



MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, July 10, 2018, 5:30 P.M.
Monroe City Hall, Council Conference Room

2018 Committee
Councilmembers
Jason Gamble
Kevin Hanford
Kirk Scarboro

AGENDA

- I. Call to Order** (Councilmember Gamble)

- II. Approval Minutes** (Meeting of Tuesday, May 8, 2018)

- III. Unfinished Business**
 - A. Debt Policy – Continued (Finance)

- IV. New Business**

- V. Other**

- VI. Next Committee Meeting** (August 14, 2018)

- VII. Adjournment**



MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, May 8, 2018, 6:00 P.M.
Monroe City Hall

2018 Committee
Councilmembers
Jason Gamble
Kevin Hanford
Kirk Scarboro

MINUTES

I. Call to Order

A regular meeting of the Monroe City Council Finance & Human Resource Committee was held on May 8, 2018, at Monroe City Hall. The Meeting was called to order by Councilmember Gamble at 6:00 p.m.

Committee Present: Councilmembers Jason Gamble, Kevin Hanford¹, and Kirk Scarboro
Staff Present: Elizabeth Adkisson, City Clerk; and Becky Hasart, Finance Director
Citizens Present: Heather Rousey, Planning Commissioner

II. Approval Minutes (Meeting of Tuesday, April 10, 2018)

Councilmember Scarboro moved to approve the Finance & Human Resources Committee Meeting minutes of Tuesday, April 10, 2018; the motion was seconded by Councilmember Gamble. Motion carried (2-0).

III. New Business

A. 2017 Annual Report Distribution (Finance)

Ms. Hasart distributed the 2017 City of Monroe Annual Report to the Committee. Discussion ensued regarding fiduciary funds, comparison to the 2018 budget amendment, and 2017 expenditures.

B. 2018 Budget Amendment Review (Finance)

Ms. Hasart reviewed the proposed amendments to the City of Monroe 2018 Budget, including: amending the current fiscal year budget to reflect actual beginning fund balances after completion of the 2017 Annual Report and including items approved by Council that were not anticipated during the 2018 Budget development process.

Discussion ensued regarding ending fund balances and the potential to 'carry-over' unexpended funds year to year.

Ms. Hasart noted this item is scheduled to come before the full Council for first reading on May 15, 2018, and potential adoption on June 12, 2018.

¹ CLERK'S NOTE: Councilmember Hanford arrived during New Business Item B.

IV. Unfinished Business

A. Debt Policy Provision Discussion (Finance)

Ms. Hasart provided background information on the creation of a debt policy and reviewed the City of Poulsbo Debt Policy as a possible template; including: introduction and guiding principles, professional services, and debt structure.

Discussion ensued throughout the review regarding generational equity, general obligation bonds (limited tax versus unlimited tax), and debt capacity.

Ms. Hasart noted this item would be continued at the next Committee Meeting.

V. Next Committee Meeting (June 12, 2018, 6 p.m.)

By consensus, Committeemembers agreed to a start time of 5:30 p.m. for the June 12, 2018, Committee Meeting.

VI. Adjournment

Councilmember Scarboro moved to adjourn the May 8, 2018, Monroe City Council Finance & Human Resource Committee meeting; the motion was seconded by Councilmember Hanford. Motion carried (3-0); the meeting adjourned at 6:58 p.m.



MONROE CITY COUNCIL
Finance & Human Resources Committee Meeting
Tuesday, July 10, 2018, 6:00 P.M.
Agenda Bill

2018 Committee
 Councilmembers
 Jason Gamble
 Kevin Hanford
 Kirk Scarboro

SUBJECT:	<i>Debt Policy Provision Discussion</i>
-----------------	--

DATE:	DEPT:	CONTACT:	PRESENTER:	ITEM:
07/10/2018	Finance	Becky Hasart	Becky Hasart	Unfinished Business A

- Discussion:** 03/13/2018, 05/08/2018; 07/10/2018
- Attachments:**
1. City of Poulsbo Debt Policy
 2. Exert from City of North Bend Policies – Debt
 3. Exert from Alderwood Water and Wastewater District (AWWD) financial policies
 4. Debt Capacity Schedule
 5. Schedule of Liabilities-debt only
 6. GFOA Best Practices – Debt Management

REQUESTED ACTION: Discussion only.

DESCRIPTION/BACKGROUND

For tonight’s discussion, it is recommended that we begin to go through the City of Poulsbo Debt Policy’s various sections to determine how or if they would be appropriate for Monroe. If time allows, we will also discuss the pertinent sections from the City of North Bend’s policy and the newly attached AWWD financial policies.

