

RESOLUTION NO. 2020-09

A RESOLUTION of the City Council of Bainbridge Island, Washington, updating the City's Debt Policy.

WHEREAS, the City Council ("Council") is responsible for setting financial policy for the City of Bainbridge Island ("City"); and

WHEREAS, state law, including Chapter 35A.33 RCW, provides guidance for budgets in Code Cities; and

WHEREAS, in accordance with Chapter 35A.34 RCW and Chapter 2.82 BIMC, the City prepares a biennial budget with a mid-biennial review; and

WHEREAS, the City Administration ("Administration") requested, as part of the 2021-2022 biennial budget process, that the Council update the financial and budgetary policies that were adopted by the City prior to 2020; and

WHEREAS, the Council last updated the City's Debt Policy in August 2008 through the passage of Resolution No. 2008-14; and

WHEREAS, the City Council now desires to update the City's Debt Policy to reflect changes in City Code, clarify certain sections, and incorporate current debt best practices.

NOW, THEREFORE, THE CITY COUNCIL OF THE CITY OF BAINBRIDGE ISLAND DOES RESOLVE AS FOLLOWS:

Section 1. The debt policy adopted by Resolution No. 2008-14 is hereby repealed in its entirety and replaced as shown on **Exhibit A**, which is attached hereto and incorporated herein by this reference as if set forth in full.

PASSED by the City Council this 14th day of July, 2020.

APPROVED by the Mayor this 14th day of July, 2020.



Leslie Schneider, Mayor

ATTEST/AUTHENTICATE:



Christine Brown, CMC, City Clerk

FILED WITH THE CITY CLERK:
PASSED BY THE CITY COUNCIL:
RESOLUTION NO.

June 30, 2020
July 14, 2020
2020-09



CITY OF
BAINBRIDGE ISLAND

Debt Policy
Department of Finance and Administrative Services

Prepared by Finance Director DeWayne Pitts
Initial Development:

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Purpose and Overview

The Debt Policy for the City of Bainbridge Island 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 Issuer. 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 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 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.

Authoritative Guidance

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 [Chapter 35A.40.090 RCW](#). 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 RCW](#).

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 and Responsibilities

The City Council shall:

- Approve all indebtedness;
- Approve debt financing only for capital projects or to refund outstanding debt; debt shall not be issued for operating costs;

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- Approve the Debt Policy;
- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and
- Determine, in consultation with the City's Financial Advisor, the City's Bond Counsel, the City Attorney's Office, and City Finance Director, the most appropriate instrument for a proposed bond sale.

The Finance Director in consultation with the City Manager, Deputy City Manager and 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 Council will adhere to the requirements of the City's Code of Conduct and Ethics Program as well as [Chapter 42.23 RCW](#). City staff will adhere to the standards of conduct contained in the City's Employee Manual. The City Manager will adhere to the standards of conduct contained in the International City/County Manger's Association (ICMA) Code of Ethics or other standards specified upon appointment by the City Council.

Professional Services

The City shall procure professional services as required to execute financing transactions and to advise on non-transaction related work. Professional services may be provided by Municipal Advisors, Legal Counsel, underwriters, and other service providers such as rating agencies, trustees or escrow agents, verification agents, printers, arbitrage rebate calculation firms, or

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bidding agents. 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 on the City's behalf, 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 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 selected by the State of Washington.
- **Professional Service providers** may be selected through a competitive selection process conducted by the Finance Director in consultation with City Attorney's Office. The City Council shall approve the most qualified financial advisor/underwriter and bond counsel.

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 (UTGO), also known as "Voted General Obligation Bonds" as permitted under Article 7, Section 2(b) of the Washington State Constitution and laws of the state of Washington including, but not limited to, [Chapters 39.36, 39.46 RCW](#) and [Chapter 84.52 RCW](#). UTGO Bonds 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.

