BURNET COUNTY
DEBT MANAGEMENT AND
CONTINUING DISCLOSURE POLICY

I. Statement of Purpose

The purpose of Burnet County, Texas Debt Management Policy (the "Policy") is to establish and maintain well defined debt management guidelines for issuing new debt as well as managing outstanding debt to sustain a strong debt management program.

II. Scope

The Policy applies to all debt instruments issued by the County regardless of the purpose for which issued or the funding source for repayment.

III. Objective

The primary objective is to ensure prudent debt management practices which include:

- Maintain financial stability;
- Preserve public trust;
- Minimize costs to taxpayers and ratepayers;
- Minimize borrowing costs;
- Preserve access to financial markets; and
- Maintain and improve the County's credit rating.

IV. Types of Authorized Debt

Through the issuance of debt obligations, a county can finance capital improvements for practically any public purpose. The types of debt obligations, **all hereafter discussed in more detail**, generally include:

A. **TAXING AUTHORITY**

Article VIII, Section 9 of the Texas Constitution imposes a limit of $0.80 per $100 valuation for all purposes of the County's General Fund, Permanent Improvement Fund, Road and Bridge Fund and Jury Fund, including debt service of bonds, warrants, tax notes and certificates of obligation issued against such funds. By administrative policy, the Attorney General of Texas will permit allocations of $0.40 of the constitutional $0.80 tax rate for the payment of the debt service requirements on the County's indebtedness payable from such tax.

1. Limited Tax General Obligation Bonds

Limited Tax General Obligation Bonds are covered under the above Taxing Authority, except that the bonds may only be issued upon obtaining approval from the qualified voters of the County at a bond election.

2. Certificates of Obligation - three basic types:

- Certificates payable from taxes;
- Certificates payable from revenues; and
- Certificates payable from a combination of taxes and revenues.

If Certificates of Obligation are payable from ad valorem taxes, they are confined to the same tax limitation as General Obligation Bonds. Certificates of Obligation cannot exceed a term of 40 years and the proceeds therefrom cannot be used on any project that was the subject of a general obligation bond election that was defeated within the three year period immediately preceding approval of the subject Certificates of Obligation.

Certificates of Obligation require publication of a Notice of Intention and require no election unless a valid petition is presented calling for an election.

If Certificate of Obligation proceeds are to be used for acquiring land or existing structures, or for other limited purposes without the requirement of a revenue pledge. More commonly, the sale of Certificates of Obligation for cash requires at least a limited pledge of revenues ($1,000) as part of the pledged security (generally in addition to a limited ad valorem tax pledge that is uniform among all tax-supported debt of the County)..

All Certificates of Obligation are required to receive approval by the Attorney General of the State of Texas as a condition to their issuance.

3. Tax Notes - payable from ad valorem taxes or revenues.

The authority for issuance of Tax Notes was approved by the Legislature in 1993, referred to as Article 717w, as amended, Texas Revised Annotated Civil Statutes.

The more salient features include:

- No election required;
- Can be issued to construct any public work, purchase equipment, land, and rights-of-way, and pay professional fees;
- Maximum maturity at time of issuance is 7 years;
- Can be accomplished on very short time frame; and
- The Texas Attorney General will now approve a refunding of the Notes under Chapter 1207, as amended, Texas Government Code (using the 40-year maturity limit of the refunding obligations rather than the 7-year maturity limit of the Notes).

4. Unlimited Tax Road Bonds

Article III, Section 52, Texas Constitution, authorizes the County to levy a separate unlimited tax to pay debt service on County road bonds. These bonds must be approved at an election by a majority of qualified voters and the proceeds must be used for road and bridge purposes. Unlimited tax road bond debt may not exceed 25% of the real estate portion of the County's taxable assessed valuation.

V. Debt Finance Guidelines - The County will consider a range of debt structures which when combined allow for flexibility in responding to future needs, do not utilize all available debt capacity, continue to emphasize credit considerations, and match well with the useful life of the assets for which debt is incurred.

A. Debt is a financing tool which should be judiciously used within the County's legal financial and debt market capacities.

B. Debt Defined - The creation of debt occurs when a governing body incurs a financial obligation that cannot or will not be repaid from current year revenues.

1. Cash Flow Financing - Cash flow financing refers to tax and revenue anticipation notes (TANS, RANS, or TRANS) that are issued in anticipation of the receipt of revenues, and the tax dollars are levied, appropriated, and expected to be received in the fiscal year in which the note is issued. TANS and RANS are payable from current year revenues and, therefore, do not constitute debt.

2. Short-Term Debt - For purposes of this policy, short-term debt refers to debt with a repayment term of less than five (5) years.

