

ORDINANCE NO. 1359

AN ORDINANCE OF THE CITY OF KYLE, TEXAS, ADOPTING THE UPDATED DEBT MANAGEMENT POLICY; AND REPEALING ALL ORDINANCES OR PARTS OF ORDINANCES IN CONFLICT THEREWITH, SPECIFICALLY INCLUDING ORDINANCE NO. 648 AND 846; AND PROVIDING FOR AN EFFECTIVE DATE.

Whereas, on April 5, 2011, the City Council passed and approved Ordinance Number 648 adopting a Debt Management Policy; amending Section 8.11 of Article VIII of the Code of Ordinances in its entirety; and

Whereas, on September 16, 2014, the City Council passed and approved Ordinance Number 826 repealing Section 2, subparagraph (F), subsection (9) of Ordinance No. 648; defining annual operating budget and reserve fund as said terms are found in Section 8.12 of the City Charter; providing other definitions; and

Whereas, subchapter C of Chapter 271 of the Texas Local Government Code (TLGC) has been amended based on the passage of HB 1378 and HB 1869 affecting compliance requirements for debt issued by municipal governments necessitating the update of the City's Debt Management Policy; and

Whereas, the City Council of the City of Kyle finds it beneficial to provide policy guidelines for the issuance and effective management of all short and long-term debt of the City.

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

Section 1. Findings

The following recitals are hereby found to be true and correct and are hereby adopted by the City Council and made a part hereof for all purposes as findings of fact.

Section 2. Purpose of Debt Management Policy

The City of Kyle recognizes that adherence to a formal debt management policy is essential to effective management of its capital financing activities and to provide guidelines for the issuance and management of the City's short and long-term debt.

This debt management policy is hereby established to improve the quality of decisions undertaken and made by the City Council in association with the City's capital financing activities and issuance of debt including but not limited to the following:

1. Policy goals and objectives.

2. Conditions for debt issuance.
3. Requirements and limitations of the City Charter.
4. Other restrictions on debt issuance.
5. Limitations on outstanding debt balance.
6. Characteristics of long-term debt financing.
7. Long-term debt financing for emergency purposes.
8. Types of debt obligations.
9. Debt issuance process.
10. Credit enhancements.
11. Rating agency communications and disclosure.
12. Bond reimbursement resolutions.
13. Permitted investment of debt proceeds.
14. Review of the Debt Management Policy.

Section 3. Policy Goals & Objectives

It is the intent of this debt management policy that the policy applies to all debt of the City including new debt issuances, existing debt obligations, and any refunding debt issuances regardless of the funding source for the debt service associated with each debt series and or debt issuance.

1. All debt issued by the City shall be issued in strict compliance with the City Charter, the City's debt management policy, and all applicable laws and regulations.
2. The City shall only issue debt to finance its capital improvements program including but not limited to, land acquisitions, buildings, roads, roundabouts, intersection improvements, bridges, sidewalks, tunnels, animal shelters, public libraries, parks and recreation facilities including skate parks, public safety facilities, water and wastewater system facilities and infrastructure improvements, storm drainage improvements, and other allowable capital improvement expenditures.
3. The City shall not issue debt to pay for its operations and routine maintenance expenditure requirements.
4. The City shall plan to strategically allocate its debt capacity to those projects identified as priority projects that are critical to its mission.
5. The City shall issue debt to provide funding for capital assets at the lowest cost.
6. The maturity term of the debt shall not exceed the useful life of the asset being financed.
7. The City's debt repayment structure for all debt types issued shall be based on a

levelized amortization (repayment) schedule. For debt defeasance purposes to manage property tax rates, the City Council may approve an accelerated repayment schedule. In addition, the City Council may approve a deferment in principal repayment of up to two (2) years for purposes of managing the City's property tax rate.

