CITY OF SEATTLE

DEBT MANAGEMENT POLICIES

Introduction

The following policies are enacted to maintain standard and rational practices for the issuance and management of debt by the City of Seattle. Their primary objective is to establish conditions for the use of debt and to create procedures and policies that minimize the City's debt service and issuance costs, retain the highest practical credit ratings and maintain full and complete financial disclosure and reporting. The policies apply to all debt issued by the City of Seattle, including leases, debt guaranteed by the City, interfund loans, and any other forms of obligation or indebtedness. Additional debt policies for revenue bonds issued by the City's utilities shall be detailed separately in utility financial policies.

Standard and up-to-date debt policies are an important tool for ensuring that the City's resources are responsibly managed. These policies are therefore guidelines for general use, and the City may allow exceptions in extraordinary circumstances.

These policies have been approved by the Debt Management Policy Advisory Committee (DMPAC) and have been adopted by the City Council by resolution. The Debt Management Policies of the City can be adjusted at any time by resolution of the City Council following review and approval by the DMPAC and the Executive. They will be reviewed and updated as needed.

Creditworthiness Objectives

Policy 1. **Credit Ratings:** The City of Seattle seeks to maintain the highest practical credit ratings for all categories of short- and long-term 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 Mayor and City Council are 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 herein.

Policy 2. **Financial Disclosure:** The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, institutional and individual investors, City departments and agencies, regulatory agencies, and the general public to share clear, comprehensible, and accurate financial information. The City is committed to meeting disclosure requirements on a timely and comprehensive basis.

Official statements accompanying debt issues, Comprehensive Annual Financial Reports, Annual Audited Financial Statements, and continuing disclosure undertakings will meet (at a minimum) the standards articulated by the Municipal Standards Rulemaking Board (MSRB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), and Generally Accepted Accounting Principles (GAAP). The Department of Finance and Administrative Services shall be responsible for ongoing disclosure to the MSRB service, Electronic Municipal Market Access (EMMA), and for maintaining compliance with disclosure standards promulgated by state and national regulatory bodies.

Policy 3. **Capital Planning:** To enhance creditworthiness and prudent financial management, the City of Seattle is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning will be demonstrated through adoption and periodic adjustment of a six-year capital improvement program (CIP).

Policy 4. **Councilmanic Debt Capacity and Reserve:** The City will keep outstanding General Obligation debt within the limits prescribed by State statute and at levels consistent with its creditworthiness objectives. The City will reserve $100 million of legal limited tax (councilmanic) general obligation debt capacity, or twelve (12) percent of the total legal limit (which is one and a half (1.5) percent of total city-wide assessed value), whichever is larger, for emergencies, such as responses to major natural disasters or other significant threats to public health or safety.

Policy 5. **Net Debt Service:** The City will monitor and limit its "net debt service" on General Obligation debt. "Net debt service" is defined as the total annual debt service on limited tax general obligation (councilmanic) debt minus any revenues generated by the debt-financed projects to pay this debt service. Except in emergencies, net debt service will not exceed 7% of the total General Fund budget.[1]

Policy 6. **Annual Debt Report:** The Department of Finance and Administrative Services shall prepare an annual report on City debt for inclusion in the Mayor's proposed Budget (document) submitted to Council each September. This report will describe any general obligation bond issues planned for the coming year.

[1] For this purpose, the "General Fund budget" is the budget of the General Subfund of the General Fund and does not include the budgets of other subfunds such as the Emergency Subfund or Health Care Subfund.

Purposes and Uses of Debt

Policy 7. **Capital Financing:** The City will normally rely on existing funds, project revenues, and grants from other governments to finance capital projects such as major maintenance, equipment acquisition, and small development projects. Debt may be used for capital projects only when a project generates revenues over time that are used to retire the debt, when debt is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries, or in emergencies.   Debt may be used for non-capital purposes only in emergencies.

Policy 8. **Asset Life:** The City will consider the use of debt for the acquisition, development, replacement, maintenance, or expansion of an asset only if it has a useful life of at least five years. Debt will not be issued for periods exceeding the useful life or average useful lives of the project or projects to be financed.

