to these corporations by contract with the City, in fulfillment of the public purposes for which these corporations were created.

## **6.7 Structure**

Bonds are generally issued with an average life of 20 years or less for general obligation bonds and revenue bonds but may be greater for some projects such as landfills and major utility facilities whose lives are greater than 20 years. Typically, interest is paid in the first fiscal year after a bond sale, and principal is paid no later than the second fiscal year after the debt is issued. Call provisions for bond issues shall be made as short as possible consistent with the lowest interest cost to the City. The targeted maximum length to call is 10 years. However, the City may opt for a call date longer than 10 years in order to achieve the necessary goals of the particular issue.

## **Section 7**

### **DEBT LIMITS**

**7.1** The City will maintain its outstanding debt within the limits prescribed by State statute and the City Charter. As permitted by the Constitution of the State of Texas, home rule cities of over 5,000 population shall have a total tax allowable of \$2.50 and shall have a bond allowable of \$1.50 per \$100 valuation (unless City Charter provides less). For purposes of issuing bonds, the State bond allowable is generally computed based on 90% collections. On April 3, 1993, the citizens of Corpus Christi voted to amend the City Charter which contained a tax limitation of \$0.68 per \$100 of assessed valuation for all purposes including debt service to allow for the tax rate to increase up to the State limit for voter approved debt after April 4, 1993.

The City evaluates new debt issuance as it relates to the current debt level. The amount of debt retired each year is compared to the amount of debt to be issued any given year, and an analysis is performed to determine the City's ability to assume and support additional debt service payments. When appropriate, the issuance of self-supporting revenue bonds and self-supporting certificates of obligation bonds are also considered.

**7.2** The City may choose to issue short-term debt (maturities one-year or less) that pay a fixed rate of interest or that pay a rate of interest that varies, both consistent with Federal and State laws and applicable bond covenants of pre-existing bonds.

7.2.1 The City will issue short-term securities for the purposes of providing:

7.2.1.1 interim financing for long-term capital projects;

7.2.1.2 financing of short-term assets at or near their useful life;

7.2.1.3 interim cash flow/working capital needs as they arise; or

7.2.1.4 a reduction of the overall interest cost of debt financings of the City.

**7.3** The City 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.

An objective, analytical approach is used to make the determination of whether debt is issued. The process compares generally accepted standards of affordability to the current values for the City. The City strives to meet and achieve these standards.

## **Section 8**

### **FUND BALANCE REQUIREMENT**

**8.1** The City will strive to maintain a debt service fund balance for general obligation bonds and certificates of obligation of at least 2 percent of the annual debt service requirement for the fiscal year; provided, however, that this requirement shall comply with the provisions of Treasury Regulation 1.148-2(f) which limits the amount of reserve funds that may secure the payment of debt service on bonds.

## **Section 9**

### **METHODS OF SALE**

**9.1** The City may use competitive sales, negotiated sales, or private placements. When considering the method of sale, the City will take into consideration:

a. Financial conditions;

b. Market conditions;

c. Transaction-specific conditions;

d. City-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.

**9.2.1** A competitive sale is when bonds are awarded in a sealed bid sale to an underwriter or syndicate of underwriters that provides the lowest True Interest Cost (TIC) bid. TIC is defined as the rate, which will discount the aggregate amount of debt service payable over the life of the bond issue to its present value on the date of delivery. In today's market, bids primarily are submitted electronically through a secure website.

**9.2.2** Competitive Sale Bidding Parameters:

**9.2.2.1** Bid Verifications - The City awards successful bidders on the basis of the lowest TIC.

**9.2.2.2** Good Faith Deposits - Bidders collectively choose a bank to be the good faith bank in providing a good faith deposit. The bidders keep funds on deposit to cover the good faith check if necessary. The Financial Advisor collects a cashier's check in advance for 2% of the issue. Bidders not covered by the good faith bank must provide a good faith check at the time they submit their bid. When the issue closes, the good faith check is returned, usually through overnight mail.

**9.2.2.3** Allowable Discounts/Premiums - In most cases, the City requires bidders to purchase bonds at a price of no less than par. When there are no prevailing limitations, a discount/premium may be permitted when market conditions indicate a discount/premium will be rewarded by a more competitive bid and when there is flexibility to increase/decrease the par amount of the issue. If there is considerable market activity on the date of the proposed sale or other market-related factor to necessitate improving the marketability of the issue, discounts/premiums may be permitted. Bidders are notified in advance of the allowance for discounts/premiums.