8. When appropriate for non-tax supported debt issuance, the City may consider in the amortization schedule capitalized interest for a maximum period not to exceed two (2) years.
9. The City's separate policy for Public Improvement Districts (PIDs) provides policy guidance for special assessment bonds (PID bonds) issued to pay for public infrastructure improvements within the various districts (PIDs) established by the City of Kyle.
10. To reduce financing costs, the City shall align and structure its debt financing requirements for its capital improvements program to target improving the City's long-term investment grade bond rating by the Standard & Poor's AA- category or better. This ratings target can also be converted to an equivalent rating category of other rating agencies such as Moody's and Fitch.

Section 4. Conditions for Debt Issuance

The City of Kyle may consider issuing debt for the purpose of meeting the infrastructure and other capital improvement needs of the community.

Long-term debt is only to be issued to finance the acquisition and or construction of capital assets. This includes the acquisition and or construction of all necessary capital assets including, but not limited to:

1. Capital projects and associated expenditure requirements identified in the City's current fiscal year's approved 5-year capital improvements spending plan, shall only be considered by the City Council for long-term debt financing.
2. Land, buildings, machinery, equipment, and fixtures.
3. Parks and recreation facilities.
4. Buildings to locate and house City's operations, service delivery, and administrative functions including but not limited to administrative offices, planning and zoning, permitting, code enforcement, public library, seniors' program, animal shelter, and other municipal support services.
5. Water supply and storage facilities, water and wastewater treatment plants, infrastructure and appurtenances for water, wastewater, and reclaimed water utility systems.
6. Stormwater and drainage system infrastructure and facilities.
7. Roadways, street resurfacing, roundabouts, and intersection improvements.
8. Bridges, tunnels, and sidewalks.

9. Renovation of and improvements to existing City owned capital assets and facilities.
10. Any other allowable capital expenditure authorized by the voters and or by the City Council.

Section 5. Requirements & Limitations of the Kyle City Charter

Under Article VIII, Section 8.11 Bonds & Financial Obligations, the Kyle City Charter states that the City Council may by ordinance authorize the issuance of any tax or revenue bonds, refunding bonds, certificates of obligation, warrants, notes, certificates of participation, tax anticipation notes or other evidence of indebtedness or obligation, for any permanent public improvement or any emergency, or any other public purpose not prohibited by law, subject only to the following limitations:

1. No general obligation bonds, other than refunding bonds, shall be issued except as approved by a majority vote at an election held for such purpose.
2. No indebtedness or obligation shall be issued except in compliance with the requirements of state law.
3. No form of indebtedness other than general obligation bonds approved by public vote may be issued without public notice and a public hearing being held in compliance with state law; the published notice shall clearly summarize the relevant statutory provisions providing for a petition and election, if any.
4. The authorization for bonds authorized but not issued shall expire ten years after the date of authorization.
5. The issuance of indebtedness of obligation should not have a repayment period greater than the life of the asset(s) as defined by generally accepted accounting principles purchased through the issuance of these indebtedness or obligations.
6. No indebtedness or instrument of obligation exceeding five percent (5%) of the annual assessed valuation of the City shall be issued without a binding referendum being placed on the ballot approving such expenditure.

Section 6. Other Restrictions on Debt Issuance

All debt issuances including refunding bonds to be issued by the City of Kyle regardless of the funding source for the payment of debt service must comply with and adhere to the following policy restrictions:

1. All debt issuances must be authorized and approved by the City Council.
2. The City of Kyle shall not issue long-term debt to finance current operations and or routine maintenance.
3. The City shall not issue derivative based debt instruments to finance its capital improvements program requirements.
4. The issuance of long-term variable interest rate debt and interest rate swaps are expressly

prohibited by this policy.

5. Variable interest rate debt instruments shall not be issued to refinance fixed rate long-term debt of the City.
6. The issuance of private activity bonds by the City of Kyle is prohibited under this policy.
7. Debt service payments not tied to a specific revenue source or for which the source of funding for the debt service payments (principal and interest) is to be paid from the City's property tax revenues shall not be greater than forty percent (40%) of total combined budgeted General Fund revenue for the current fiscal year including the Interest and Sinking Fund. This percentage limitation on the outstanding debt balance of the City's General Fund may be waived by the City Council on a case-by-case basis for emergency purposes.