Policy 9. **Debt Guarantees and Loans:** The City may consider, on a case-by-case basis, the use of its debt capacity for legally allowable capital projects by public development authorities or other special purpose units of government, so long as total of such indebtedness does not exceed 15% of the City's total legal authority for non-voted general obligation debt and so long as the guarantees do not infringe on the debt capacity reserve established in Policy 4. A City guarantee of debt service coverage will be made only: (1) after the prior commitment of the full assets and resources of the development authority to debt coverage; (2) if annual project revenues, or development authority revenues pledged to debt service, are at least twenty percent greater than debt service (average coverage of 1.2 during the term of the debt); (3) if debt service reserves are provided by the development authority's own resources and are equal to at least six months' debt service; (4) if all other viable means of financing have been examined, including, but not limited to, revenue debt, letters and lines of credit, and extension of credit by other governmental agencies; (5) after providing all the items listed under Policy 12.1; and (6) after completion of a fiscal note, as defined in the most recent Council adopted capital funding policies.

Policy 10. **Use of LTGO Debt:**   Before issuing limited tax general obligation (LTGO) debt, the City will consider all other financing alternatives or funding sources. The City shall only use limited tax general obligation debt:

- under catastrophic or emergency conditions; or
- if the project to be financed is expected to generate positive net revenues after debt service. Net revenues after debt service must not only be positive over the life of the debt, but must be expected to become positive on an annual basis within the first five years after completion of the project; or
- if the debt service will be payable from a specific new revenue source, such as a voter-approved levy lid lift, which is expected to be sufficient to pay the debt service; or
- if the project is expected to significantly reduce City operating costs within the first five years; or
- if an equal or greater amount of non-City matching funds will be lost if City LTGO funds are not applied in a timely manner; or
- if the project to be financed is less than $25,000,000; or

- if the project to be financed provides essential City services or would so advance core City policy objectives that its value overrides the value of seeking voter approval.

Policy 11. **Use of Interfund Loans:** When considering a request for a general government interfund loan, the DMPAC and City Council shall place priority on the use of interfund loans for:

- Bridge financing of capital projects approved by City Council for future external debt financing.
- Project financing for up to five years of capital projects that have secure revenue sources or are collateralized with unencumbered assets with sufficient capacity or value for repayment of the principal and interest on the loan.

The DMPAC and the City Council may not approve interfund loans for other general government purposes (e.g., operating deficits) except upon a finding that there is no viable alternative available for advancing a core City objective and upon any terms and conditions the DMPAC or City Council determine are in the best interest of the City.

Interfund loan requests should only be approved if the City's cash pool can prudently support the interfund loan as may be determined by the Director of Finance.

Earnings and losses resulting from interfund loans will be treated as those of any other cash pool investment. The Director of Finance shall report at least quarterly to the DMPAC, the City Budget Director, and the City Council on the status of all interfund loans currently authorized by ordinance, including identification of any issues of concern with particular interfund loans such as nonpayment or significant changes to revenue sources identified for repayment.

This Policy 11 does not apply to interfund loans made to the Seattle City Light Fund, the Water Fund, the Drainage and Wastewater System Fund, and the Solid Waste Fund ("Utility Funds"). However, interfund loans of longer than 90 days for Utility Funds require review by the DMPAC and City Council approval. The City's utilities have strong credit with solid and diverse rate bases. However, they rely on ready access to the City's consolidated cashpool as a source of short-term emergency liquidity.

Process for Developing Debt Financing Plans

Policy 12. **Evaluation of Proposals for Debt Financing:**

12.1 **General Obligation Debt Financing:** To minimize transaction costs, the City shall consolidate, whenever practical, its general obligation bond financing into single annual multipurpose bond issues. All requests to incur debt shall be made first to the Director of Finance and to the Budget Director (jointly the "Directors") who shall determine consistency with these Debt Management Policies. When practical, such requests from non-utility departments shall be made as part of their Budget Issue Papers (approximately by May 31) each year. Departments shall work with the Director of Finance and the City Budget Office to provide the following information:

- Name of project to be debt-financed and its CIP number (non-utility departments only);
- Comprehensive statement of project sources and uses, including non-debt funding, grants, and assumed cost-contingencies;
- Any current or planned grant applications, whether awarded yet or not;
- Amount of proposed new debt;
- Proposed term and structure of debt;
- Expected annual debt service;
- Source of repayment of principal and interest;
- Quarterly spending projections for the proposed project.

