

**CITY OF MONROE
RESOLUTION NO. 018/2018**

**A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF
MONROE, WASHINGTON, ADOPTING A DEBT POLICY**

WHEREAS, the City of Monroe (hereinafter referred to as City) may periodically have a need to issue long term debt; and

WHEREAS, the City desires to ensure all debt is issued both prudently and cost effectively; and

WHEREAS, the City desires to maintain a sound debt position and protect the credit quality of its obligations; and

WHEREAS, the City has determined that adoption of comprehensive guidelines for the issuance and management of all financing of the City is in its best interest;

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF MONROE, WASHINGTON, HEREBY RESOLVES AS FOLLOWS:

Section 1. Adoption of the City of Monroe Debt Policy. The City of Monroe Debt Policy is adopted in its entirety attached as Exhibit A.

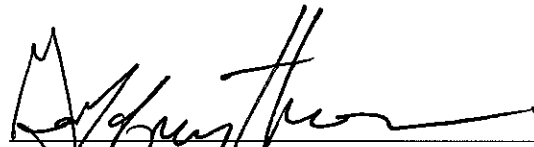
Section 2. Effective Date. The City of Monroe Debt Policy will be effective September 12, 2018.

ADOPTED by the City Council of the City of Monroe, at its regular meeting thereof, and APPROVED by the Mayor this 11th day of September, 2018.

Approved: September 11, 2018
Effective: September 11, 2018

CITY OF MONROE, WASHINGTON

(SEAL)


Geoffrey Thomas, Mayor

ATTEST:

APPROVED AS TO FORM:


Elizabeth M. Adkisson, MMC, City Clerk
J. Zachary Lell, City Attorney

City of Monroe Debt Policy

SECTION I – INTRODUCTION AND GUIDING PRINCIPLES

Purpose and Overview

The Debt Policy for the City of Monroe is established to help ensure that all debt is issued both prudently and cost effectively. From a policy perspective, the City can use 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.

The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financing of the City of Monroe. Adherence to the policy is essential to ensure that the City 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 Plan (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, 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 and 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
- In consultation with the City's financial advisor and bond counsel, shall determine the most appropriate instrument for a proposed bond sale.

The Finance Director in consultation with the Mayor (or his/her designee) and the Council Finance and Human Resources Committee 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 disclosures 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 42.17A, the Code of Ethics for Municipal Officers-Contract Interests, RCW 42.23, and Monroe Municipal Code Chapter 2.52.

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 objective advice 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.
- **Arbitrage Consultant** – An Arbitrage Consultant should be engaged to assist the City in meeting Internal Revenue Code compliance and reporting requirements when applicable.

Professional Service providers shall be selected per the City of Monroe's Procurement Policies and Procedures. 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 the following instruments.

- **Unlimited Tax General Obligation (UTGO) 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 percent of the voters at an election to be held for that purpose.

- Limited Tax General Obligation (LTGO) Bonds – A Limited Tax General Obligation debt, also known as “Non-Voted General Obligation Debt” or as a “Councilmatic Bond,” 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 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/Local Improvement District (LID) Bonds as permitted under RCW 35A.40.090 for the purpose of assuring the greatest degree of public equity in place of general obligation bonds where possible. LID Bonds represent debt that is repaid by the property owners who specifically benefit from the capital improvements through annual assessments paid by the City. LIDs are formed by the City Council after a majority of property owners agree to the assessment. No taxing power or general 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 Interfund loans rather than outside debt instruments to meet short term cash flow needs for the project. Interfund 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 Interfund loans will be subject to Council approval through passage of a Resolution, will bear interest at prevailing rates (defined as the interest which would have been paid on the money as invested in the Local Government Investment Pool), and will carry a term no longer than five (5) years.
- Leases – The City is authorized to enter into capital leases under RCW 35A.40.090 subject to the approval of City Council.
- Public Works Trust Fund (PWTF) Loans – The City shall use PWTF 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, 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.
- Competitive Bid Method – Any competitive sale of the City's debt will require the approval of City Council. City debt issued on a competitive basis will be sold to the bidder proposing the lowest true interest cost to the City.
- Negotiated Bid Method – When a negotiated sale is deemed advisable (in consultation with the Mayor or designee and the Finance Committee), the Finance Director shall negotiate the most competitive pricing on debt issues and broker commissions in order to ensure the best value for 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.
- 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 five percent cost savings (inclusive of issuance costs and discounted to its present value) over the remainder of the debt must be demonstrated for any refunding (and advanced refunding when allowed by the IRS), unless otherwise justified.
- With Council approval, interim financing of capital projects may be secured from the debt financing marketplace or from other funds through an Interfund loan as appropriate in the circumstances.
- 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 – General Obligation

- 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 will be prepared. The City shall observe the following limitations on debt issuance:
 - General Obligation – 2.5 percent of Assessed Value (RCW 39.36.020(2)(b))
 - Non-voted: 1.5 percent
 - Voted: 2.5 percent
 - Open Space and Park Facilities – 2.5 percent of Assessed Value (RCW 39.36.020(4))

- Debt payments shall not extend beyond the estimated useful life of the project being financed. The City shall keep the average maturity of general obligation bonds at or below twenty (20) years, unless special circumstances arise warranting the need to extend the debt schedule. Unless otherwise stated in law, the final maturity of the debt shall be no longer than forty (40) years (RCW 39.46.110).
- Debt Limit Target – The City shall not exceed 80 percent of the legal debt limit from above.

Limitations on Debt Issuance – Revenue Bonds

- Utility rates (water, sewer, stormwater) shall be maintained at a level necessary to provide annual combined utility net revenue that satisfies a debt service coverage factor of no less than 1.25 times the annual debt service.
- Debt payments shall not extend beyond the estimated useful life of the project being financed. Unless otherwise stated in law, the final maturity of the debt shall be no longer than forty (40) years (RCW 39.46.110).

Debt Structuring Practices

Unless specified in an earlier section of this debt policy, the following terms shall be applied to the City's various 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 forty (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 of Monroe 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 Annual Report shall be the primary vehicle for compliance with continuing disclosure requirements. The Annual Report may be supplemented with additional documentation as required, including information regarding its compliance with debt targets and the goals of this Debt 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 (or his/her designee) and the Council Finance and Human Resource Committee 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 shall track the expenditures 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 – RCW 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, if necessary, updated every five (5) years.