From March 13, 2018:

{The terms debt and bond(s) are used interchangeably and mean the same thing – a long term outstanding liability of the City.}

The City Council is responsible for all fiscal policies. While the City has used debt to support its capital and operational needs, the City does not have an adopted formal debt policy.

Establishing a debt policy will help insure that any bonds issued/debt incurred by the City is done in a systematic manner that is prudent and cost effective. Having a formally adopted policy is also considered a financial best practice that is viewed favorably by debt rating services. Attached to this packet is the Government Finance Officers Association’s (GFOA) best practice recommendations. GFOA’s recommendations include addressing the following five topics:

- Debt limits.
- Debt structuring practices.
- Debt issuance practices.
- Debt management practices.
- Use of derivatives.

It is a goal of this administration to work with the Council toward adoption of an appropriate debt policy no later than October 2018.

Total debt outstanding for the City, inclusive of both GO and revenue bonds, is \$28,058,799. The following breaks down the types and amount of debt that makes up this total:

As of the end of fiscal year 2017, the City currently has \$5,972,600 in non-voted general obligation (GO) debt outstanding. Although the City may dedicate specific funding sources to pay GO debt, the underlying security for all non-voted GO debt is the City’s existing property tax revenues.

The City currently does not have any voted GO debt. If we did, this debt would be paid by an incremental increase in property taxes as approved by the voters (payment would not be the responsibility of the existing property tax revenue stream).

As of the end of fiscal year 2017, the City currently has \$22,086,199 in revenue debt outstanding. Revenue debt is paid from the rate revenue generated by our utilities. Revenue debt is not an obligation of the City's property taxes. Revenue bonds typically pay a higher interest rate than GO bonds because they are not secured by property taxes.

Attached is a draft schedule of liabilities for debt only that is prepared each year as part of our annual reporting requirements. This schedule lists out the individual debt owing as of the end of each year. Also attached is a debt capacity schedule for the City. This capacity schedule shows the statutory limitations of general obligation debt the City may incur based on our assessed valuation. Revenue debt is not subject to statutory limitations as the utility can raise rates as needed to satisfy its debt requirements.

Finally, attached are two examples of debt policies from other jurisdictions, specifically City of Poulosbo and City of North Bend. Staff feels that these two examples will serve well as our template as we move forward in developing a debt policy for Monroe that will meet our specific needs.

City of Poulsbo Debt Policy

SECTION I – INTRODUCTION & GUIDING PRINCIPLES

Purpose and Overview

The Debt Policy for the City of Poulsbo is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the City Council. Adherence to the policy is essential to ensure that the Council maintains a sound debt position and protects the credit quality of its obligations.

Capital Planning:

The City shall integrate its debt issuance with its Capital Improvement Program (CIP) spending to ensure that planned financing conforms to policy targets regarding the level and composition of outstanding debt. This planning considers the long-term horizon, paying particular attention to financing priorities, capital outlays and competing projects. Long term borrowing shall be confined to the acquisition and/or construction of capital improvements and shall not be used to fund operating or maintenance costs. For all capital projects under consideration, the City shall set aside sufficient revenue from operations to fund ongoing normal maintenance needs and to provide reserves for periodic replacement and renewal. The issuance of debt to fund operating deficits is not permitted.

Legal Governing Principles

In the issuance and management of debt, the City shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local rules and regulations, as applicable.

- State Statutes – The City may contract indebtedness as provided for by [RCW 35A.40.090](#). General Obligation indebtedness is subject to the limitations on indebtedness provided for in [RCW 39.36.020\(2\)\(b\)](#) and [Article VIII of the Washington State Constitution](#). Bonds evidencing such indebtedness shall be issued and sold in accordance with chapter 39.46.
- Federal Rules and Regulations – The City shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations including the [Internal Revenue Code of 1986](#), as amended; the Treasury Department regulations there under; and the [Securities Acts of 1933 and 1934](#).
- Local Rules and Regulations – The City shall issue and manage debt in accordance with the limitations and constraints imposed by local rules and regulations.

Roles & Responsibilities

The City Council shall:

- Approve indebtedness;
- Approve appointment of independent financial advisor and bond counsel;
- Approve the Debt Policy;
- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and

Approved 9/1/2010

- In consultation with the City's General Counsel, financial advisor, and bond counsel, shall determine the most appropriate instrument for a proposed bond sale.