**9.2.2.4** Term Bonds - Bidders may form term bonds based on the length of the maturity schedule. In a 20-year maturity, they may form anywhere between three to five term bonds. The resulting term bond structure must completely mirror the serial bond structure.

**9.3** *Negotiated sales* are the preferred method under the following circumstances:

- a. Complex transactions that require extensive financial modeling, credit analysis, pre-marketing efforts, or that are interest rate sensitive; and
- b. Volatile financial markets.

**9.3.1** A negotiated sale is when the City chooses an underwriter or underwriting syndicate that is interested in reoffering a particular series of bonds to investors. The terms of the sale including the size of the underwriter's discount, date of sale, and other factors are negotiated between the two parties. Although the method of sale is termed negotiated, individual components of the sale may be competitively bid. The components are subject to a market analysis and reviewed prior to recommendation by staff. Negotiated sales are more advantageous when there needs to be some flexibility in the sale date or when less conventional bond structures are being sold. Negotiated sales are also often used when the issue is particularly large or if the sale of the debt issuance would be perceived to be more successful with pre-marketing efforts.

**9.3.2** Negotiated Sale – Allocation and Designation Policies:

**9.3.2.1** The City uses designation rules that reward performance. The most common order type used by the City is the Member Designated Order. This type of order permits the institution placing the order to designate which syndicate members receive credit for its order. Typically the City requires that each institution must designate at least three syndicate members, and no one firm may receive more than 50% credit.

**9.3.2.2** Retention - At least two days prior to pricing, the senior managing underwriter will award a block of bonds to each co-manager in the syndicate. Each co-manager is responsible for buying these bonds even if they do not obtain orders for them. If another member of the syndicate has more orders than they can fill, the member may fill orders for syndicate members that have not obtained sufficient orders.

**9.3.2.3** Management Fee - The management fee to compensate the underwriters for providing assistance in structuring of the transaction, review of documents, coordination of the working group, efforts to obtain credit enhancement, and other tasks. The management fee is typically allocated in the same allocation as the retention allocation.

**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 City.

A private placement is a sale of debt securities to a limited number of sophisticated investors. The City may engage a placement agent to identify likely investors. A private placement is beneficial when the issue size is small or when the security of the bonds is weak since the private placement permits issuers to sell more risky securities at a higher yield to investors that are familiar with the credit risk. A sales of debt securities to a state agency through a statutorily established loan program is also a private placement.

**9.5** The City considers the following criteria when determining the appropriate method of sale for any debt issuance:

- a. Complexity of the Issue – Municipal securities with complex security features require greater marketing and buyer education efforts on the part of the underwriter, to improve the investors’ willingness to purchase.
- b. Volatility of Bond Yields – If municipal markets are subject to abrupt changes in interest rates, there may be a need to have some flexibility in the timing of the sale to take advantage of positive market changes or to delay a sale in the face of negative market changes.
- c. Familiarity of Underwriters with the City’s Credit Quality – If underwriters are familiar with the City’s credit quality, a lower TIC may be achieved. Awareness of the credit quality of the City has a direct impact on the TIC an underwriter will bid on an issue. Therefore, where additional information in the form of presale marketing benefits the interest rate, a negotiated sale may be recommended. The City strives to maintain an excellent bond rating. As a result, the Municipal Bond Market is generally familiar with the City’s credit quality.
- d. Size of the Issue - The City may choose to offer sizable issues as negotiated so that pre-marketing and buyer education efforts may be done to more effectively promote the bond sale.

## **Section 10**

### **REFUNDING OF DEBT**

**10.1** The City may elect to refund existing debt for reasons including, but not limited to, the following:

- a. To achieve Net Present Value (NPV) savings;
- b. To update bond covenants on outstanding debt that 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.

**10.2** If a refunding is undertaken, the City will evaluate:

- a. Issuance costs that will be incurred;
- b. Interest rate at which the refunding bonds can be issued;
- c. Maturity dates of the refunded bonds;
- d. Call date (if any) on the refunded bonds;
- e. Call premium (if any) on the refunded bonds; and
- f. Whether to issue the refunding bonds for a period beyond the original maturity date.