3. Long-Term Debt - For purposes of this policy, long-term debt refers to debt with a repayment term greater than the maximum term of short-term debt, up to the maximum term allowable by law.

C. Conditions for Which Long-Term Debt May Be Issued - When an asset's useful life is appropriate for long-term financing and the estimated future revenues are sufficient to insure repayment of debt obligations, long-term debt will be considered.

1. Bonds - Capital requirements for the construction, acquisition, and equipping of facilities and infrastructure, and the purchase of necessary sites for facilities and infrastructure will be identified and formalized in a capital improvement program (CIP) subject to qualified voter approval. The capital planning process may incorporate updated demographic data from a third party consultant, facility planning date from Support Services and architectural firms, and debt financing data from the County's auditor.

2. Debt Refunding - The refinancing and/or restructuring of debt can be valuable debt management tools to provide the County with debt service savings or debt payment relief. Debt is often restructured through the issuance of refunding bonds. Current refunding occurs when the refunding bonds are settled within 90 days of an optional prepayment date. Advance refunding occurs when the refunding is settled more than 90 days in advance of an optional prepayment date. Federal restrictions allow an issue to be advance refunded only once on a tax exempt basis. Taxable advance refundings are legally permissible and may provide the County

with financial benefit. The County will actively review, analyze, and pursue opportunities to refund outstanding debt.

3. Variable Rate Debt - Variable rate debt can be an important tool in managing a debt program. When issued prudently, variable rate debt may help lower the cost of borrowing and provide a hedge against interest rate risk. Interest rates on variable rate debt instruments are at the short end of the yield curve because they are periodically adjusted (e.g. daily, weekly, or monthly) based on current market conditions. Certain variable rate debt gives investors the right to "put" securities back to the issuer at their discretion at specified future intervals. When issuing variable rate debt (rather than fixed rate debt), the County may need additional parties involved including a Remarketing Agent, Liquidity Provider(possibly), and Tender Agent. The Remarketing Agent determines the interest rate for the period, notifies the bondholders (through the Tender Agent) and remarkets any bonds tendered to either different bond buyers or the Liquidity Provider. The Liquidity Provider is usually a national or multi-national bank that provides the County with liquidity through a form of lending agreement (usually on a revolving basis, such as a letter of credit agreement, or standby bond purchase agreement0. If third-party liquidity has been obtained, and there occurs a failed remarketing, the bonds would be placed with Liquidity Provider until the bonds could be effectively remarketed. The Tender Agent would accept the tendered bonds from the holders and notify the County, remarketing agent, liquidity provider and the bond holders of required mandatory or optional tender notices or rate changes.

   As a general rule, some rating agencies recommend that variable rate debt not exceed 10-20 percent of total bonds outstanding, although other factors may affect their evaluation of the amount they regard as acceptable. The County may consider issuing variable rate bonds when variable short-term interest rates are consistently lower than long-term fixed rates. Total variable debt may not exceed 10% of the total outstanding debt, plus the amount of authorized bonds.

4. Unauthorized Structures - The County will not utilize swaps and other similar derivative products as a method of issuance.

D. Restrictions/Limitations of Debt Issuance:

1. Debt Tax Limitations - As stated earlier, the Attorney General has a policy not to approve any debt that would require a debt service tax which would exceed $0.40.

2. Maturity Levels - The weighted average life of the debt issuance should not exceed the useful life of the asset being financed, and in no case shall the final maturity of the issuance exceed the legal maximum of 40 years.

3. Repayment Provisions - The County will structure its debt in compliance with all federal, state, and local requirements as to repayment terms and seek to repay its debt in an expeditious manner within the County's overall financial objectives and in consideration of the useful life of the project and dedicated repayment revenue

sources. The County will structure its debt with two primary goals: 1) to ensure the earliest possible maturity of the bonds, and 2) matching or improving upon the I&S tax rate assumptions and projections as discussed with the citizens of the County at the time of the bond election.

E. Debt Issuance Process:

Preferred Method of Sale - The County may use competitive sales, negotiated sales, or private placement as methods of sale for its debt issuance. When considering the method of sale, the County will take into consideration:

- Financial and market conditions;
- Transaction specific conditions; and
- County related conditions.

Competitive sales are the preferred method under the following circumstances:

- A general obligation pledge;
- Simple structure and financial analysis;
- Stable financial markets; and
- Moderate par amount.

Negotiated Sales are the preferred method under the following circumstances:

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

Private Placement is the preferred method under the following circumstances:

- Smaller issue size; and
- Overall cost savings to the County.