The Finance Director in consultation with the Finance Committee, the Mayor and full Council shall:

- Assume primary responsibility for debt management
- Provide for the issuance of debt at the lowest possible cost and risk;
- Determine the available debt capacity;
- Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
- Recommend to the City Council the manner of sale of debt;
- Monitor opportunities to refund debt and recommend such refunding as appropriate.
- Comply with all Internal Revenue Service ([IRS](#)), [Securities and Exchange \(SEC\)](#), and [Municipal Securities Rulemaking Board \(MSRB\)](#) rules and regulations governing the issuance of debt.
- Provide for the timely payment of principal and interest on all debt and ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
- Provide for and participate in the preparation and review of offering documents;
- Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
- Submit to the City Council all recommendations to issue debt;
- Distribute to appropriate repositories information regarding financial condition and affairs at such times and in the form required by law, regulation and general practice, including [Rule 15c2-12](#) regarding continuing disclosure;
- Provide for the distribution of pertinent information to rating agencies; and
- Apply and promote prudent fiscal practices.

Ethical Standards Governing Conduct

The members of the City staff, the Mayor and the City Council will adhere to the standards of conduct as stipulated by the Public Disclosure Act, [RCW 42.17](#) and Ethics in Public Service, [RCW 42.52](#).

SECTION II – PROFESSIONAL SERVICES

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.

- Bond Counsel – With the exception of debt issued by the State, 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, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt.
- Financial Advisor – A Financial Advisor may be used to assist in the issuance of the City's debt. The Financial Advisor will provide the City with the objective advice

Approved 9/1/2010

- and analysis on debt issuance. This includes, but is not limited to, monitoring of market opportunities, structuring and pricing of debt, and preparing official statements of disclosure.
- Underwriters – An Underwriter will be used for all debt issued in a negotiated sale method. The Underwriter is responsible for purchasing negotiated debt and reselling the debt to investors.
 - Fiscal Agent – A fiscal agent will be used to provide accurate and timely securities processing and timely payment to bondholders. As provided under RCW 43.80, the City will use the Fiscal Agent that is determined by the State.
 - Professional Service providers may be selected through a competitive selection process conducted by the Finance Director in consultation with the Finance Committee and Legal Counsel; the City Council shall approve the most qualified financial advisor/underwriter and bond counsel.
 - These services shall be regularly monitored by the Finance Director.

SECTION III – DEBT STRUCTURE

Types of Debt Instruments:

The City may utilize several types of municipal debt obligations to finance long-term capital projects. Subject to the approval of City Council, the City is authorized to sell:

- **Unlimited Tax General Obligation Bonds** – The City shall use Unlimited Tax General Obligation Bonds, also known as “Voted General Obligation Bonds” as permitted under [RCW 35A.40.090](#) for the purpose of general purpose, open space and parks, and utility infrastructure. Voted issues are limited to capital purposes only. Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project. UTGO Bonds are payable from excess tax levies and are subject to the assent of 60% of the voters at an election to be held for that purpose.
- **Limited Tax General Obligation Bonds** – A Limited-Tax General Obligation debt (LTGO), also known as “Non-Voted General Obligation Debt”, requires the City to levy a property tax sufficient to meet its debt service obligations but only up to a statutory limit. The City shall use Limited Tax General Obligation (LTGO) Bonds as permitted under [RCW 35A.40.090](#) for general capital purposes only. General Obligation debt is backed by the full faith and credit of the City and is payable from General Fund reserves and taxes collected by the City. LTGO Bonds will only be issued if:
 - A project requires funding not available from alternative sources;
 - Matching fund monies are available which may be lost if not applied for in a timely manner; or,
 - Emergency conditions exist.
- **Revenue Bonds** – The City shall use Revenue Bonds as permitted under [RCW 35A.40.090](#) for the purpose of financing construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Plan. No taxing power or general fund pledge is provided as security.
- **Special Assessment/Local Improvement District Bonds** – The City shall use Special Assessment Bonds as permitted under [RCW 35A.40.090](#) for the purpose of

Approved 9/1/2010

- assuring the greatest degree of public equity in place of general obligation bond where possible. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who specifically benefit from the capital improvements through annual assessments paid to the City. LID's are formed by the City Council after a majority of property owners agree to the assessment. 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 an LID Guaranty Fund, as required by State Law.
- **Short Term Debt** – The City shall use short term debt as permitted under [RCW 39.50](#), for the purpose of meeting any lawful purpose of the municipal corporation, including the immediate financing needs of a project for which long term funding has been secured but not yet received. The City may use inter-fund loans rather than outside debt instruments to meet short-term cash flow needs for the project. Inter-fund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the fund's current operations. All inter-fund loans will be subject to Council approval and will bear interest at prevailing rates.
 - **Leases** – The City is authorized to enter into capital leases under [35A.40.090 RCW](#), subject to the approval of City Council.
 - **Public Works Trust Fund Loans** – The City shall use Public Works Trust Fund Loans as provided under [RCW 43.155](#) for the purpose of repairing, replacing or creating domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste/recycling facilities and bridges.
 - **Local Option Capital Asset Lending (LOCAL) Program Debt** – The City is authorized to enter into a financing contract with the Office of the State Treasurer under [RCW 39.94](#), for the purpose of financing equipment and capital needs through the State Treasurer's Office subject to existing debt limitations and financing considerations. The LOCAL Program is an expanded version of the state agency lease/purchase program that allows the pooling of funding into larger offerings of securities.