**10.3** Types of Refunding

*Current refundings* occur when outstanding debt is called for redemption within 90 days. Most City's debt has a ten-year call date built into its structure. When debt reaches the call date, refunding bonds may be issued to pay off the old debt.

*Advance refundings* are refundings where the debt is not called for redemption within 90 days. In an advance refunding, the proceeds to defease the debt at its call date are placed in escrow until the call date. The City's practice is generally to invest escrow in federal securities known as State and Local Government fixed rate securities. The amount to be deposited into the escrow is calculated by identifying the amount necessary to deposit, which will earn a fixed rate of interest, to accumulate to the amount necessary to be available upon the call. This practice prevents exposure to the practice of "yield burning" since there are no excess earnings under this structure.

The Tax Cut and Jobs Act of 2017 prevents the City's ability to advance refund outstanding tax-exempt debt with tax-exempt refunding bonds. . When the interest rate savings is the principal reason for a taxable advance refunding, the City will include issues that can contribute to at least a 2.5% present value savings. Other factors may also affect the City's decision to advance refund an issue on a taxable basis.

**Section 11**

**VARIABLE RATE EXPOSURE**

- 11.1** The City may use variable rate debt (including commercial paper) to lower the cost of borrowing and provide a hedge against interest rate risk.
- 11.2** The City's target is not to exceed 30 percent of its total outstanding debt in a variable rate mode.

- 11.3** Variable rate debt should be converted to fixed rate debt as necessary to maintain the 30 percent target, to meet the particular needs of a financing program, or to lock in low long term fixed interest rates.
- 11.4** When issuing variable rate debt, the City will have appropriate contingency plans in place, such as reserves or hedging instruments, to mitigate the risk associated with rising interest rate environments.

## **Section 12**

### **INTEREST RATE SWAP AGREEMENTS**

- 12.1** The City may consider the use of interest rate swap agreements on a case-by-base basis and consistent with Texas law and financial prudence.
- 12.2** 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 City;
  - 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.
- 12.3** The City will not enter into an interest rate swap agreement without advice of an independent swap advisor and bond counsel.
- 12.4** The City may enter into an interest rate swap agreement if the counterparty has at least two long-term unsecured credit ratings of at least equal to the City's long term general obligation rating from Fitch Ratings, Moody's Investors Service, Inc. or Standard & Poor's Ratings Services, and the party has demonstrated experience in successfully executing interest rate swap agreements.
- 12.5** The City will select counterparties utilizing one of the Methods of Sale as outlined in Section 9 of this Policy.
- 12.6** Before entering into an interest rate swap agreement, the City 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 City's future debt obligations;

- b. Effect on the City'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.

**12.7** The City will monitor interest rate swap agreements no less often than on a quarterly basis to ensure compliance with corresponding swap documentation.

### **Section 13**

#### **CONTINUING DISCLOSURE**

**13.1** The City will periodically review the requirements of the Municipal Securities Rulemaking Board (MSRB) and the recommendations of the Government Finance Officers Association (GFOA), including the GFOA recommendation that financial statements be prepared and presented according to generally accepted accounting principles.

**13.2** The City will remain in compliance with SEC Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within six months after the end of each fiscal year.

### **Section 14**

#### **INVESTMENT OF DEBT PROCEEDS**

**14.1** Debt proceeds will be invested in accordance with the City's Investment Policy or as otherwise permitted in the ordinance or resolution authorizing the issuance of the debt.

**14.2** Interest earned is allocated to each fund monthly based on the average balance of funds available during the month. Interest earned on proceeds from bonds, certificates of obligation, commercial paper or other short-term or long-term debt proceeds is allocated to the respective capital projects funds.

**14.3** The City maintains in its Investment Policy document approved by the City Council the strategy and policies for investing all available monies (which included bond proceeds). Interest on bond proceeds is restricted such that it may only be used to fund projects that have the same purpose as the purpose for which the bonds were originally issued and or to service debt. Construction proceeds are typically invested in short-term securities so that they are more liquid.