Section 7. Limitations on Outstanding Debt Balance

The City of Kyle has not imposed or enacted in its City Charter a debt limitation amount or a not to exceed maximum cap amount for its property tax supported outstanding debt balance.

The City of Kyle manages its municipal operations and financial affairs as a home rule City under the Texas constitution which limits the maximum property tax rate for all City purposes at \$2.50 per \$100 of assessed valuation including annual debt service payments.

In order to effectively manage the total outstanding long-term debt balance that is to be repaid from property tax revenues of the City of Kyle, this debt management policy requires that before any debt may be issued, the City will perform an analysis to ensure compliance with the following policy requirements:

1. Debt service payments not tied to a specific revenue source or for which the source of funding for the debt service payments (principal and interest) is to be paid from the City's property tax revenues shall not be greater than forty percent (40%) of total combined budgeted General Fund revenue for the current fiscal year including the Interest and Sinking Fund. This percentage limitation on the outstanding debt balance of the City's General Fund may be waived by the City Council on a case-by-case basis for emergency purposes.
2. Debt service payments (principal and interest) on bonds that are one hundred percent (100%) supported by a specified non-General Fund type revenue stream such as the City's water and wastewater utility system revenue supported bonds, the City's Tax Increment Reinvestment Zone (TIRZ) supported bonds, or the Public Improvement District (PID) supported bonds are not subject to the forty percent (40%) limit.
3. The total outstanding debt balance (principal portion only) that is payable from the City's property tax revenues, excluding self-supporting or non-tax supported debt, shall not exceed twelve percent (12%) of the assessed valuation of the City for the same fiscal year excluding all assessed valuations within the City's tax increment reinvestment zones. This calculation shall include all types of long-term debt including general obligation bonds, general obligation refunding bonds, certificates of obligation,

etc., that are payable from the City's property tax revenues. This percentage limitation on the outstanding debt balance of the City's property tax supported debt may be waived by the City Council on a case-by-case basis for emergency purposes.

4. Total outstanding debt balance (principal portion only) on bonds that are one hundred percent (100%) supported by a specified non-General Fund type revenue stream such as the City's water and wastewater utility system revenue supported, the City's Tax Increment Reinvestment Zone (TIRZ) supported bonds, or the Public Improvement District (PID) supported bonds are not subject to the twelve percent (12%) limit.
5. The total amount of certificates of obligation outstanding (principal portion only) that is payable from the City's property tax revenues, excluding self-supporting or non-tax supported debt, shall not exceed six percent (6%) of the assessed valuation of the City for the same fiscal year excluding all assessed valuations within the City's tax increment reinvestment zones. This percentage limitation on the outstanding balance for certificates of obligation that are supported by the City's property tax revenues may be waived by the City Council on a case-by-case basis for emergency purposes.
6. Total certificates of obligation outstanding balance (principal portion only) that are one hundred percent (100%) supported by a specified non-General Fund type revenue stream such as the City's water and wastewater utility system revenue supported, the City's Tax Increment Reinvestment Zone (TIRZ) supported bonds, or the Public Improvement District (PID) supported bonds are not subject to the six percent (6%) limit.