SECTION IV – TRANSACTION SPECIFIC POLICIES

Method of Sale - The City shall evaluate the best method of sale for each proposed bond issue.

1. **Competitive Bid Method** – Any competitive sale of the City's debt will require the approval of City Council. City debt issued on a competitive bid basis will be sold to the bidder proposing the lowest true interest cost to the City.
2. **Negotiated Bid Method** – When a negotiated sale is deemed advisable (in consultation with the Mayor and City Council) the Finance Director shall negotiate the most competitive pricing on debt issues and broker commissions in order to ensure the best value to the City.
 - If debt is sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, underwriting or remarketing fees and commissions.
 - The City, with the assistance of its Financial Advisor, shall evaluate the terms offered by the underwriting team. Evaluations of prices, interest rates, fees and commissions

Approved 9/1/2010

- shall include prevailing terms and conditions in the marketplace for comparable issuers.
- No debt issue will be sold on a negotiated basis without an independent financial advisor.
3. The City shall use refunding bonds in accordance with the Refunding Bond Act, [RCW 39.53](#). Unless otherwise justified, the City will refinance debt to achieve true savings as market opportunities arise. Refunding debt shall never be used for the purpose of avoiding debt service obligations. A target 5% cost savings (discounted to its present value) over the remainder of the debt must be demonstrated for any “advance refunding”, unless otherwise justified. The City, in consultation with its Financial Advisor, may approve a “current refunding” transaction of an existing debt issue if the refunding demonstrates a positive present value savings over the remaining life of the debt.
 4. With Council approval, interim financing of capital projects may be secured from the debt financing marketplace or from other funds through an inter-fund loan as appropriate in the circumstances.
 5. When issuing debt, the City shall strive to use special assessment, revenue or other self supporting bonds in lieu of general obligation bonds.

Limitations on Debt Issuance

1. The City shall remain in compliance with all debt limitations. As part of the annual budgeting process, a current summary of outstanding debt and compliance targets is prepared. The City shall observe the following limitations on debt issuance:
 - **General Obligation** – 2.5% of Assessed Value ([RCW 39.36.020\(2\)\(b\)](#))
 - **Non-Voted: 1.5%**
 - **Voted: 2.5%**
 - **Open Space and Park Facilities** – 2.5% of Assessed Value ([RCW 39.36.020\(4\)](#))
2. Debt payments shall not extend beyond the estimated useful life of the project being financed. The City shall keep the average maturity of general obligations bonds at or below 20 years, unless special circumstances arise warranting the need to extend the debt schedule.
3. Debt Limit Target: The City shall not exceed 90% of the legal debt limits from above.

Debt Structuring Practices

The following terms shall be applied to the City’s debt transactions, as appropriate. Individual terms may change as dictated by the marketplace or the unique qualities of the transaction.

- **Maturity** – 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 40 years ([RCW 39.46.110](#)).
- **Debt Service Structure** – Unless otherwise justified, debt service should be structured on a level basis. Refunding bonds should be structured to produce equal savings by fiscal year. Unless otherwise justified, debt shall not have capitalized interest. If appropriate, debt service reserve funds may be used for revenue bonds.
- **Price Structure** – The City’s long-term debt may include par, discount, and premium bonds. Discount and premium bonds must be demonstrated to be advantageous relative to par bond structures, given market conditions.

Approved 9/1/2010

- **Call Provisions** – For each transaction, 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.
- **Bond Insurance** – For each transaction, the City shall evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City shall be competitively priced.
- **Tax-exemption** – Unless otherwise justified and deemed necessary, the City shall issue its debt on a tax-exempt basis.
- **Reimbursement resolution** – Must be adopted by City Council if the project hard costs are advanced prior to the bond sale.

SECTION V – COMMUNICATION

It is the policy of the City to remain as transparent as possible. The City shall manage relationships with the rating analysts assigned to the City's credit, using both informal and formal methods to disseminate information.