### **Section 15**

#### **TAX COMPLIANCE**

## **15.1 In General**

This section contains policies and guidelines (the “*Policies and Guidelines*”) of the City regarding compliance with certain federal tax requirements applicable to the City’s bonds and other obligations the interest on which is excluded from gross income for federal income tax purposes (“*Tax-Exempt Bonds*”) and certain federal tax credit bonds that entitle the City to receive a federal tax credit payment (“*Tax Credit Bonds*”). These Policies and Guidelines relate to requirements that must be met subsequent to the issuance of Tax-Exempt Bonds and Tax Credit Bonds in order to maintain that exclusion or receive a federal tax credit payment including, without limitation, requirements relating to use of proceeds, arbitrage, private business use and record retention. These Policies and Guidelines supersede any post-issuance compliance policy previously adopted by the City but do not supersede, limit or contravene any representations, statements or covenants of the City contained in the bond documents, including the bond ordinance, any resolutions, Certificate as to Tax Exemption, Tax Covenant and Representation Agreement or similar tax certificate, Issue Price Certificate and tax opinions and memoranda related to the issuance of bonds (the “*Bond Documents*”) for its Tax-Exempt Bonds or Tax Credit Bonds.

## **15.2 Policy**

It is the policy of the City to adhere to all applicable tax requirements with respect to its Tax-Exempt Bonds and Tax Credit Bonds as set forth in the Bond Documents including, but not limited to, requirements relating to the use of proceeds of Tax-Exempt Bonds and Tax Credit Bonds and facilities financed and refinanced with Tax-Exempt Bonds and Tax Credit Bonds (the “*Bond-Financed Facilities*”), arbitrage yield restrictions and rebate, timely return filings, and other general tax requirements set forth in the Bond Documents.

## **15.3 Compliance Monitoring**

Consistent with the covenants of the City contained in the Bond Documents, the City will monitor compliance with the federal tax requirements applicable to its Tax-Exempt Bonds and Tax Credit Bonds. The Director of Finance & Procurement or designees are responsible for monitoring compliance with those requirements, with assistance from Bond and Tax Counsel and the City’s financial advisor.

## **15.4 Issue Price**

In connection with establishing the Issue Price for Tax Exempt Bonds and Tax Credit Bonds, some or all following actions should be taken to the extent permitted by the parties to the financing:

**15.4.1** Obtain executed Issue Price Certificate from senior managing underwriter or other representative of underwriting group in form approved by Bond Counsel.

**15.4.2.** Financial advisors of the City and appropriate City officers monitor pricing of Tax Exempt Bonds and Tax Credit Bonds.

**15.4.3** For initial sales of Tax Credit Bonds, obtain quantity sold, purchaser and price paid.

**15.4.4** Either obtain from underwriters or monitor on Electronic Municipal Market Access C “EMMA” sales of City Tax Credit Bonds, from pricing date to closing date and have City’s financial advisor advise as to any anomalies.

**15.5** Record Retention

In accordance with Internal Revenue Service (“IRS”) requirements, the City will retain the following records with respect to its Tax-Exempt Bonds and Tax Credit Bonds:

**15.5.1** Bond transcripts;

**15.5.2** Records regarding Issue Price description in Section 15.4;

**15.5.3** Documentation showing the expenditure of proceeds of the Tax-Exempt Bonds and Tax Credit Bonds for one or more Bond-Financed Facility;

**15.5.4** Documentation showing the use of the Bond-Financed Facilities;

**15.5.5** Documentation showing the sources of payment and security for the Tax-Exempt Bonds and Tax Credit Bonds;

**15.5.6** Documentation related to the investment of proceeds of the Tax-Exempt Bonds and Tax Credit Bonds, including the purchase and sale of securities, investment income received, yield calculations, and rebate calculations;

**15.5.7** All returns filed with the IRS for the Tax-Exempt Bonds (including, as applicable, IRS Forms 8038-G *Information Return for Tax-Exempt Governmental Obligations*, 8038-T *Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate*, and 8038-R *Request for Recovery of Overpayments under Arbitrage Rebate Provisions*) and for Tax Credit Bonds (including IRS Forms 8038-CP or 8038-TC, *Information Return for Tax Credit Bonds*); and

**15.5.8** Any other documentation that is material to the exclusion of interest on the Tax-Exempt Bonds from gross income for federal income tax purposes or entitlement to federal tax credit payments for the Tax Credit Bonds.