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Limited Tax General Obligation Bonds – A Limited-Tax General Obligation debt (LTGO), also known as “Non-Voted General Obligation Debt” or “Councilmanic 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 LTGO Bonds as permitted under Article 8, Section 6 of the Washington State Constitution and [Chapter 39.46 RCW](#) for general capital purposes only. LTGO Bonds are 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 39.46.150](#) and [RCW 39.46.160](#) 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. Unlike general obligation bonds, revenue bonds are not subject to the City’s statutory debt limitation nor is voter approval required.

Special Assessment/Local Improvement District Bonds – The City shall use Special Assessment Bonds as permitted under [RCW 35A.40.080](#), for the purpose of assuring the greatest degree of public equity in place of general obligation bond as determined by Council. 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 a LID Guaranty Fund, as required by State Law.

Short Term Debt – The City shall use short term debt as permitted under [Chapter 39.50 RCW](#), 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. 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 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 [RCW 35.42.200](#), subject to the approval of City Council.

Public Works Trust Fund Loans – The City shall use Public Works Trust Fund Loans as provided under [Chapter 43.155 RCW](#) for the purpose of repairing, replacing or creating domestic

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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 [Chapter 39.94 RCW](#), 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.

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 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. **Bond Refundings** – The City shall use refunding bonds in accordance with the Refunding Bond Act, [Chapter 39.53 RCW](#). 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. **Interfund Loans** – With Council approval, the City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected funds indicates excess funds are available and the use of the funds will not impact the fund’s current operations. All interfund loans will bear interest based at prevailing rates and have terms consistent with state guidelines for interfund loans.

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5. **Special Assessments** – 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** – Maximum of 2.5% of Assessed Value ([RCW 39.36.020\(2\)\(b\)](#))
 - **Non-Voted:** 1.5% of Assessed Value - (Limited Tax General Obligation (LTGO) Bonds)
 - **Voted:** 2.5% of Assessed Value - (Unlimited Tax General Obligation (UTGO) Bonds)

2. **Debt Limit Target:** The City will reserve \$30 million of LTGO debt capacity, or 25% of the total legal limit (which statutory limit is 1.5% of total city-wide assessed value), whichever is larger, for emergencies.

3. **Net LTGO Debt Service:** LTGO debt shall not be issued to the extent it would cause the net debt service that would become payable from the Tax Supported funds to exceed 25% of the total budgeted Tax Supported revenues for the current or subsequent year.

4. The City will plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

5. When considering new debt, City finance staff will conduct a debt affordability analysis to evaluate the City's ability to support long-term debt. The analysis will review available resources for debt and project the effects utilizing a ten-year recurring revenues and expenditure capacity analysis financial modeling tool. The financial assumptions shall be reasonable and shall take into account appropriately chosen sets of inflation factors and an appropriate set of economic projections. The Administration's chosen assumptions for revenues, expenditure inflation factors and economic measures shall be disclosed to the Council.

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. If appropriate, debt service reserve funds may be used for revenue bonds.

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- **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** – A reimbursement resolution may be adopted by City Council if the project hard costs are advanced prior to the bond sale.

Compliance Polices

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. 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 is co-mingled with other investments, the City shall adhere to IRS rules on accounting allocations.

Washington State Department of Commerce and the Bond Users Clearinghouse

The City shall ensure that the Washington State Department of Commerce and 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](#).

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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.

Other Policies

Periodic review

The City's debt policy shall be adopted by City Council. The policy shall be reviewed at least every four years by the Finance Director and modifications shall be submitted to and approved by City Council.

Credit Rating

The City of Bainbridge Island seeks to maintain the highest possible credit ratings for all categories of short and long-term General Obligation debt that can be achieved without compromising delivery of basic City services and achievement of adopted City policy objectives.

The City recognizes that external, economic, natural, or other events may from time-to-time affect the creditworthiness of its debt. Nevertheless, the City Council is committed to ensuring that actions within their control are prudent and consistent with the highest standards of public financial management, and supportive of the creditworthiness objectives defined in this policy.