

DEBT POLICY Policy 520

Table of Contents

.1	ROLES AND RESPONSIBILITIES	1
.2	DEBT PLANNING.....	1
.3	CREDIT OBJECTIVES.....	1
3.1	Credit Ratings	1
3.2	Credit Enhancement	2
.4	PURPOSE, TYPE AND USE OF DEBT.....	2
4.1	Limited Tax General Obligation Debt (LTGO).....	2
4.2	Unlimited Tax General Obligation Debt (UTGO)	2
4.3	Revenue Obligations	3
4.4	Assessment-backed Obligations	3
4.5	Lease Purchase or Other Financing Contracts.....	4
4.6	Local Option Capital Asset Lending (LOCAL) Program	4
4.7	Short-Term Obligations	4
.5	STRUCTURE OF DEBT	4
5.1	Term of Financing.....	4
5.2	Payback Period.....	5
.6	REFUNDING OBLIGATIONS.....	5
.7	Debt Issuance	6

7.1	Review and Analysis Required.....	6
7.2	Method of Sale.....	6
7.3	Use of Professionals and Other Service Providers	6
7.3.1	Bond Counsel	6
7.3.2	Financial Advisor.....	6
7.3.3	Underwriter	7
7.3.4	Fiscal Agent.....	7
7.3.5	Other Service Providers	7
.8	OTHER DUTIES AND OBLIGATIONS	7
8.1	Investment of Bond Proceeds	7
8.2	Arbitrage and Tax Law Requirements	7
8.3	Disclosure Documents.....	8
8.3.1	Primary Market Disclosure	8
8.3.2	Secondary Market Disclosure	9

DEBT POLICY

.1 ROLES AND RESPONSIBILITIES

The Board of Commissioners shall, in accordance with applicable statutes, ordinances, and policies, initiate all debt issuance.

The County Treasurer shall provide the services required for the issuance of debt in consultation with required professionals and other service providers. The Treasurer shall inform the County's Finance Committee of all debt issuance plans and the status of financings in process. Additionally, the Treasurer shall be responsible for the payment of the County's debt service pursuant to RCW 36.29.010.

This policy is adopted and reviewed in accordance with RCW 36.48.070 and shall be reviewed annually by the Finance Committee.

.2 DEBT PLANNING

Priorities when considering debt financing shall be established based upon:

- The need for the project, as determined in the adopted Capital Facilities Plan and/or the Clallam County Comprehensive Plan in order to provide required County services,
- Availability of funding or debt repayment source and
- Availability of staff to carry out the project in the time frame specified.

Clallam County maintains a Capital Facilities Plan and a Transportation Improvement Plan in accordance with applicable laws and County Policy. Based upon the projects and priorities listed in the Capital Facilities Plan, Transportation Improvement Plan, Comprehensive Plan, or other projected capital projects, the County Treasurer will develop a plan of finance and calendar of debt issuance to address the financing needs identified in each year for presentation to the Finance Committee, and further recommendation to the Board of Commissioners.

.3 CREDIT OBJECTIVES

3.1 Credit Ratings

The County will seek to maintain the highest possible credit ratings for all categories of debt, without compromising delivery of basic County services and achievement of the County's policy objectives. It shall be the County's goal to maintain a long-term bond rating in the "A" category.

3.2 Credit Enhancement

For all bond issues, the County will seek one or more commitments for municipal bond insurance, which will indicate the insurer's willingness to insure the timely payment of principal and interest and the proposed cost for such insurance.

Credit enhancement will only be used when the projected present value benefit is greater than the cost of insurance. The projected present value benefit will be determined by comparing the expected interest cost for financing both with, and without insurance, when discounted by the expected interest rate on the bonds.

Generally, the County will not purchase more than one bond rating for insured debt.

For negotiated sales of bonds, the County will pay the bond insurance premium from bond proceeds when a benefit is demonstrated following analysis.

For competitive sales of bonds, the County will make insurance available at the option and expense of bidders. Bidders may choose to purchase additional bond ratings at their own expense.

.4 PURPOSE, TYPE AND USE OF DEBT

Clallam County has historically maintained a conservative and frugal approach to the issuance of public debt. The County will minimize general debt and seek alternative solutions whenever practical.

4.1 Limited Tax General Obligation Debt (LTGO)

LTGO is payable from regular tax levies and revenues, and includes all types of obligations whether lease-purchase, financing contracts, loans, bond or other payment obligations. Rental leases are not considered debt, but financing leases are. LTGO debt is subject to a statutory limitation of one and one half percent of the County's assessed value.

Limited tax debt will be used for general County purposes when a specified repayment source has been identified through new revenue sources, expenditure reductions, increased revenue base, or in the event of an emergency.

4.2 Unlimited Tax General Obligation Debt (UTGO)

UTGO is payable from excess tax levies and is subject to voter approval. Any proposition for UTGO debt must be approved by sixty percent of the voters casting a vote, and the total number of ballots cast must be at least equal to forty percent of the total number of voters voting in the last General County or State Election. Total UTGO

debt (including limited and unlimited tax) is subject to a statutory limitation of two and one-half percent of the County's assessed value.