Generally, the amount of borrowing will be limited to the amount of bond proceeds that can be reasonably expected to be spent from the time of the proposed bond issue until the projected date of the next bond issue (typically one year, but longer in some cases), with consideration of various factors, such as transaction costs, negative arbitrage, uncertainty of spending plans, the City's legislative and budget schedule, and market conditions.

12.2. **Interfund Loans:** All requests for interfund loans longer than 90 days shall be made first to the Directors who shall determine consistency with these Debt Management Policies. When practical, such requests from non-utility departments shall be made as part of their Budget Issue Papers (approximately by May 31) each year. Departments shall work with the Directors to provide the following information:

- Name of project to be debt-financed and its CIP number (non-utility departments only);
- Statement of project (or utility fund) sources and uses, including non-debt funding, grants, and assumed cost-contingencies;
- Any current or planned grant applications, whether awarded yet or not;
- Amount of proposed new loan;
- Draw schedule for proposed loan (monthly for utilities, quarterly for all other departments);
- Proposed term and structure of loan;
- Expected monthly debt service;
- Source of repayment of principal and interest;
- Comprehensive financial analysis supporting the interfund loan request, the requirements and components of which shall be determined by the Directors and the DMPAC on a case-by-case basis, as necessary to evaluate the specific interfund loan request;
- For any request for a general government interfund loan of $20 million or more, the requesting City department shall work with the Director of Finance to develop an impact analysis of the requested interfund loan on the cash pool to be included as part of the financial analysis required in this policy.

The Directors or the DMPAC may recommend and the City Council may include any appropriate terms and conditions in the ordinance approving interfund loans, including but not limited to the following:

- A term of the interfund loan that will be for the shortest duration necessary to fulfill the documented purpose of the loan;
- A rate of interest assessed to the borrowing fund, to be established by the Director of Finance, which shall be no less than the cash pool rate of return;
- At the discretion of the Director of Finance, an amortization schedule of principal and interest payments made to the cash pool;
- At the recommendation of the Directors or the DMPAC, conditions that would trigger an earlier termination of the interfund loan such as receipt of alternative funding, changes in project purpose, scope or duration, etc.

12.3. **Utility (Revenue) Debt Financing:** Utility proposals to the Directors shall include:

- Amount of proposed new debt;
- Proposed term and structure of debt;
- Expected annual debt service;
- Expected rate impact;
- Projections showing how the bond issue shall affect each of their financial policy targets;
- Monthly spending projections for proposed borrowing.

Generally, the amount of borrowing will be limited to the amount of bond proceeds that can be reasonably expected to be spent over a period of 12-24 months, depending on various factors, such as transaction costs, negative arbitrage, uncertainty of spending plans, the City's legislative and budget schedule, and market conditions.

Debt Standards and Structure

Policy 13. **Term of Debt:** Debt will be structured for the shortest period consistent with a fair allocation of costs to current and future beneficiaries or users.

Policy 14. **Debt Structure:** Debt will be structured to achieve the lowest possible net cost to the City given market conditions, the urgency of the capital project, net revenues expected from the project (if any), and the nature and type of security provided. Moreover, to the extent possible, the City will design the repayment of its overall debt so as to recapture rapidly its credit capacity for future use. The City shall strive to repay at least 18 percent of the principal amount of its total general obligation debt within five years and at least 35 percent within ten years.

Policy 15. **Backloading:** The City will seek to structure debt with level principal and interest costs over the life of the debt. "Backloading" of costs will be considered only when natural disasters or extraordinary or unanticipated external factors make the short-term cost of the debt prohibitive, when the benefits derived 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 City's overall amortization schedule, or when such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.

Policy 16. **Variable Rate Debt:** The City may choose to issue securities that pay a rate of interest that varies according to pre-determined formula or results from a periodic remarketing of the securities, consistent with state law and covenants of pre-existing bonds, and depending on market conditions. The City and each utility fund will have no more than 15% of its outstanding general obligation or revenue debt, respectively, in variable rate form.

