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

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

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.

- **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 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.

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.

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