Unlimited tax debt will be used for County capital purposes when the project has broad approval by the County's residents, or the use of an excess tax levy is necessary for debt service payments.

4.3 Revenue Obligations

Revenue Obligations are used to finance construction or improvements to facilities of enterprise systems operated by the County in accordance with a system and plan of improvements. The enterprise systems must be an established system legally authorized for operation by the County.

There are no legal limits to the amount of revenue bonds the County can issue, but there are practical limits to the County's ability to repay obligations.

Revenue bonds are generally subject to certain tests and requirements, including:

- Establishment and maintenance of a debt service fund (generally equal to average annual debt service) and a reserve fund if required.
- Rates and charges must provide net revenue after payment of operating expenses equal to a multiple between 1.1 and 1.5 times the debt service requirement, depending on the type and purpose of the enterprise and debt. Additional covenants and pledges must be made for the benefit of bondholders.

The County will not incur revenue obligations without first ensuring the ability of an enterprise system to consistently meet any pledges and covenants customarily required by investors in such obligations, during the term of the obligation.

4.4 Assessment-backed Obligations

Assessment-backed obligations are used to finance projects that will provide special benefit to certain property owners. The benefiting property owners are charged an assessment based upon a formula developed to fairly reflect the benefit received by each property owner in the assessment district. There are detailed statutes for the formation of assessment districts and assessing property, which contain specific timeframes for notice and conducting public hearings.

The County will form Road Improvement Districts (RIDS) or Local Improvement Districts (LIDS) upon petition of benefiting property owner, unless the County Commissioners determine to establish the districts by resolution.

The County Treasurer, in conjunction with the Public Works Department, will develop specific policies and procedures relating to financing for assessment districts for recommendation to the Finance Committee.

4.5 Lease Purchase or Other Financing Contracts

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

4.6 Local Option Capital Asset Lending (LOCAL) Program

The Local Program is available by the State Treasurer's Office. It is an expanded version of the state agency lease/purchase program that allows pooling funding needs into larger offerings of securities. This program allows local government agencies the ability to finance equipment needs and limited real estate projects through the State Treasurer's Office, subject to existing debt limitations and financial consideration. Equipment is defined as personal property with the general rule that the property is not permanently affixed to land or a building.

4.7 Short-term Obligations

Short-term obligations will be used for the purpose of cash flow financing or to provide interim financing in conjunction with the development of a long-term financing plan. In no case will notes or other obligations be entered into for the purpose of funding deficits without prior development and review of a longer-term deficit-financing plan by the Finance Committee upon recommendation by the County Treasurer.

The use of short-term financing shall be evaluated by the County Treasurer and compared with the cost of internal financing or interfund loans. All interfund loan resolutions will be reviewed by the County Treasurer to ensure that the appropriate reimbursable language is included, the correct fund numbers are used, and to develop the appropriate debt repayment schedule.

.5 STRUCTURE OF DEBT

5.1 Term of Financing

In no case will the term of any financing exceed the life of the asset being financed. In setting the term of debt, the County will attempt to balance the overall cost of financing with the annual payment burden. It is the goal of the County to establish a term of finance that ensures that the residents benefiting from the project are the ones who are paying over the life of the debt. The term will be structured consistent with a fair allocation of costs to current and future beneficiaries.

5.2 Payback Period

To the extent possible, the County will strive to repay at least twenty percent of its long-term debt within five years and forty percent within ten years. This is consistent with the County's desire to structure debt with level payments of principal and interest over the life of the debt. Backloading of principal will be considered only when the benefits from the debt issuance can clearly be demonstrated to be greater in the future than in the present, when such structuring is beneficial to the County's overall amortization schedule, or when the structure will more closely match debt service to the anticipated repayment source.

.6 REFUNDING OBLIGATIONS

The County Treasurer will continually review the County's outstanding debt and recommend issues for refunding as market opportunities arise. Debt shall be refinanced only for the purpose of achieving debt service savings, unless required to achieve specific debt management goals of the County. The County will not refinance debt for the purpose of deferring scheduled debt service, unless unique circumstances are present. The County is aware that refinancing for the purpose of deferring debt service may have an impact on its credit rating. Advance refunding transactions will generally be completed when net present value savings equal at least three and one-half percent of the amount of debt being refunded. Advance refunding transactions are those undertaken in advance of the first date on the refunded debt can be called for optional redemption, and will require the establishment of an escrow account for the defeasance of the refunded debt. All costs incurred in completing the refunding shall be taken into account when determining the net present value savings.

Current refunding transactions shall be considered whenever possible. Current refunding transactions are those undertaken at or after the call date on outstanding debt, and provide for immediate redemption and replacement of refunded debt. The savings level required for a current refunding should take into account the number of years remaining on the bonds, within the following general guidelines:

<u>Years Between Refunding and Final Redemption</u>	<u>Present Value Savings Target</u>
1 – 2 years	1%
3 – 4 years	2%
5 – 6 years	2.5 – 3%
7 – 9 years	3.5%

The County may purchase its bonds in the open market for the purpose of retiring the obligations, when it is cost effective.

