DEBT POLICY

PURPOSE The purpose of the debt policy is established to help ensure all debt is issued both prudently and cost effectively.

SCOPE This policy sets forth guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to ensure the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability.

POLICY It is the policy of the City of Camas to protect the City's financial integrity while providing a funding mechanism to meet both the City's short-term debt for operating needs and long-term debt for capital needs. The underlying approach of the City is to borrow only for:

- capital improvements that cannot be financed from current revenues,
- mechanism to equalize the costs of needed improvements to both present and future citizens,
- provide for necessary liquidity in the short-term,
- meet the City's strategic goals in an acceptable amount of time.

The City will not use long-term debt to support current operations

The City may issue debt as authorized by Revised Code of Washington (RCW) 35.37, 39.36, 39.46 and 39.53 and by maintaining compliance with its own policies as noted in the following sections.

PRACTICE **Responsibility**

The Finance Director has the authority to act in the capacity of the City Treasurer, which includes the duties of debt management.

Budget and Capital Planning

As part of the City's biennial budget process, the capital budget identifies funding mechanisms for all capital projects which includes debt as an option. The Finance Department is responsible for coordinating and analyzing the debt requirements. This will include timing of the debt, calculation of outstanding debt, debt limitation calculations and compliance, impact on future debt burdens, and current revenue requirements.

Prior to issuance of debt, the City will prepare revenue projections, such as the biennial budget or the financial forecast, to ensure that there is adequate revenue to make principal and interest payments.

Type of Long-Term Debt

The following is a description of the types of long-term debt the City may issue:

General Obligation

This debt is backed by the full faith and credit of the City. The State RCW limits this debt to 2.5% of the assessed valuation of the City for:

Limited Tax General Obligation Bonds (LTGO) - The City Council may authorize the issuance of general obligation debt up to 1.5% of the City's assessed value without a vote of the public as long as there is an available source of funding to pay the debt service. This funding source can be the diversion of an existing revenue source or a new revenue coming from the enactment of a new tax or other revenue source. The debt can take the form of bonds, bond anticipation notes, lease-purchase agreements, conditional sales contracts, certificates of participation, or other forms of installment debt.

Unlimited Tax General Obligation Bonds (UTGO) - The City Council may place any general obligation debt issue before the electorate. According to State law, if a debt issue is placed before the City's electorate, it must receive a 60% or greater yes vote and have a turnout of at least 40% of those voting at the previous general election. Voted issues are limited to capital purposes only.

Revenue Debt

Revenue bonds are generally payable from a designated source of revenue generated by the project which was financed. No taxing power or general fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required. The debt is secured by the pledge of a specific revenue stream such as utility user fees.

Local Improvement District (LID)

Debt LID bonds are payable solely from assessments of property owners within the local improvement district. Similar to revenue debt, no taxing power or general fund pledge is provided as security, and LID bonds are not subject to statutory debt limitations.

The debt is backed by the value of the property within the district and a LID Guaranty Fund. The LID Guaranty Fund is required by State law.

Other Financing Contracts and Loan Programs

a. Lease purchase or financing contracts are payment obligations that represent the principal and interest components for which the City receives the property after all payments are made.

b. Local Option Capital Asset Lending (LOCAL) Program is available for use by the City through the Office of the State Treasurer under RCW 39.94. It is a financing program that allows pooling by the State equipment financing and certain real estate project needs into larger offerings of securities, and allows local government agencies the ability to finance equipment or real estate needs through the State Treasurer's Office subject to existing debt limitations and financial considerations.

c. Public Works Trust Fund Loans are loans from the Public Works Board, authorized by state statute, RCW 43.155 to provide low interest loans, on a competitive basis, to help local governments address critical infrastructure needs for water, stormwater, roads, bridges, and solid waste/recycling systems.

Short-Term Debt and Interim Financing
The City may utilize short-term borrowing in anticipation of long-term bond issuance or to fund cash flow needs in anticipation of tax or other revenue sources.

The Finance Director is authorized to make loans from one City fund to another City fund for periods not exceeding six months. The Finance Director or designee is required to ensure that the loaning fund will have adequate cash balances to continue to meet current expenses after the loan is made and until repayment from the receiving fund.

Structure and Term of Debt
<u>Debt Repayment</u>
The City shall pay all interest and repay all debt in accordance with the terms of the bond ordinance. The maturity of bonds issued should be the same or less than the expected life of the project for which the bonds were issued. To the extent possible, the City will seek level or declining debt repayment schedules.

<u>Call Provisions</u>
The City shall evaluate the costs and benefits of call provisions. In general, the City shall opt for the shortest possible optional call consistent with optimal pricing.

<u>Variable-Rate Securities</u>
The City will not issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities.

<u>Maturity Length</u>
The City shall issue debt with an average life less than or equal to the average life of

the assets being financed. Unless otherwise stated in law, the final maturity of the debt shall be no longer than thirty years.

Professional Services

The City's Finance Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.

Bond Counsel

All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all city and state constitutional and statutory requirements necessary for issuance, preparing official statements of disclosure, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt.

Underwriters

An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors. Underwriter(s) will also be used for a competitive sale method. Under a competitive sale, underwriters will submit proposals for the purchase of the new issue of municipal securities electronically and the securities are awarded to the underwriter presenting the lowest true interest cost (TIC) according to stipulated criteria set forth in the notice of sale.

Fiscal Agent

A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with Chapter 43.80 RCW, the City will use the Fiscal Agent that is appointed by the State.

Other Service Providers

The Finance Director will have the authority to periodically select other service providers (e.g., escrow agents, verification agents, trustees, arbitrage consultants, etc.) as necessary to meet legal requirements.

Method of Sale

The City will generally issue its debt through a competitive process but may use a negotiated process under the following conditions.

- The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
- At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
- The nature of the debt is unique and requires particular skills from the underwriter(s) involved.

- The debt issued is bound by a compressed timeline due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

Credit Ratings
The City will maintain good communication with bond rating agencies about its financial condition. This effort will include providing periodic updates on the City's general financial condition, coordinating meetings, and presentations in conjunction with a new issuance. The City will continually strive to maintain the highest possible bond ratings by improving financial policies, budgets, forecasts, and the financial health of the City.

Credit enhancements may be used to improve or establish a credit rating on a City debt obligation. Credit enhancements should only be used if cost effective.

Refunding Debt
A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will require a present value savings of three percent of the principal amount of the refunding debt being issued.

Investment of Bond Proceeds
The City will comply with all applicable Federal, State and Contractual restrictions regarding the investment of bond proceeds including the City of Bellevue Investment Policy.

Arbitrage Rebate Monitoring and Reporting
The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract, or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will pay the amount of the arbitrage to the Federal Government as required by Internal Revenue Service Regulation 1.148-11. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulation. For each bond issue not used within the established timeframe, the recordkeeping shall include tracking investment earnings on bond proceeds, calculating rebate payments, and remitting any rebatable earnings to the federal government in a timely manner to preserve the tax-exempt status of the outstanding debt.

Covenant Compliance
The City will comply with all covenants stated in the bond ordinance, contract, etc.

Ongoing Disclosure

The Debt Manager shall be responsible for providing annual disclosure information to the Municipal Standards Rulemaking Board (MSRB) as required by state and national regulatory bodies. To comply with the Securities & Exchange Commission Rule 15c2-12 regulations, ongoing disclosure shall occur by the date designated in the bond ordinance, which is currently September 30 of each year for almost all of the City's bond issues. Disclosure shall take the form of the Annual Comprehensive Financial Report (ACFR) unless information is required by a particular bond issue that is not reasonably contained within the CAFR.