RESOLUTION R-4837

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND ADOPTING A REVISED POLICY FOR THE MANAGEMENT OF THE CITY'S DEBT.

WHEREAS, the City Council of the City of Kirkland deems to ensure that all debt is issued both prudently and cost effectively; and

WHEREAS, the City Council of the City of Kirkland desires to set forth guidelines for the issuance and management of all financings of the City; and

WHEREAS, the Kirkland City Treasurer (Deputy Director of Finance) has recommended revisions to the debt management policies; and

WHEREAS, the City of Kirkland debt management policy has been written in accordance with the Association of Public Treasurers of the United States & Canada (APT US&C) guidelines.

NOW, THEREFORE, be it resolved by the City Council of the City of Kirkland as follows:

Section 1. The policy for the management of the City's debt set forth in the document entitled "City of Kirkland Debt Management Policy September 1, 2010," which is attached hereto and incorporated herein by this reference as if set forth in full is hereby adopted as official policy for the management of the City's debt.

Section 2. That the document entitled City of Kirkland Debt Management Policy September 1, 2010, replaces all previous City of Kirkland Debt Management Policies.

Passed by majority vote of the Kirkland City Council in open meeting this 21st day of September, 2010.

Signed in authentication thereof this 21st day of September, 2010.

Joan McBride

MAYOR

Attest:

Kathi Anderson

City Clerk

City of Kirkland
Debt Management Policy
September 1, 2010

The Debt Policy for the City of Kirkland (City) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability.

1.0 Uses of Debt

1.1 City of Kirkland uses debt as a mechanism to equalize the costs of needed capital improvements for the benefit of both present and future citizens;

1.2 City of Kirkland uses debt as a mechanism to reduce the immediate costs of substantial public improvements.

1.3 The City of Kirkland will not use long-term debt to support current operations.

1.4 Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.

1.5 Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.

1.6 Interest, operating, and/or maintenance expenses will be capitalized only for enterprise activities~~;~~ and will be strictly limited to those expenses incurred prior to actual operation of the facilities.

2.0 Debt Limits

2.1 Legal Limits:

2.1.1 The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City. RCW 39.36.020

2.1.2 The following individual percentages shall not be exceeded in any specific debt category:
General Debt - 2.5% of assessed valuation

Non-Voted	1.5%	Limited Tax General Obligation (LTGO) Bonds
Voted	1.0%	Unlimited Tax General Obligation (UTGO) Bonds

Utility Debt - 2.5% of assessed valuation
Open Space and Park Facilities - 2.5% of assessed valuation

2.2 Public Policy Limits:

2.2.1 The City will establish and implement a comprehensive multi-year Capital Improvement Program (CIP).

2.2.2 Financial analysis of funding sources will be conducted for all proposed capital improvement projects.

2.2.3 Debt will be issued in accordance with the CIP as necessary.

2.2.4 Where borrowing is recommended, the source of funds to cover debt service requirements must be identified.

2.2.5 The City, as determined by the City Council, may consider using long term debt toward public improvements, which have an identified public benefit to the City, associated with economic development to the extent that new revenues from the project, in excess of those identified by the City Council for other City purposes can be agreed upon to support the debt service.

2.3 Financial Limits:

2.3.1 The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

2.3.2 The City will conduct a debt affordability analysis to evaluate the City's ability to support debt. The analysis will review available resources for the amount of debt the City can initiate each year, and project the effects of that financing through six years of the CIP.

3.0 Allowable Types of Debt

3.1 Short Term Obligations: 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 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 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, will bear interest based upon prevailing rates and have terms consistent with state guidelines for interfund loans.

3.2 Assessment/ LID Bonds: Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who benefited from the capital improvement 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.

3.3 General Obligation Bonds Limited Tax: General Obligation debt is backed by the full faith and credit of the City and is payable from General Fund revenues and taxes collected by the City. Limited Tax General Obligation (LTGO) Bonds can be issued with the approval of the City Council and 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.

3.4 General Obligation Bonds Unlimited Tax: Unlimited Tax General Obligation (UTGO) Bonds are payable from excess tax levies and is subject to voter approval by 60% of the voters.

3.5 Revenue Bonds: Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Program and are generally payable from the enterprise. 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.