Policy 17. **Second Lien Debt:** The City shall issue second lien debt only if it is financially beneficial to the City or consistent with creditworthiness objectives.

Policy 18. **Derivatives:** The City will consider the use of derivative products on a case by case basis and consistent with state statutes and financial prudence. City Council confirmation is required for use of any such products.

Policy 19. **Refundings:** Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to modernize covenants to thereby improve operations and management.

In general, advance refundings for economic savings may be undertaken when a net present value savings of at least five percent (5%) of the refunded debt can be achieved. Current refundings which produce a net present value savings of less than five percent will be considered on a case-by-case basis. Refundings with negative savings will not be considered unless there is a compelling public policy objective. When refunding an entire bond series or a large portion of a bond series, relatively small negative savings for individual maturities may be acceptable if these individual maturities are refunded together with the larger bond series or portion of a bond series, for the purpose of administrative convenience, as long as the overall refunding of the bond series or large share of the bond series meets the refunding targets.

Policy 20. **Short –Term Borrowing:** Use of short-term borrowing, such as bond anticipation notes (BANs), revenue anticipation notes (RANs), tax anticipation notes (TANs), and commercial paper, will be undertaken only if the transaction costs plus interest of the debt are less than the cost of internal financing, available cash is insufficient to meet working capital requirements, or when there is a compelling financial or legal reason for doing so.

Policy 21. **Credit Enhancements:** Credit enhancement (letters of credit, bond insurance, etc.) may be used, but only when net debt service on the bonds is reduced by more than the costs of the enhancement.

Debt Administration and Process

Policy 22. **The DMPAC:** Pursuant to Seattle Municipal Code Section 3.76.010, the City will maintain a Debt Management Policy Advisory Committee (DMPAC). The DMPAC is composed of the Director of Finance, the Chair of the City Council's Finance and Culture Committee, the General Manager and Chief Executive Officer of Seattle City Light, the Director of Seattle Public Utilities, the City Budget Director, and the Director of the Central Staff Division of the City Council. The DMPAC will be advised by the City Attorney or his/her designee.

The DMPAC is authorized to provide advice to the Mayor, City Council, and Director of Finance in all matters pertaining to the incurrence of debt, including the borrowing of money. The DMPAC also has oversight of these Debt Policies, and will recommend amendments from time to time to the Mayor and City Council.

The DMPAC shall approve any City Department, agency, or subunit indebtedness of more than $250,000, except for interfund loans of 90 days or less that are approved by the Director of Finance.

The Directors, in consultation with departmental staff and the Mayor's Office, shall determine which debt financings to propose to the DMPAC for consideration. These proposals shall include the items described in Policy 12 as appropriate. These recommendations will be based on minimizing the City's overall financing costs while meeting its spending needs and ensuring compliance with these policies including those listed under Debt Standards and Structure. Whenever practical, this shall occur each year, at the time legislation is submitted to Council with the Budget approving the annual consolidated multipurpose General Obligation bond issue.

The Department of Finance and Administrative Services will recover budgeted DMPAC expenditures via the six fund allocation methodology described in Resolution 30384, or the then-most-current successor resolution to Resolution 30384. Any DMPAC expenditures incurred on behalf of an issuing agency outside of the City of Seattle (for example, Public Development Authorities) will be billed directly to the issuing agency, and will not be included in the allocated charges.

Policy 23. **Bond Sales:** The Director of Finance shall, in conjunction with the City's Bond Counsel, and Office of the City Attorney, produce appropriate ordinance(s) and resolutions for consideration by the City Council. When practical, an ordinance for the annual consolidated multi-purpose limited general obligation bond issue will be delivered to City Council with the Budget in September of each year.

Before the sale of bonds, the requesting Department/Utility will submit an updated spending projection of proposed bond proceeds to the Director of Finance. Based on this update, the bond issue may be re-sized. The DMPAC and City Council shall be notified of re-sizing.

Policy 24. **Bond Fund:** All payment of general obligation debt service shall be from the General Bond Interest and Redemption Fund (the "Bond Fund"). The Bond Fund shall act as a clearing account for debt service and will not itself be used as a final source of debt payment.

