

Chapter 22. Debt Policy¹

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22.001 Purpose

- (a) The purpose of this policy is to provide guidance governing the issuance, management, and continuing evaluation and reporting of all Travis County debt obligations. This policy provides parameters for Commissioners Court debt issuance decisions. Travis County is committed to sound capital financial management practices. Debt management policies help guide capital planning and ensure sound financial management practices associated with the issuance of debt. These guidelines are meant to be parameters in serving the public interest, not absolute terms.
- (b) This policy will be reviewed by the Planning and Budget Office annually for compliance, and will be reviewed by the Commissioners Court at least once every five years to ensure the policy is relevant and up to date.

22.002 [Reserved for Expansion]

22.003 General Approach to Debt

Travis County will maintain a prudent approach to the issuance of debt that adheres to all applicable laws and associated bond covenants. This approach includes the following:

- (1) Travis County will provide essential services to the community in a timely and sufficient manner using current revenues.
- (2) Travis County will provide necessary equipment, facilities, and infrastructure in a timely manner using the most cost-effective method of payment available for such expenditures.
- (3) Travis County will strive to finance routine purchase and replacement of capital equipment, such as computer equipment, furniture, and "down payments" on larger capital projects through the Capital Acquisition Resources account (CAR) from current operating revenues. CAR is adjusted annually through the budget process. The purpose of the CAR

¹ Chapter 21 Fiscal, Subchapter B Debt Policy, was amended and moved to Chapter 22. Debt Policy on February 20, 2018, Item 16. Prior history: Chapter 21 was amended on May 27, 2014, Item 9. Section 22.007 was amended on January 15, 2019, Item 17.

is to reduce or to eliminate the need for issuing debt or entering into any other financing arrangement for recurring operating equipment purchases.

- (4) Travis County will issue debt obligations following general market conventions to assure the best interest rate and most favorable overall terms deemed possible at the time, based upon advice from the County's independent municipal financial advisor.

22.004 Long-Term Debt

The Travis County Commissioners Court will issue long-term debt (with a repayment period in excess of five years) with the approval of such bond issue by the voters at an election, except under any of the following circumstances:

- (1) The expenditure is legally required of the County, and penalties or fines could be imposed on the County if the expenditure is not made.
- (2) The expenditure will be used for a project that has been categorized as a safety project per specific criteria approved by Commissioners Court.
- (3) A financial analysis demonstrates that during a stipulated term Travis County would spend significantly less.
- (4) The expenditure is for the purchase of real estate (including buildings, land, or right-of-way) where delays for a bond referendum would impede the County's ability to negotiate and be competitive on behalf of the taxpayers.
- (5) The voters have previously approved the issuance of general obligation bonds but, for valid reasons, certificates of obligation must be substituted for such bonds to carry out the voters' authorization.
- (6) The expense is for necessary planning services or acquiring options for a future capital project that will be submitted to the voters.

22.005 Capital Expenditures

Capital expenditures, particularly those involving the issuance of debt, will be considered only in the context of multi-year planning by the County.

22.006 Process to Determine Needs

- (a) Expenditures for capital improvements and equipment will be requested, justified, and approved as part of the annual County budget process. The recommended method of finance for such expenditures will be specified prior to budget adoption.
- (b) Each year prior to the issuance of debt, the Planning and Budget Office will prepare a report analyzing all recommended expenditures proposed to be financed with debt. The report will:

- (1) Explain the impact the proposed new debt will have on the County's debt service tax rate,
 - (2) Provide an analysis of such impact on the average county taxpayer, and
 - (3) Provide the impact of the issuance of the proposed County debt on industry standard primary guideline ratios and secondary guideline ratios, including the impact of the general obligation debt of other taxing entities in Travis County (schools, cities, special districts).
- (c) The Facilities Management Department will review and assess major building/facility renovation or construction projects advanced as part of the County's facilities master plan. Smaller projects will be reviewed through the budget process prior to consideration by the Commissioners Court.
 - (d) The Transportation and Natural Resources Department will review and assess projects that include roads, drainage, or parks prior to consideration by the Commissioners Court.
 - (e) The Commissioners Court will consider staff recommendations for projects to be undertaken, the timing of those projects and the source of funding to be provided for accomplishment of those projects.