Section 8. Characteristics of Long-Term Debt Financing

The long-term debt issued by the City of Kyle shall conform to and maintain the following characteristics and standards:

1. The term for debt service payments on long-term debt obligations may be up to thirty (30) years depending on the useful life of the capital asset being financed and the source of funding for the repayment of the debt obligation.
2. The City shall seek to retire at least twenty-five percent (25%) of the total tax-supported (General Fund) principal outstanding within the next ten (10) fiscal years.
3. The City's debt repayment structure for all types of debt obligations issued shall be based on a levelized amortization schedule. For debt defeasance purposes to manage property tax rates, the City Council may approve an accelerated repayment schedule. In addition, the City Council may approve a deferment in principal repayment of up to two (2) years for purposes of managing the City's property tax rate.
4. The City shall not issue long-term debt obligations that provides for balloon principal payments in its debt service amortization schedule.
5. The City shall avoid the use of variable rate debt instruments when issuing long-term debt obligations.
6. The term of all City's long-term debt issuance including general obligation bonds (GO)

and certificates of obligation (CO) for which the source of funding for the debt service payments (principal and interest) is to be paid from the City's property tax revenues, shall not exceed the useful life of the capital asset being financed by the debt issuance but not to exceed a maximum of thirty (30) years.

7. The term of all City's long-term debt issuance including certificates of obligation (CO) and revenue bonds for which the source of funding for the debt service payments (principal and interest) is to be paid from a dedicated user based service revenue and or fees, a revenue source other than the City's property taxes or other General Fund revenues, shall not exceed the useful life of the capital asset being financed by the debt issuance but not to exceed a maximum of thirty (30) years.
8. Call provisions will be for the shortest optional call that is feasible and consistent with optimal pricing.
9. Unless otherwise approved by City Council, refunding bonds shall only be issued if the present value of debt service savings exceeds three percent (3.00%) of the par value of the refunded bonds.

Section 9. Long-Term Debt Financing for Emergency Purposes

The City Council may approve the issuance of long-term debt to repair or replace an essential public asset that has suffered catastrophic damage or failure, or for other emergency purposes if there is an immediate risk to the health and or safety of the residents of the City of Kyle.

Section 10. Types of Debt Obligations

A. Short-Term Debt

1. On an interim basis, the City of Kyle may issue short-term debt obligations to finance the acquisition and or construction of capital assets or capital improvement projects for which the City ultimately intends to issue long-term debt obligations.
2. The use of short-term obligations as interim financing may be appropriate when long-term interest rates are forecasted to decline or to finance capital projects that require long lead times for planning, environmental clearances, manufacturing of specialized equipment and machinery, and construction.
3. The type of short-term debt includes the following:
 - a) Commercial paper
 - b) Tax notes
 - c) Capital lease
 - d) Interfund lending

B. Long-Term Debt

1. With the exception of capitalized interest, proceeds from the sale of long-term debt

obligations shall not be used to pay for the City's general administration, maintenance and operation costs or other operating expenditures.

2. Long-term debt obligations may be issued to refund short-term debt obligations issued for interim financing purposes.
3. Long-term debt obligations may be issued to directly finance the City's capital improvement projects or for the acquisition of capital assets.
4. The proceeds from the issuance of general obligation (GO) bonds can only be used for the acquisition and or construction of capital assets and capital improvement projects as authorized by the voters in a bond election.
5. The final maturity of the long-term debt obligations shall not exceed the estimated useful life of the capital assets being financed. Refer to the Characteristics of Long-Term Debt Financing section of this policy for maximum maturity requirements.
6. The type of long-term debt instrument that may be considered by the City of Kyle includes the following:

- a) **General Obligation Bonds (GO bonds)** – requires voter approval for issuance and are secured by a pledge to levy property taxes to raise adequate funds each year to make the required annual principal and interest payments on the bonds.

Examples of capital projects funded by GO bonds include but not limited to, land acquisitions, City buildings including City Hall, roads, intersection improvements, roundabouts, bridges, sidewalks, tunnels, public library, police stations, parks and recreation facilities, civic center, sports facilities, convention center and hotel, public works improvements, animal shelters, and other allowable capital expenditures approved by the voters in a bond election.

- b) **General Obligation Refunding Bonds** – does not require voter approval and are issued to refund (refinance) any debt obligations of the City in order to lower the City's financing costs, restructure debt service payments, or convert short-term financing to long-term.