**15.5.9** Form 8038-CP: Return for Credit Payments to Issuers of Qualified Bonds, the following:

1. Set up tickler or calendar notification system to insure timely filing;

2. File Form 8038-CP within 45-day filing window; and
3. Maintain sufficient records to show that those returns are correct.

**15.5.10** Except as otherwise set forth in the Bond Documents, the City will retain the records described above in hard and/or electronic copy format for so long as the applicable Tax-Exempt Bonds and Tax Credit Bonds remain outstanding and for a period of three years after final redemption of the applicable Tax-Exempt Bonds and Tax Credit Bonds. With respect to Tax-Exempt Bonds that are refunding bonds, the City will retain the above-described records for the refunding and refunded bonds (and any earlier issue in the case of a series of refundings).

The Director of Finance & Procurement or designee is responsible for retaining the records relating to the City's Tax-Exempt Bonds and Tax Credit Bonds.

## **15.6** Arbitrage

**15.6.1** The City will follow a Policy of full compliance with all arbitrage rebate requirements of the Internal Revenue Code of 1986, as amended and its adopted rules and regulations, and will perform (via contract consultant) arbitrage calculations for each debt issue subject to rebate on an annual basis. All necessary rebate liabilities will be filed and paid when due.

### **15.6.2** Arbitrage Calculations and Rebate

On fixed-yield issues, the calculation of rebate must be performed no later than each five-year anniversary date of the issuance of the bonds and at final maturity. The City currently outsources those calculations on an annual basis. Where bond interest earnings exceed the arbitrage yield, the City rebates those excess earnings to the Internal Revenue Service. The City keeps detailed records of investments and construction expenditures to provide to the consultant to make the arbitrage calculation. The City plans projects carefully in order to determine the applicability of rebate exceptions.

### **15.6.3** Exceptions to Rebate Calculations

**Six-month Exception** – Where 95% of the proceeds will be spent within six months and the other 5% will be spent within twelve months.

**Eighteen-month Exception** – Available for any type of capital proceeds and includes the following spending schedule: 15% in six months, 60% in twelve months, and 100% in

eighteen months (with a *de minimus* holdback). An issue does not fail to satisfy the spending requirement for the third spending period as a result of a reasonable retainage if the reasonable retainage is allocated to expenditures within 30 months of the issue date.

Twenty-four month Exception – Only available to a construction issue having the following expenditure goals: 10% in six months, 45% in twelve months, 75% in eighteen months, and 100% in twenty-four months (with a *de minimus* hold back). An issue does not fail to satisfy the spending requirement for the fourth spending period as a result of unspent amounts for reasonable retainage if the reasonable retainage is allocated to expenditures within 3 years of the issue date.

#### **15.7 Remedial Action**

If the City in complying with the terms and provisions the policies or guidelines set forth herein or determines that the requirements of these policies and guidelines or the tax covenants or representations in the Bond Documents may have been violated, the City will make final determinations, if necessary with the assistance of its Bond and Tax counsel and Financial Advisors, and take appropriate actions related to such noncompliance including, if appropriate, any remedial action described under applicable Treasury Regulations or through the Tax Exempt Bonds Voluntary Closing Agreement Program.

#### **15.8 Coordination With Bond Documents**

In the event of any conflict between these Procedures and Guidelines and the Bond Documents, the Bond Documents shall govern.

### **Section 16**

#### **CAPITAL IMPROVEMENT PROGRAM**

**16.1** In order to ensure sufficient cash flow is available to meet capital improvement project cash requirements, an annual debt issuance schedule is required. The Adopted Capital Budget will provide the basis for the annual debt issuance schedule. It is imperative that the City's contemplated capital improvement programs and all prospective letting of construction contracts comply with this Policy.

**16.2** The underlying asset that is being financed must be of a non-recurring nature and must have as long a useful life as the maturity schedule of the debt issued for the financing of the asset. Since issuing debt costs more to the entity than purchasing assets outright, the use of financing will be carefully evaluated to ensure that the benefits, tangible and/or intangible derived from financing exceed the related financing costs.

**16.3** Capital improvements projects that qualify for debt-service financing are defined as costs to acquire a new capital asset or improvements to an existing asset that increase capacity, improve functionality or extend the useful life of the asset beyond its original useful life.