3.6 Leases: Lease purchase or financing contracts are payment obligations that represent principal and interest components which are general obligations of the City.

3.7 Other Loan Programs:

3.7.1 Public Works Trust Fund Loans are loans from the Public Works Board, authorized by state statute, RCW 43.155 to loan money to repair, replace, or create domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste and recycling facilities, and bridges.

3.7.2 The Local Option Capital Asset Lending (LOCAL) Program is a financing contract with the Office of the State Treasurer under RCW 39.94. 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 through the State Treasurer's office, subject to existing debt limitations and financial consideration.

3.7.3 Other state funded programs.

3.8 Alternative types of debt: No variable-rate debt or derivative products shall be utilized.

4.0 Debt Structuring Practices

4.1 Maximum term, Payback Period and Average maturity:

4.1.1 The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life with the average life of the bonds less than or equal to the average life of the assets being financed.

4.1.2 General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.

4.1.3 The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.

4.2 Debt Service Structure:

4.2.1 Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.

4.3 Criteria for issuance of advance refunding and current refunding bonds

4.3.1 The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt. A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will not be pursued without a sufficient net present value benefit after expenses.

4.4 Other structuring practices:

4.4.1 Bond amortization schedules will be structured to minimize interest expense with the constraints of revenues available for debt service. The bonds should include call features to maximize the City's ability to advance refund or retire the debt early. However, call features should be balanced with market conditions to ensure that the total cost of the financing is not adversely affected.

5.0 Debt Issuance Practices

5.1 Council Approval: City Council approval is required prior to the issuance of debt.

5.2 Analytical Review: An analytical review shall be conducted prior to the issuance of debt including, but not limited to, monitoring of market opportunities and structuring and pricing of the debt.

5.3 Use of credit ratings, minimum bond ratings, determination of the number of ratings and selection of rating services: The City will continually strive to maintain its bond rating by improving financial policies, budget, forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved. The City will maintain good communication with bond rating agencies about its financial condition, coordinating meetings, and presentations in conjunction with a new issuance as necessary.

5.4 Compliance with Statutes and Regulations: The Finance Director, City Attorney and bond counsel shall coordinate their activities and review all debt issuance to ensure that all securities are issued in compliance with legal and regulatory requirements by the State of Washington and the Federal Government's laws, rules and regulations.

5.5 Selection and use of professional service providers:

5.5.1 The City's Finance and Administration Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.

5.5.2 Bond Counsel: 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 proprosed debt's federal income tax status and any other components necessary for the proposed debt.

5.5.3 Financial Advisor: A Financial Advisor(s) 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.

5.5.4 Underwriters: An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

5.5.5 Fiscal Agent: A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.

5.6 Criteria for determining sales method and investment of proceeds:

5.6.1 The Director of Finance and Administration shall determine the method of sale best suited for each issue of debt.

5.6.2 The City will generally issue its debt through a competitive process. For any competitive sale of debt, the City 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).

5.6.3 The City will provide for the sale of debt by negotiating the terms and conditions of sale when necessary to minimize the cost and risks of borrowing under the following conditions:

i. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
ii. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
iii. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
iv. The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

5.7 Bond Insurance: For each issue, the City will evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City shall be competitively procured.

6.0 Debt Management Practices

6.1 Investment of Bond Proceeds
The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds, including City of Kirkland Investment Policy.

6.2 Continuing Disclosure
The City shall provide annual disclosure information to established national information repositories and maintain compliance with disclosure statements as required by state and national regulatory bodies. Disclosure shall take the form of the Comprehensive Annual Financial Report (CAFR) unless information is required by a particular bond issue that is not necessarily contained within the CAFR.

6.3 Arbitrage Rebate monitoring and filing
The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations, and will perform (internally or by contract consultants) arbitrage rebate calculations for each issue subject to rebate. All necessary rebates will be filed and paid when due in order to preserve the tax-exempt status of the outstanding debt.

6.4 Federal and state law compliance practices
Discussed in Debt Issuance Practices sections 5.3 and 5.4 and Debt Management Practices sections 6.1 and 6.3.

6.5 Market and investor relations efforts
The City shall endeavor to maintain a positive relationship with the investment community. The City shall communicate through its published Biennial Budget, Capital Improvement Program and Comprehensive Annual Financial Statements the City’s indebtedness as well as its future financial plans.