- c) **Certificates of Obligation (CO bonds)** – does not require voter approval and can be issued by the City to pay for capital improvements with a pledge to levy property taxes that are sufficient to provide the necessary funds to make the principal and interest payments due on the bonds each fiscal year.

CO bonds can also be issued for capital improvements for the benefit of the enterprise operations of the City and secured by a pledge of revenues from the enterprise operations such as the water and wastewater utility systems of the City.

Examples of capital projects funded by CO bonds include public works improvements such as land acquisitions, City buildings (excluding City Hall and public library), roads, roadway intersection improvements, roundabouts, bridges, sidewalks, tunnels, animal shelters, parks and recreation facilities

including skate parks, public safety facilities, water and wastewater system facilities and infrastructure improvements, storm drainage improvements, and other allowable capital expenditures approved by the City Council.

- d) **Revenue Bonds** – does not require voter approval and are typically issued, when appropriate and economical, to finance capital improvement projects for the City’s revenue producing enterprises such as the water and wastewater utility systems. The principal and interest payments on the outstanding revenue bond obligations are paid from the revenues of the same enterprise operations.

Examples of capital projects funded by revenue bonds include public works improvements such as for land acquisitions, buildings, treatment plants, reservoirs, pump stations, lift stations, and other appurtenances associated with the City’s water and wastewater systems and other allowable capital expenditures approved by the City Council.

- e) **Tax Notes** – does not require voter approval and are short-term financing instruments utilized to pay for capital equipment, machinery, and other similar assets. The maximum maturity or term for tax notes is limited to seven (7) years.

Examples of capital projects funded by tax notes include machinery, furniture and fixtures, vehicles, heavy equipment, generators, and other allowable capital expenditures approved by the City Council.

- f) **Tax Increment Revenue Zone Bonds (TIRZ bonds)** – does not require voter approval and may be issued by the City to pay for capital improvements and other infrastructure improvements within the boundaries of the TIRZ. The principal and interest payments on the outstanding debt obligations are paid from the property tax revenue assessed and collected by the participating taxing units within the TIRZ. Examples of capital projects funded by TIRZ bonds include roads, roundabouts, sidewalks, street lighting, parks and recreation facilities, intersection improvements, parking lots and garages, and other allowable capital expenditures approved by the TIRZ Board of Directors.

- g) **Public Improvement District Bonds (PID bonds)** – does not require voter approval and are utilized to pay for public infrastructure made by the developer within a public improvement district. These public infrastructure improvements directly benefit properties located within the district. PID bonds are repaid with special assessments imposed on properties located within the district. PID bonds are not considered to be the legal debt obligations of the City.

Section 11. Debt Issuance Process

To analyze and advise the City Council and staff, the City of Kyle shall utilize the services of an independent Municipal Securities Rulemaking Board registered Financial Advisor on all debt financing transactions.

In addition, the City shall retain the services of an independent Bond Counsel (other than the City Attorney) for every debt financing transaction to advise the City Council and staff and to ensure compliance with all applicable federal, state, and local laws, regulations, and debt management policy requirements.

The City, based on the advice of its Financial Advisor and the Bond Counsel, shall determine and recommend to the City on a case-by-case basis, the most appropriate method for the sale of bonds.

1. Competitive Sale

When feasible and economical, debt obligations shall be issued by the City on a competitive sale basis. In a competitive sale, bids for the purchase of the bonds are opened at a specified place and time and are awarded to the underwriter (or syndicate) whose conforming bid represents the lowest true interest cost (TIC) to the City.

2. Negotiated Sale

In a negotiated sale, the City chooses the initial buyer of the bonds in advance of the sale date. The initial buyer is usually an investment banking firm, or a syndicate of investment banks interested in reoffering the bonds to investors through an underwriting process. This type of sale allows the City to discuss different financing techniques with the underwriter in advance of the sale date. Whenever the option exists to sell an issue on a negotiated sale basis, an analysis of the options should be performed and a recommendation made by the City's Financial Advisor to aid in the decision-making process by the City Council and staff.