**16.4** On-going Capital Needs -

**16.4.1** Capital projects are generally defined as costs to construct an asset or system improvement that exceed \$5,000 and have a useful life of at least the term of financing but no less than one year.

**16.4.2** The City Council's goals and policies focus on infrastructure improvements. The City strives to maintain capital assets and infrastructure at a sufficient level to protect the City's investment to minimize replacement and maintenance costs, and to maintain service levels.

**16.4.3** An annual review of the (1) need for capital improvements and equipment, (2) current status of the City's infrastructure, (3) replacement and renovation needs, and (4) potential new projects, is implemented during the capital budget process. All projects, ongoing and proposed, are prioritized by City staff which includes a representative from the Finance Department, the Office of Management and Budget, Engineering Services, and each department which has or may have capital improvement project requests. For every capital project, all operating and maintenance costs/estimated incremental revenues would be included in the proposal, as well as a start date, requested total budget, the capital amount expected to be expended each year, and proposed sources of funding. City staff would then match eligible requests with available sources of funding. For those capital projects identified that will require ongoing maintenance costs once the projects are completed, no maintenance costs will be financed with revenue bonds.

**16.4.4** Decisions are made on prioritization of proposed projects using the following criteria that must be documented in the Adopted Capital Budget:

- Public health and safety
- Regulatory requirement (agreed orders both Federal and State),
- Voter-approved bonds,
- Completion of existing projects already approved by the City Council,
- Operational/life cycle cost drivers; and
- New projects recommended by the committee noted above.

**16.4.5** Capital improvements may be funded using current revenues (property tax, dedicated tax, enterprise user fees, etc.), grant funds, contributions (such as developer contributions) and the issuance of debt. City staff will make every effort to utilize the Pay-As-You-Go method of funding capital improvements.

**16.4.6** Upon completion of the Adopted Capital Budget, City staff will present it to the Planning Commission as per City Charter, Article V. Planning, Section 4: The Comprehensive Plan, and then to the City Council for approval by ordinance. Once approved, the list of projects and a total dollar amount of capital improvement projects would then be identified, and any additions to the Adopted Capital Budget for that particular year would warrant a change to the ordinance to either identify additional funding for a particular project or to identify the reduction of one project in order to fund the additional project or change order to an existing project.

## **Section 17**

### **PUBLIC INPUT ON CAPITAL IMPROVEMENT NEEDS**

#### **17.1 Citizen Input-**

**17.1.1 Citizen Input Form** – In order to obtain input from the citizens on projects to be included in a bond election, a “Citizen Input Form” is made available on the City’s website at <https://www.corpuschristitx.gov>. The form provides a place for citizens to list in priority the projects they feel should be considered in the next bond election. It also provides a place for the reasoning in choosing those particular projects. The results of the citizen input forms would then be compiled and presented to the City Council so that a slate of projects could be prepared for the bond election.

**17.1.2 Town Hall Meetings** – City Council members also hold Town Hall meetings in their respective districts to obtain input from citizens on the projects they would like considered for a bond election. All the suggestions from the Town Hall meetings would then be compiled and presented to the City Council for discussion to be included on the slate of projects for the bond election.

**17.2 Citizen Advisory Committee** – At the discretion of the City Council, a Citizen Advisory Committee may be formed to initiate the development of a multi-year financing and management tool that identifies public facility and equipment requirements, places these requirements in order of priority, and schedules them for funding and implementation.

## **Section 18**

### **DEFINITIONS**

#### **18.1 Definitions:**

- a. **Amortization Risk** – The cost to the issuer of servicing debt or honoring swap payments due to mismatch between bonds and the notional amount of the swap outstanding.