- The City's Comprehensive Financial Report (CAFR) shall be the primary vehicle for compliance with continuing disclosure requirements. The CAFR may be supplemented with additional documentation as required. Each year included in the CAFR, the City will report its compliance with debt targets and the goals of this Debt Management Policy.
- The City will issue a material event notice in accordance with provisions of [SEC Rule 15c2-12](#). Prior to issuance of any material event, the Finance Director will discuss the materiality of any event with the Mayor, City Attorney and designated Council members, to ensure equal, timely and appropriate disclosure to the marketplace.
- The City shall seek to maintain and improve its current bond rating.

SECTION VI - COMPLIANCE

Investment of Proceeds

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of invested funds as well as restrictions on the time period over which some of the proceeds may be invested.

Arbitrage Liability Management

Due to the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the City shall solicit the advice of bond counsel and other qualified experts about arbitrage rebate calculations. The City shall, when deemed necessary or required, contract with a third party for preparation of the arbitrage rebate calculation.

The City shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings by opening a separate account in the state pool. The expenditure of bond proceeds shall be tracked in the financial system by issue. Investments may be pooled for

Approved 9/1/2010

financial accounting purposes and for investment purposes. When investment of bond proceeds are co-mingled with other investments, the City shall adhere to IRS rules on accounting allocations.

Bond Users Clearinghouse

The City shall ensure that the Bond Users Clearinghouse receives municipal bond information for all debt sold as provided by [RCW 39.44.200 – 39.44.240](#) and [WAC 365-130](#).

Legal Covenants

The City shall comply with all covenants and conditions contained in governing law and any legal documents entered into at the time of a bond offering.

Periodic Policy Review

At a minimum, the debt policy will be reviewed and updated every five years.

RESOLUTION 20106

RESOLUTION OF THE CITY COUNCIL OF THE CITY OF POULSBO, WASHINGTON, ADOPTING A DEBT POLICY GOVERNING THE [SSUANCE AND ADMINISTRATION OF ALL DEBT ISSUED BY THE CITY.

WHEREAS, the City Council of the City of Poulsbo deems to have its debt issued and administered in compliance with all applicable Federal and RCW requirements, and

WHEREAS, the City Council of the City of Poulsbo desires to maintain a debt policy to guide the issuance and administration of its debt, and

WHEREAS, the City's Finance Director has conducted a thorough review of its current debt practices in effort to develop this policy for the issuance and administration of City debt, and

WHEREAS, the City of Poulsbo's debt policy has been written in accordance with the Washington Municipal Treasurer's Association Model Debt Policy,

THE CITY COUNCIL OF THE CITY OF POULSBO, WASHINGTON RESOLVES AS FOLLOWS:

Section 1. Debt Policy Adopted. The policy for investment of City funds set forth in document entitled "City of Poulsbo Debt Policy" dated August 1, 2010 which is attached hereto as Exhibit "A" and incorporated herein by reference as if set forth in full is hereby adopted as official policy for issuance and administration of City debt.

RESOLVED this 1st day of September, 2010.

APPROVED:

Q)g
MAYOR; ECCA ER CKSON

ATTEST/AUTHENTICATED

CITY CLERK
JILLOA BOLTZ

FILED WITH THE CITY CLERK: 08/25/2010
PASSED BY THE CITY COUNCIL: 09/01/2010
RESOLUTION NO. 20106

Debt Management Policies

The amount of debt issued by the City is an important factor in measuring its financial performance and condition. Proper use and management of borrowing can yield significant advantages. From a policy perspective, the City of North Bend uses debt in two ways: (1) as a mechanism to equalize the costs of needed improvements to both present and future citizens; and (2) as a mechanism to reduce the costs of substantial public improvements.

- City Council approval is required prior to the issuance of debt.
- An analytical review shall be conducted prior to the issuance of debt.
- The City will use the services of a legally certified and credible bond counsel in the preparation of all bond representations.
- The City of North Bend will not use long-term debt to support current operations.
- Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received.
- The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life.
- Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- The City will use refunding bonds where appropriate, when restructuring its current outstanding debt.
- Reserves, interest costs, operating costs, and/or maintenance expenses will be capitalized only for enterprise activities; capitalized operating expenses will be strictly limited to those expenses incurred prior to actual operation of the facilities.
- The City will maintain a good credit rating at all times.
- Assessment bonds will be issued in place of general obligation bonds, where possible, to assure the greatest degree of public equity.
- Under most circumstances, the maturity of all assessment bonds shall not exceed 12 years.
- General Obligation bonds will be issued with maturities of 20 years or less.
- The voter approved general obligation debt of North Bend will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City.
- The following individual percentages shall not be exceeded in any specific debt category:
 - General Debt – 2.5% of assessed valuation
 - Utility Debt – 2.5% of assessed valuation
 - Open Space and Park Facilities – 2.5% of assessed valuation
- Limited-tax general obligation bonds will not exceed one and 1.5% of the City's current assessed property valuation.