3. Private Placement

When appropriate and cost effective, the City may consider the sale of its debt obligations using the private placement method. In a private placement, the City may select a private purchaser willing to bid below market rate or other preferential financing terms. Such placements often allow debt to be issued more efficiently by eliminating the need for bond ratings and other associated issuance costs. This type of financing will be analyzed on a case by case basis, depending primarily on prevailing interest rates in the market.

Section 12. Credit Enhancements

Credit enhancements or bond insurance is a financial tool to guarantee timely principal and interest payments to the bondholders. A credit enhancement is intended to increase the credit rating on the bonds being issued thereby reducing the interest rate and resulting in the reduction of overall financing costs.

For each planned long-term debt issuance, the City's Financial Advisor shall analyze and advise the City of Kyle whether a credit enhancement is cost effective to purchase for the planned debt transaction.

Section 13. Rating Agency Communications & Disclosure

The City will seek to maintain and improve its bond ratings to lower its financing costs. In coordination with the City's Financial Advisor, the City shall maintain communications with at least one of the rating agencies (Standard and Poor's, Moody's, or Fitch) and obtain a credit rating when issuing new bonds or refunding existing bonds. The City, its Financial Advisor, and its Bond Counsel shall adhere to the City's Debt Management Policy and provide full disclosure of the City's operations, 5-year financial forecasts, 5-year capital improvements spending plan, and all information pertaining to planned new debt issuances to the bond rating agencies.

Section 14. Bond Reimbursement Resolutions

The City will utilize bond reimbursement resolutions to manage its planned funding requirements for the capital improvements spending plan and to plan the timing of the associated debt issuances. The City may utilize interfund borrowing and or the use of a commercial paper program to defer long-term bond issuances until such time when such issuance is necessary to reimburse the outstanding balance of the interfund borrowing and or the commercial paper program.

Section 15. Permitted Investment of Debt Proceeds

All investments of debt proceeds shall adhere to and comply with the City's Investment Policy. The City's Investment Policy complies with the requirements of the Public Funds Investment Act (PFIA).

Section 16. Review of Debt Management Policy

The City Council shall review the City's Debt Management Policy on an annual basis and make amendments and or changes to the policy, as necessary and or required.

Section 17. Open Meetings Act Compliance

That it is hereby officially found and determined that the meeting at which this City Ordinance is passed was open to the public as required and that public notice of the time, place, and purpose of said meeting was given as required by the Open Meetings Act, Chapter 551, Texas Local Government Code.

Section 18. Conflict

All ordinances or parts thereof conflicting or inconsistent with the provisions of this ordinance as adopted and amended herein, are hereby amended to the extent of such conflict. In the event of a conflict or inconsistency between this ordinance and any other code or ordinance of the City, the terms and provisions of this ordinance shall govern. Specifically, the City of Kyle Ordinance numbers 648 and 826 adopting and or amending the City's prior Debt Management Policy are both hereby repealed in their entirety.

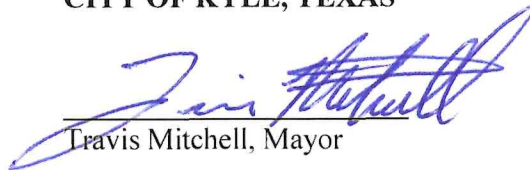
Section 19. Effective Date

This Ordinance shall be in full force and effect from and after the date of its final passage and adoption in accordance with the provisions of applicable state law and the City Charter.

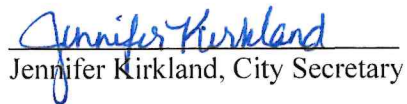
PASSED AND APPROVED on First Reading this 1st day of April 2025.

FINALLY PASSED AND APPROVED on this 1st day of April 2025.

CITY OF KYLE, TEXAS


Travis Mitchell, Mayor

ATTEST:


Jennifer Kirkland, City Secretary