22.007 Debt Principles²

- (a) The County may issue General Obligation Bonds, Certificates of Obligation, Revenue Bonds, Refunding Bonds, State Highway Bonds, Tax Notes, and other debt instruments authorized for issuance by a county in accordance with the Texas Government Code or other applicable law.
- (b) Debt proceeds will be invested in accordance with the Travis County Investment Policy and Procedures and applicable state laws. Derivatives will not be used in connection with investment of debt proceeds or in connection with issuance of debt.
- (c) A debt service fund balance of at least 11% of total debt service requirements for the current fiscal year will be targeted to ensure availability of funds to meet the debt service payments in the event of tax revenue shortfalls. It is the County's practice to budget a reserve from year to year that is targeted to maintain a fund balance of 11%.
- (d) The term of any debt supported by ad valorem taxes should not exceed 20 years, and should never exceed the useful life of the asset being financed or the weighted average useful life of a group of assets when multiple assets are funded in a single issue.
- (e) Except in the case of revenue producing facilities, debt will not be issued for the purpose of making debt service interest payments. If interest capitalization

² 22.007(c) amended January 15, 2019, Item 17.

becomes necessary, it will only be used for three years or the period of the construction phase, whichever is the shorter period.

- (f) Delays in repayment of principal will be part of the debt structure only if in a particular circumstance such delay is seen to be in the County's best financial interest.
- (g) Interest earnings on voter approved bonds which have been sold will be retained in the project until that project is completed unless the Commissioners Court has instructed otherwise in a bond covenant. Funds not needed for the project after its completion will be either transferred to the Interest and Sinking Fund to mitigate the need to increase the debt service tax rate or may be used for projects of a similar nature as allowed by law. Excess funds will not be allowed to increase the scope of the original project without additional justification and analysis.
- (h) Interest earnings and savings on Certificates of Obligation may be used to reduce the issuance of new certificates for projects that are allowed in the authorizing order.
- (i) Debt redemption shall be provided for, based upon the advice of the County's independent municipal financial advisor.
- (j) Guidelines in the form of industry-standard ratios will be reviewed in conjunction with each debt issuance to provide a framework within which to view overall Travis County debt. Those guideline ratios include:
 - (1) Primary Guidelines
 - (A) Net bonded debt to taxable value should not exceed the range of 1.0%- 1.5%.
 - (B) Net bonded debt to population should not exceed \$800 per capita.
 - (C) Debt service to total expenditures (operating expenditures and debt service combined) shall be approximately 20% or less.
 - (2) Secondary Guidelines
 - (A) A total debt target of 5% of taxable value for all overlapping debt in Travis County (county, city, school district, and other) will be established, in concert with cooperative efforts toward sharing this goal with the other debt-issuing entities.
 - (B) Annual short-term debt service payments to total debt service shall be approximately 25% or less.
 - (C) Short-term debt service payments to total General Fund expenditures shall be approximately 5% or less.
- (k) The annual debt analysis will show the anticipated net bonded debt to taxable value and the net bonded debt per capita that will be shown as a part of an upcoming official statement.

- (l) Travis County may issue debt using the sale method recommended by the County's independent municipal financial advisor (competitive, negotiated, or private placement) deemed to be in the best financial interest of the County.
- (m) Travis County may issue refunding bonds as recommended by the County's independent municipal financial advisor when deemed to be in the best financial interest of the County.
- (n) Travis County may utilize reimbursements resolutions that express the County's intent to reimburse itself for expenditures made related to capital programs for which debt will be issued.
- (o) Travis County will follow its written post-issuance federal tax compliance procedures for tax- exempt debt.