Reimbursement Resolution - As provided by law, the County may decide that it is in the County's best interest to adopt a "Reimbursement Resolution" prior to the formal issuance of debt. The purpose of such a resolution is to evidence an intent to reimburse itself for expenditures related to the capital programs for which debt may, or will, be issued. This would allow the General Fund, or whichever fund the original expenditures were made from, to be reimbursed by bond proceeds once the debt is issued. The County will reimburse itself within 18 months from the later of the date the original expenditures or the date the project financed is placed into service (but no more than three years after the date the expenditure was made).

1. External Financial Professionals:

   a. Financial Advisor - The County's Financial Advisor will work with County staff to:

- Insure that the County's debt is issued at the lowest possible interest cost and are structured in accordance with the County's financing guidelines;
- Prepare the Notice of Sale, Preliminary Official Statement, and the Official Statement;
- Evaluate the bids submitted and recommend that they be accepted or rejected;
- Review draft closing documents and monitor the closing process;
- Prepare with County assistance and submit the County's Annual Disclosure Report in accordance with SEC Rule 15c2-12; and
- Assist in establishing repayment schedules that complement existing requirements and maintain a repayment pace acceptable to credit rating agencies.

b. Bond Counsel - The County's Bond Counsel will:

- Certify that the County has the legal authority to issue debt;
- Prepare required orders, resolutions, and related transaction documentation;
- Work with the Texas Attorney General to obtain approval of the debt issue;
- Confirm County compliance with Securities and Exchange Commission Rule 15c2-12 (with respect to public debt offerings);
- Provide a legal opinion as to the validity and enforceability and the federal income tax implications of the debt issue; and
- Coordinate the closing transactions.

c. Paying Agent/Registrar - The County's Paying Agent/Registrar will:

- Authenticate the bonds, obligations, or notes;
- Send/receive transfers of money at closing;
- Maintain a listing of bondholders and applicable addresses;
- Receive principal and interest payments from the County and remit to bondholders (or the book-entry-only registry acting on their behalf.

d. Rating Agencies - The County will obtain a credit rating from at least one nationally recognized bond rating agency on all bond issues. There are currently three nationally recognized rating agencies: Moody's Investors Service, Inc., Standard & Poor's Global Ratings, and Fitch Ratings, Inc. Rating agencies assign a credit rating to bonds based on their assessment of the County's financial position and ability to make full and timely payments of principal and interest, and provide a ratings report to the market prior to the sale.

2. Timing of Sales - The County's Financial Advisor will work with the County staff to insure that the timing of debt issuance coincide with the need of debt proceeds for projects prior to the execution of construction contracts or purchase orders.

3. Bond Rating Goals - The County will strive to maintain excellent bond ratings through:

- ➢ Strong financial management practices;
- ➢ Timely disclosure of annual financial information, including Annual Financial Report prepared by management and attested to by the external auditors; and
- ➢ Maintaining good relationships with bond rating agencies, including site visits or meetings in person when required.

VI. Continuing Disclosure Requirements - The Securities and Exchange Commission (SEC) regulates both primary disclosure (the initial marketing of bonds or other obligations ("Obligations")) and continuing disclosure (ongoing information to the market about the status of the issue and issuer). The Securities and Exchange Commission Rule 15c2-12, as amended (the "Rule"), requires the County to provide updated annual financial information no later than six months after the end of its fiscal year (currently by March 31st) to the Municipal Securities Rulemaking Board through its Electronic Municipal Markets Access (EMMA) system. The County understands that it is their responsibility to comply fully with the Securities and Exchange Commission Rule 15c2-12, as amended. Timely and accurate information can improve the marketability of the County's debt issuances.

The financial information that the County will be required to provide (a "Continuing Disclosure Undertaking") will be set forth in the order or resolution authorizing an issue and may consist of (a) annual financial information and operating data with respect to the County, and/or (b) audited financial statements. The Commissioners Court shall designate a County officer or employee to serve as the person responsible (the "Responsible Party") for monitoring and making filings in compliance with the County's Continuing Disclosure Undertakings.

Annual filings:

(1) annual financial information and operating data; and
(2) annual audited financial statements.

The Responsible Person shall calendar the due dates for continuing disclosure filings and shall begin preparation of the filings at least sixty days prior to the filing date.