- Limited-tax general obligation bonds will be issued only if:
 - A project requires funding not available from alternative sources;
 - Matching fund monies are available which may be lost if not applied for in a timely manner;
or
 - Emergency conditions exist.

Rate Stabilization Reserve will be from a surplus of operating funds from the prior year or as a budgeted expense by the Board. Use of the Rate Stabilization Reserve funds will, when allowed by the Board, be considered revenue for purposes of debt coverage. The following Rate Stabilization Reserves targets are established.

- Water Utility – 15% of annual rate revenue
- Wastewater Utility – 10% of annual rate revenue

♦ Bond Reserve Fund and Bond Redemption Funds

AWWD will maintain Bond Reserve Funds and Bond Redemption Funds as required by bond covenants or loan agreements, and shall maintain Fund balances consistent with those corresponding debt covenants/agreements.

5. Fixed Asset Inventories

AWWD will maintain accurate inventories of all physical assets, to include the condition, life span and cost to ensure proper stewardship of public property. The Director of Finance will establish policies and appropriate procedures to manage fixed assets, including establishing the threshold dollar amount for which fixed asset records are maintained and how often physical inventories will be taken.

6. Accounting

AWWD is to maintain a uniform system of accounts, and maintain accounting practices that follow Generally Accepted Accounting Principles (GAAP) for its accounting procedures and financial statement preparation.

- ♦ AWWD will comply with the Uniform System of Accounts for Class A Water Utilities and the National Association of Regulatory Utility Commissioners accounting manuals and practices. AWWD will cooperate and comply with all audits and investigations by the Washington State Auditor's Office.

7. Investment Policy

AWWD has adopted an Investment Policy which complies with the State of Washington's eligible investments for public funds per the Revised Code of Washington (RCW) 39.59.020 and 39.59.030. The Board adopted Investment Policy will be reviewed and modified periodically to ensure that it continues to meet the financial objectives of the District and continues to serve the best interest of the District.

8. Debt Issuance

♦ Rates for Debt Service Coverage

Water and wastewater rates shall be maintained at a level necessary to provide annual combined (water and wastewater) net revenues that satisfy a debt service coverage factor of no less than 1.25 times annual debt

service. The District will budget for a factor of 1.75 to further protect AWWD's financial risk and provide a favorable measure for rating agencies.

♦ Arbitrage

AWWD should engage an arbitrage consultant to assist the District in meeting IRS arbitrage compliance and reporting requirements when applicable.

♦ IRS Post Bond Issuance Compliance

AWWD should maintain and comply with the IRS checklist of post-bond issuance compliance requirements.

♦ Competitive Bond Sale

All bond sales should be issued on a competitive rather than a negotiated basis. The Board may authorize the use of a negotiated sale if conditions are such that it is in the best interests of the District to issue a bond on a negotiated basis. Competitive and negotiated bond sales shall be conducted with the assistance of a Financial Advisor who only represents the District's interests. The Financial Advisor's only compensation shall be a fixed fee.

♦ Annual Reporting NRMSIR

AWWD should comply with bond covenants regarding the annual undertaking of reporting to the Nationally Recognized Municipal Securities Information Repository (NRMSIR) by electronically filing with the Electronic Municipal Market Access system (EMMA) or its successor. Refer to the bond resolutions for a complete list of filing requirements.

City of Monroe

**Statutory Limitation of Indebtedness
As of 01/01/2018**

	Total Taxable Property Value	\$2,257,107,261	
			Remaining Debt Capacity
1.	2.5% General purpose limit is allocated between:	\$56,427,681.53	
	A. Up to 1.5% debt without a vote	\$33,856,608.92	
	Less: Outstanding Debt	\$	\$5,972,600.00 ← This amount will decrease by \$1,300,000 after 09/01/2018 No. Kelsey pyt
	Contracts Payable	\$	Bulk of remaining is the \$2,840,000 No. Kelsey pyt due 09/01/2020
	Excess of Debt with a vote	\$	
	Add: Available assets	\$	
	Equals remaining debt capacity without a vote		\$27,884,008.92 G.O. Councilmanic
	B. 1.0% General purpose debt with a vote	\$22,571,072.61	
	Less: Outstanding Debt	\$	
	Contracts Payable	\$	
	Add: Available assets	\$	
	Equals remaining debt capacity with a vote		\$22,571,072.61 G.O. Voted
2.	2.5% Utility purpose limit, voted	\$56,427,681.53	
	Less: Outstanding Debt	\$	\$0.00
	Contracts Payable	\$	\$0.00
	Add: Available Assets	\$	
	Equals remaining debt capacity- Utility purpose, voted		\$56,427,681.53 Revenue Debt
3.	2.5% Open Space, park & capital facilities, voted	\$56,427,681.53	
	Less: Outstanding Debt	\$	\$0.00
	Contracts Payable	\$	\$0.00
	Add: Available Assets	\$	
	Equals remaining debt capacity - Open space, park & capital facilities voted		\$56,427,681.53