.7 DEBT ISSUANCE

7.1 Review and Recommendations Required

Prior to the issuance of any long or short term debt, the appropriate County Official recommending such debt and/or the County Administrator shall provide sufficient information to the County Treasurer so that the Finance Committee can review the proposal and make determinations as to the feasibility and advisability of issuing such debt. Additionally, the Finance Committee shall make written comments as appropriate regarding funding sources, funding levels, term of the debt, and any other concerns or matters that are appropriate. The Finance Committee may also make recommendation on alternative methods to fund projects including loan of monies from other county funds.

7.2 Method of Sale

The County Treasurer shall determine the method of sale best suited for each issue of debt. When necessary, to minimize the costs and risks of borrowing, the County will provide for the sale of debt by negotiating the terms and conditions of sale, including prices, interest rates, underwriting fees, and other compensation. For any competitive sale of debt, the County will award the issue to the underwriter offering to buy the bonds at a price and interest rates that provides the lowest True Interest Cost (TIC is the total interest paid plus underwriters cost in present value).

7.3 Use of Professionals and Other Service Providers

7.3.1 Bond Counsel

All debt issued by the County shall include a written policy by legal counsel affirming that the County is authorized to issue the debt, and that all statutory requirements have been met. The legal opinion and other documents relating to the issuance of debt will be prepared by nationally recognized private legal counsel with extensive experience in public finance and tax issues. Bond counsel will be appointed by the prosecuting attorney to serve as special prosecutor upon request of the County Treasurer.

7.3.2 Financial Advisor

If the County Treasurer determines that it is in the best interest of the County to retain a financial advisory, then the Treasurer shall select a financial advisory consistent with the County's general authority to contract and contracting policy. The financial advisor shall have comprehensive municipal debt experience, including debt structuring and pricing of municipal securities. In no case shall the financial advisor serve as underwriter for the County's bonds without first

submitting written resignation as financial advisor, which clearly sets forth the firm's role relating to the bonds to be issued.

7.3.3 Underwriter

For negotiated sales, the County Treasurer may select an underwriter, consistent with the County's general authority to contract and contracting policy, taking into account the type of issue, experience offered and other relevant criteria. The selection of underwriter may be for an individual bond issue, series of financings, or a specified time period, as determined by the Treasurer. The underwriter shall have sufficient capitalization and experience to serve as underwriter for the County's bonds.

7.3.4 Fiscal Agent

The County Treasurer shall use the State Fiscal Agent appointed by the State Treasurer. At his/her discretion, the Treasurer may serve as registrar for very small issues or those privately placed with investors. Neither the County or special purpose districts can obligate the County Treasurer to serve as registrar without prior written approval of the Treasurer as provided in RCW 39.46.030.

7.3.5 Other Service Providers

Professional services such as verification agent, escrow agent or rebate analyst may be appointed by the Treasurer and are considered incidental to the Treasurer's role in undertaking the issuance of debt.

.8 OTHER DUTIES AND OBLIGATIONS

8.1 Investment of Bond Proceeds

Each Bond Resolution will provide for establishment of funds and accounts, which will be designated in advance by the County Treasurer. Investments will be made in accordance with the County's Investment Policy and procedures established by the County Treasurer.

8.2 Arbitrage and Tax Law Requirements

Prior to any debt issuance, the County Treasurer shall be provided with a schedule that shows the expected timing and amount of expenditures to be made from the project fund. This schedule will be provided by the County Treasurer to Bond Counsel for use in developing an Arbitrage Certificate.

The County Treasurer will keep records of investment of bond proceeds and bond funds sufficient to develop calculations required for compliance with arbitrage and other tax law requirements. At his/her discretion, the County Treasurer may retain the services of a qualified professional firm to provide computations relating to potential rebate liability of the County.

The County Treasurer is not responsible for arbitrage and other tax law requirements for junior taxing or benefit assessment districts for which the County Treasurer serves as ex-officio treasurer. No such district is authorized to obligate the County Treasurer in any way, relating to these requirements.

8.3 Disclosure Documents

8.3.1 Primary Market Disclosure

The County Treasurer will serve as the focal point for information requests relating to official statements to be used in the initial offering of the County's bonds or notes. The County Treasurer will request from relevant departments and offices, information required for disclosure to investors and rating agencies. Each department or office bears responsibility for the information provided for use in the County's official statements.

The County Commissioners will be provided with a copy of the official statement for each issue of debt, and the Chair of the Board will sign a statement attesting to the accuracy and completeness of the information therein.

8.3.2 Secondary Market Disclosure

The County Treasurer shall review any proposed undertaking to provide secondary market disclosure, and advise the County Commissioners of any suggested changes in information or deadlines contained therein. The County Treasurer will provide secondary market disclosure annually, if the County has contracted to provide any.

This debt policy as stated in this document has been reviewed and is hereby adopted on this _____ day of _____, 2003.

Ruth Gerdon, County Treasurer

Stephen P. Tharinger, Chair
Clallam County Board of Commissioners

Cathleen McKeown, County Auditor