6.6 Periodic review
The City’s debt policy shall be adopted by City Council. The policy shall be reviewed every four years by the Council Finance Committee and modifications shall be submitted to and approved by City Council.

Debt Management Policy Glossary

ARBITRAGE
The gain that may be obtained by borrowing funds at a lower (often tax-exempt) rate and investing the proceeds at higher (often taxable) rates. The ability to earn arbitrage by issuing tax-exempt securities has been severely curtailed by the Tax Reform Act of 1986, as amended.

ARBITRAGE REBATE
The amount of arbitrage earnings that must be paid to the Internal Revenue Service in compliance with requirements of the federal tax code and Internal Revenue Service regulations.

BOND COUNSEL
An attorney (or firm of attorneys) retained by the issuer to give legal opinion concerning the validity of the securities. The bond counsel's opinion usually addresses the subject of tax exemption. Bond counsel may prepare, or review and advise the issuer regarding authorizing resolutions or ordinances, trust indentures, official statements, validation proceedings and litigation.

BOND INSURANCE
A type of credit enhancement whereby a monoline insurance company indemnifies an investor against a default by the issuer. In the event of a failure by the issuer to pay principal and interest in-full and on-time, investors may call upon the insurance company to do so. Once assigned, the municipal bond insurance policy is irrevocable. The insurance company receives an up-front fee or premium when the policy is issued.

CALL OPTION
The right to redeem a bond prior to its stated maturity, either on a given date or continuously. The call option is also referred to as the optional redemption provision.

COMPETITIVE SALE
The sale of securities in which the securities are awarded to the bidder who offers to purchase the issue at the best price or lowest cost.

CONTINUING DISCLOSURE
The requirement by the Securities and Exchange Commission for most issuers of municipal debt to provide current financial information to the informational repositories for access by the general marketplace.

DEFEASANCE
Providing for payment of principal of premium, in any, and interest on debt through the first call date or scheduled principal maturity in accordance with the terms and requirements of the instrument pursuant to which the debt was issued. A legal defeasance usually involves establishing an irrevocable escrow funded with only cash and U.S. Government obligations.

DERIVATIVES
A financial product, the value of which is derived from the value of an underlying asset, reference rate, or index. Typically these agreements are contracts between a lender/investor and a borrower and include interest rate swaps, caps, floors, collars and forward purchase agreements.

ENTERPRISE ACTIVITY
A revenue-generating project or business. The project often provides funds necessary to pay debt service on securities issued to finance the facility. The debts of such projects are self-liquidating when the projects earn sufficient monies to cover all debt service and other requirements imposed under the bond contract. Enterprise activities for the City of Kirkland consist of the water/sewer, solid waste and surface water utilities.

FINANCIAL ADVISOR
A consultant who advises an issuer on matters pertinent to a debt issue, such as structure, sizing, timing, marketing, pricing, terms and bond ratings.

FUND
A fund is an independent financial and accounting entity with a self-balancing set of accounts in which cities record financial transactions relating to revenues, expenditures, assets and liabilities.

INTERFUND LOAN
When the City loans money from one fund to another fund on a temporary basis. Funds receiving the loan must pay back the principle plus interest based on prevailing rates.

NEGOTIATED SALE
A sale of securities in which the terms of sale are determined through negotiation between the issuer and the purchaser, typically and underwriter, without competitive bidding.

OFFICIAL STATEMENT
A document published by the issuer that discloses material information on a new issue of municipal securities including the purposes of the issue, how the securities will be repaid, and the financial, economic and social characteristics of the issuing government. Investors may use this information to evaluate the credit quality of the securities.

REFUNDING
A procedure whereby an issuer refinances an outstanding bond issue by issuing new bonds.

TRUE INTEREST COST
True Interest Cost is defined as the actual cost of issuing a bond, taking into account the present value (time value) of money. The TIC is the rate of interest, compounded semiannually, required to discount the payments of principal and interest to bondholders to the original purchase price.

UNDERWRITER
The term, used broadly in the municipal market, to refer to the firm that purchases a securities offering from a governmental issuer.

VARIABLE-RATE BOND
A bond on which the interest rate is reset periodically, usually no less often than semi-annually. The interest rate is reset either by means of an auction or through an index.