City of Monroe
Schedule of Liabilities
For Year Ended December 31, 2017

MCAG 0685

Schedule 09

Debt Type	ID. No.	Description	Maturity/Payment Due Date	Beginning Balance 01/01/2017	Additions	Reductions	BARS Code for Redemption of Debt Only	Ending Balance 12/31/2017
General Obligations								
	251.11	2015 GO Refunding Bonds - N. Kelsey	9/1/2020	\$ 4,140,000	\$ -		59173	\$ 4,140,000
	251.11	2016 Revenue Bonds - PW Shop	12/1/2036	\$ 1,900,600		\$ 68,000	59173	\$ 1,832,600
		Total General Obligations:		\$ 6,040,600	\$ -	\$ 68,000		\$ 5,972,600
Revenue & Other Obligations								
	263.82	Public Works Trust Fund Loan	6/1/2017	\$ 62,797		\$ 62,794	59134	\$ 3
	263.82	Public Works Trust Fund Loan	6/1/2022	\$ 810,868		\$ 135,144	59134	\$ 675,724
	263.82	Department of Ecology Loan	9/5/2022	\$ 2,123,003		\$ 340,747	59135	\$ 1,782,256
	263.82	Department of Ecology Loan	7/30/2022	\$ 414,075		\$ 36,259	59135	\$ 377,816
	252.11	2005 W&S Refunding Bonds	12/1/2021	\$ 2,640,000		\$ 487,000	59138	\$ 2,153,000
	252.11	2009 W&S Refunding Bonds	8/1/2024	\$ 1,765,000		\$ 1,360,000	59138	\$ 405,000
	252.11	2011 W/S/Storm Revenue Bonds	12/1/2031	\$ 12,545,000		\$ 8,295,000	59138	\$ 4,250,000
	252.11	2016 Revenue Bonds - PW Shop	12/1/2036	\$ 3,689,400		\$ 132,000	59138	\$ 3,557,400
	252.11	2017 Revenue Bonds - Partial refunding 2009 & 2011 Bonds	12/1/2031	\$ -	\$ 9,000,000	\$ 115,000	59138	\$ 8,885,000
		Total Revenue & Other Obligations:		24,050,143	9,000,000	10,963,944		\$ 22,086,199
		Total Liabilities:		30,090,743	9,000,000	11,031,944		\$ 28,058,799



Government Finance Officers Association

BEST PRACTICE

Debt Management Policy

BACKGROUND:

Debt management policies are written guidelines, allowances, and restrictions that guide the debt issuance practices of state or local governments, including the issuance process, management of a debt portfolio, and adherence to various laws and regulations. A debt management policy should improve the quality of decisions, articulate policy goals, provide guidelines for the structure of debt issuance, and demonstrate a commitment to long-term capital and financial planning. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and therefore is likely to meet its debt obligations in a timely manner. Debt management policies should be written with attention to the issuer's specific needs and available financing options and are typically implemented through more specific operating procedures. Finally, debt management policies should be approved by the issuer's governing body to provide credibility, transparency and to ensure that there is a common understanding among elected officials and staff regarding the issuer's approach to debt financing.

RECOMMENDATION:

GFOA recommends that state and local governments adopt comprehensive written debt management policies. These policies should reflect local, state, and federal laws and regulations. To assist with the development of these policies GFOA recommends that a government's Debt Management Policy (Policy) should be reviewed periodically (and updated if necessary) and should address at least the following:

1. Debt Limits. The Policy should consider setting specific limits or acceptable ranges for each type of debt. Limits generally are set for legal, public policy, and financial reasons.

a. *Legal restrictions* may be determined by:

- State constitution or law,
- Local charter, by-laws, resolution or ordinance, or covenant, and
- Bond referenda approved by voters.

b. *Public Policies* will address the internal standards and considerations within a government and can include:

- Purposes for which debt proceeds may be used or prohibited,
- Types of debt that may be issued or prohibited,
- Relationship to and integration with the Capital Improvement Program, and
- Policy goals related to economic development, including use of tax increment financing and public-private partnerships.

c. *Financial restrictions or planning considerations* generally reflect public policy or other financial resources constraints, such as reduced use of a particular type of debt due to changing financial conditions. Appropriate debt limits can have a positive impact on bond ratings, particularly if the government demonstrates adherence to such policies over time. Financial limits often are expressed as ratios customarily used by credit analysts. Different financial limits are used for different types of debt. Examples include:

- *Direct Debt, including general obligation bonds*, are subject to legal requirements and may be able to be measured or limited by the following ratios:
 - Debt per capita,
 - Debt to personal income,
 - Debt to taxable property value, and
 - Debt service payments as a percentage of general fund revenues or expenditures.
- *Revenue Debt* levels often are limited by debt service coverage ratios (e.g., annual net pledged revenues to annual debt service), additional bond provisions contained in bond covenants, and potential credit rating impacts.
- *Conduit Debt* limitations may reflect the right of the issuing government to approve the borrower's creditworthiness, including a minimum credit rating, and the purpose of the borrowing issue. Such limitations reflect sound public policy, particularly if there is a contingent impact on the general revenues of the government or marketability of the government's own direct debt.
- *Short-Term Debt Issuance* should describe the specific purposes and circumstances under which it can be used, as well as limitations in term or size of borrowing.
- *Variable Rate Debt* should include information about when using non-fixed rate debt is acceptable to the entity either due to the term of the project, market conditions, or debt portfolio structuring purposes.

2. Debt Structuring Practices. The Policy should include specific guidelines regarding the debt structuring practices for each type of bond, including:

- Maximum term (often stated in absolute terms or based on the useful life of the asset(s)),
- Average maturity,
- Debt service pattern such as equal payments or equal principal amortization,
- Use of optional redemption features that reflect market conditions and/or needs of the government,
- Use of variable or fixed-rate debt, credit enhancements, derivatives, short-term debt, and limitations as to when, and to what extent, each can be used, and
- Other structuring practices should be considered, such as capitalizing interest during the construction of the project and deferral of principal, and/or other internal credit support, including general obligation pledges.

3. Debt Issuance Practices. The Policy should provide guidance regarding the issuance process, which may differ for each type of debt. These practices include:

- Selection and use of professional service providers, including an independent financial advisor, to assist with determining the method of sale and the selection of other financing team members,
- Criteria for determining the sale method (competitive, negotiated, private placement) and investment of proceeds,
- Use of comparative bond pricing services or market indices as a benchmark in negotiated transactions, as well as to evaluate final bond pricing results,

- Criteria for issuance of advance refunding and current refunding bonds, and
- Use of credit ratings, minimum bond ratings, determination of the number of ratings, and selection of rating services.

4. Debt Management Practices. The Policy should provide guidance for ongoing administrative activities including:

- Investment of bond proceeds,
- Primary and secondary market disclosure practices, including annual certifications as required,
- Arbitrage rebate monitoring and filing,
- Federal and state law compliance practices, and
- Ongoing market and investor relations efforts.

5. Use of Derivatives. The Debt Management Policy should clearly state whether or not the entity can or should use derivatives. If the policy allows for the use of derivatives, a separate and comprehensive derivatives policy should be developed (see GFOA's Advisory, Developing a Derivatives Policy and Derivatives Checklist).

Notes:

- Post Issuance Compliance Checklist
- Debt Issuance Checklist: Considerations When Issuing Bonds

References:

- GFOA Advisory: Using Variable Rate Debt Instruments, 2010.
- GFOA Advisory: Use of Debt-Related Derivatives Products, 2010.
- GFOA Derivatives Checklist, 2010.
- GFOA Best Practice: Selecting Bond Counsel, 2008.
- GFOA Best Practice: Selecting and Managing Municipal Advisors, 2014.
- GFOA Best Practice: Selecting Underwriters for a Negotiated Bond Sale, 2008.
- GFOA Best Practice: Post-Issuance Policies and Procedures, 2017.
- GFOA Best Practice: Primary Market Disclosure, 2017.
- GFOA/NABL Post Issuance Compliance Checklist, 2003.
- *Benchmarking and Measuring Debt Capacity*, Rowan Miranda and Ron Picur, GFOA, 2000.
- *A Guide for Preparing a Debt Policy*, Patricia Tigue, GFOA, 1998.

203 N. LaSalle Street - Suite 2700 | Chicago, IL 60601-1210 | Phone: (312) 977-9700 - Fax: (312) 977-4806