- b. Arbitrage – The investment of proceeds from tax-exempt debt in taxable securities to benefit from the differential in yields.
- c. Basis Risk – The mismatch between actual variable rate debt service and variable rate indices used to determine swap payments.
- d. Bond Covenant – An agreement that the issuer is obligated to perform by virtue of issuing its bonds.
- e. Call Dates – The date, prior to maturity, on which a callable bond may be redeemed.
- f. Call Premium – The price, as established in the bond covenant, at which bonds will be redeemed.
- g. Call Provisions – A clause in a bond contract granting the issuer the right to buy back all or part of an issue prior to the maturity date.
- h. Capital Lease – A contract for the purchase of capital equipment through installment payments.
- i. Commercial Paper – Short-term, unsecured promissory notes usually backed by a line of credit with a bank. Maturities do not exceed 270 days.
- j. 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.
- k. Continuing Disclosure – The principal that accurate and complete information material to the transaction, which potential investors would be likely to consider material in making investment decisions with respect to the securities, be made available on an ongoing basis.
- l. Counterparty Risk – The risk that the other party to an agreement will default.
- m. Counterparties – The parties to an interest rate swap.
- n. Credit Risk – The risk that an issuer of debt securities or a borrower may default on its obligations, or that the payment may not be made on a negotiable instrument (i.e., the occurrence of an event modifying the credit rating of the issuer or its counterparty).
- o. De minimis amount – Any failure to satisfy the final spending requirement of the 18-month exception or the 24-month exception is disregarded if the issuer exercises due diligence to complete the project financed and the amount of the failure does not exceed the lesser of 3 percent of the issue price of the issue or \$250,000.

- p. Defeasance – The setting aside by a borrower of cash or bonds sufficient to service the borrower's debt. These are refunded bonds for which the payment of principal and interest has been assured through the structuring of a portfolio of government securities, the principal and interest on which will be sufficient to pay debt service on the refunded, outstanding bonds. When a bond issue is defeased, the claim on the revenues of the issuer is usually eliminated. Both the borrower's debt and the offsetting cash or bonds are removed from the balance sheet.
- q. Derivative Security – A financial security, such as an option or future, whose value is derived in part from the value and characteristics of another security, the underlying asset.
- r. General Obligation – 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.
- s. Hedge – A transaction that reduces the risk of an investment.
- t. Interest Rate Management 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.
- u. Interest Rate Risk – The chance that a security's value will change due to a change in interest rates. For example, a bond's price drops as interest rates rise.
- v. Interest Rate Swap Agreement – A binding agreement between counterparties to exchange periodic interest payments on some predetermined dollar principal, which is called the notional principal amount. For example, one party will pay fixed and receive variable.
- w. Issuance Costs – The expenses associated with the sale of new securities, including such items as underwriter's spread, printing, legal fees and rating costs.
- x. Liquidity Risk – The risk that arises from the difficulty of selling an asset in a timely manner.
- y. 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.
- z. Notional Principal Amount – In an interest rate swap, the predetermined dollar principal on which the exchanged interest payments are based
- aa. Private Placement – A sale whereby the issuer sells the bonds directly to an institutional investor.

- bb. Reasonable Retainage – An amount, not to exceed five percent of available construction proceeds, that is retained for reasonable business purposes relating to the property financed with the proceeds of the issue. For example, a reasonable retainage may include a retention to ensure or promote compliance with a construction contract in circumstances in which the retained amount is not yet payable, or in which the issuer reasonably determines that a dispute exists regarding completion or payment.
- cc. Refunding Bonds – A bond issued to retire a bond already outstanding that may be sold for cash and outstanding bonds redeemed with cash or exchanged with holders of outstanding bonds.
- dd. Rollover Risk – The risk that results when a swap contract does not have the same terms with the unrelated bonds (ie. the mismatch of the maturity of a swap and the maturity of the underlying bonds).
- ee. Syndicate – A group of banks that acts jointly, on a temporary basis, to loan money in a bank credit (syndicated credit) or to underwrite a new issue of bonds.
- ff. Tax Anticipation Notes – Short-term notes issued in anticipation of collections of taxes or as otherwise provided by State law.
- gg. Tax Event Risk – The risk that the spread between taxable and tax-exempt rates will change as a result of the changes in income tax laws or other conditions.
- hh. Termination Risk – The need to terminate a transaction in a market that dictates a termination payment by the issuer.
- ii. Variable Rate Debt – Bonds with interest rates that fluctuate based upon an index or pricing procedure. These bonds often offer lower interest rates and have short maturities.
- hh. Yield Burning – A municipal bond financing method. Underwriters in advance refundings add large markups on U.S. Treasury bonds bought and held in escrow to compensate investors while waiting for repayment of old bonds after issuance of the new bonds. Since bond prices and yields move in opposite directions, when the bonds are marked up, they "burn down" the yield, which may violate federal tax rules and diminishes tax revenues.