Certain Events:

The County must provide notice of any of the following events with respect to a series of Obligations to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event):

(1) Principal and interest payment delinquencies;
(2) Non-payment related defaults, if material;
(3) Unscheduled draws on debt service reserves reflecting financial difficulties;
(4) Unscheduled draws on credit enhancements reflecting financial difficulties;
(5) Substitution of credit or liquidity providers, or their failure to perform;
(6) Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–TEB) or other material

notices or determinations with respect to the tax status of the Obligations, or other material events affecting the tax status of the Obligations;

(7) Modifications to rights of Obligation holders, if material;
(8) Obligations calls (includes redemptions and other early payments), if material, and tender offers;
(9) Defeasances;
(10) Release, substitution, or sale of property securing repayment of the Obligations, if material;
(11) Rating changes;
(12) Bankruptcy, insolvency, receivership or similar event of the County;
(13) The consummation of a merger, consolidation, or acquisition involving the County or the sale of all or substantially all of the assets of the County, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material;
(14) Appointment of a successor or additional paying agent or the change of name of a paying agent, if material; and
(15) Incurrence of a Financial Obligation of the County (as defined by Rule 15c2-12, which includes certain debt, debt-like, and debt-related obligations), if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of any such financial obligation of the County, any of which affect security holders, if material; or
(16) Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of any such financial obligation of the County, any of which reflect financial difficulties.

The Responsible Person should review this list at regular intervals to determine whether any event has occurred that may require a filing with EMMA.

The County will work in conjunction with their Financial Advisor to prepare, complete, and file the required annual reports and any necessary event notices. Once the filings are completed and reviewed by the County, the Financial Advisor will submit any reports on the County's behalf to the EMMA system in a timely manner and will provide receipts of the submission to the County.

VII. Management of Bond Proceeds - When debt is issued, the proceeds are deposited in various accounts, which may include a construction fund, debt service fund, and an escrow fund in a refunding. Money allocated to these funds is invested until needed. The investment strategy for each fund will depend, in part, on federal and state statutes and regulations governing the types of instruments permitted to be used, the yield permitted for the fund, and the anticipated drawdown of bond proceeds. Investment of bond proceeds shall be in accordance with the Public Funds Investment Act (PFIA) (Texas Government Code Chapter 2256), the Public Funds Collateral Act (Texas Government Code Chapter 2257), federal and state laws, and Policy CDA Local according to the cash flow schedule for capital projects. The County's Financial Advisor may not bid on investment products.

With respect to tax-exempt debt, the County will incur within six months of the date on which proceeds are issued, a binding obligation to a third party to expend at least five percent of the sale proceeds of the debt on a project to be financed with debt proceeds. The County reasonably expects that work on or acquisition of the project will proceed with due diligence to completion and that the proceeds of the debt will be expended on the project within reasonable dispatch. The County reasonably expects that 85 percent of the sale proceeds of the debt will have been expended on the project prior to the date that is three years after date of issuance of such debt. Any debt proceeds not expended prior to the date that is three years after such issue date will be either invested at a yield not "materially higher" or make yield restriction payments not less often than every fifth anniversary date of the delivery of the debt and within 60 days following the final maturity of the debt.

VIII. Management of Debt Service Fund - The County has created or continued a debt service fund (the "Debt Service Fund") and the proceeds from all taxes levied, assessed, and collected for and on account of debt are to be deposited in such fund. The County expects that taxes levied, assessed and collected for and on account of bonds will be sufficient each year to pay such debt service. The "bona fide portion" of the Debt Service Fund will be used primarily to achieve a proper matching of revenues and principal and interest payments on bonds within each bond year. Amounts held in the Bona Fide Portion of the Debt Service Fund will be invested at an unrestricted yield because such amounts will be expended within13 months of the date such amounts are received. The remaining portion of the Debt Service Fund (the "Reserve Portion") will be included in the calculation of arbitrage rebate.

A. Interest Earnings - Interest earnings in the Construction Fund may be used for project costs, principal and interest costs and related fees. Earnings of the Debt Service Fund will be used to pay only principal, interest costs, and related fees on current and future debt.

B. Unreserved, Undesignated Fund Balance - The County will target a minimum debt service fund balance of 25% of the annual debt service requirements on all outstanding debt issuance.

IX. Compliance

A. Compliance with Statutory Regulations - The County will comply with all statutory regulations in the issuance and structuring of debt obligations.

B. Federal Arbitrage and Rebate Compliance - The County 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 rebates liability will be filed and paid when due.

C. Continuing Disclosure - The County will comply with the continuing disclosure requirements ads found in SEC Rule 15c2-12, as amended, to annual disclose certain financial information and operating data as well as audited financial statements. Also in accordance with this Rule, the County will timely file notices of specified events as required by Rule 15c2-12.

X. Reporting to Committee/Council - The County Judge, County Auditor and the County's Financial Advisor will provide summary debt management reports to the Commissioners Court at a minimum annually or with every debt issuance.

COUNTY JUDGE
BURNET COUNTY

12/10/19
Date