Policy 25. **Accrued Interest:** Accrued interest on general obligation bonds shall be deposited into the Bond Fund and applied to pay interest on or principal of those bonds unless otherwise specified or authorized by or pursuant to an ordinance authorizing or a resolution confirming the sale of the debt issue. For purposes of this section, "accrued interest" is the interest for the period between the dated date of bonds and the settlement date.

Policy 26. **Net Premium - Unlimited Tax General Obligation Bonds:** Any net premium resulting from the sale of an unlimited tax general obligation bond issue shall be used first to pay the costs of issuance of that bond issue; and to the extent the net premium exceeds those costs of issuance, the remaining net premium shall be deposited into the Bond Fund and applied to pay interest on or principal of that bond issue or in the project fund unless otherwise specified or authorized by or pursuant to an ordinance authorizing or a resolution confirming the sale of the debt issue.

Policy 27. **Net Premium and Re-Sizing**: The City may re-size a bond issue at pricing in order to ensure that projects receive the appropriate amount of overall bond proceeds from the sale of limited tax general obligation bonds, if it is practical to do so. In such circumstances, net premium may be allocated to individual projects, but only to the extent necessary to provide the amount of bond proceeds designated for those projects. Any residual net premium, above what is designated for projects, will be deposited in the Bond Fund and applied to pay interest on or principal of that bond issue unless otherwise specified or authorized by or pursuant to an ordinance authorizing or a resolution confirming the sale of the debt issue.

Policy 28. **Investment of Bond Proceeds:** All general obligation and revenue bond proceeds shall be invested as part of the City's consolidated cash pool, unless otherwise specified by the bond legislation, by other ordinance, or by the Director of Finance. Investments will be consistent with those authorized by existing city and state law and by the City's investment policies.

Policy 29. **Costs and Fees:** All costs and fees related to issuance of bonds will be paid out of bond proceeds or by the project(s).

Policy 30. **Competitive Sale:** In general, City debt will be issued through a competitive bidding process. Bids will be awarded on a true interest cost basis (TIC), provided other bidding requirements are satisfied. In the event that the City receives more than one bid with identical TICs, the tie may be broken by a flip of a coin. In instances where the City in a competitive bidding deems the bids received unsatisfactory, the Director of Finance may enter into negotiation for sale of the securities if authorized by the City Council.

Policy 31. **Negotiated Sale:** Negotiated sales of debt will be considered in those circumstances when the complexity of the issue requires specialized expertise, when a change of underwriter may result in losses (for example, changing the remarketing agent in mid-program for variable rate debt), when the negotiated sale would result in substantial savings in time or money, or when market conditions or City credit are unusually volatile or uncertain.

Policy 32. **Underwriters:** For all negotiated sales, underwriters will be required to demonstrate sufficient capitalization and experience related to the debt issuance.

Policy 33. **Bond Counsel:** The City will retain external bond counsel for all debt issues. No debt will be issued by the City without a written opinion by bond counsel affirming that the City is authorized to issue the debt, stating that the City has met all state constitutional and statutory requirements necessary for issuance, and determining the debt's federal income tax status. Bond counsel will be selected for a term of up to four years through a competitive process administered by the City's Department of Finance and Administrative Services under consultation with representative(s) of the DMPAC. The selection process will require comprehensive municipal debt experience. Upon expiration of a four year contract, the City has the option, after a full competitive process, of signing a new contract with its existing bond counsel. Bond counsel will be encouraged to maintain a diverse work force and provide subcontracting opportunities to women and minority owned businesses.

Policy 34. **Underwriter's Counsel:** City payments for underwriter's counsel will be authorized for negotiated sales by the Department of Finance and Administrative Services on a case by case basis depending on the nature and complexity of the transaction and the needs expressed by the underwriters.

Policy 35. **Financial Advisor:** The City will retain an external financial advisor, to be selected for a term of up to four years, through a competitive process administered by the City's Department of Finance and Administrative Services under consultation with representative(s) of the DMPAC. The utilization of the financial advisor for particular bond sales will be at the discretion of the Director of Finance on a case by case basis and pursuant to the financial advisory services contract. The selection process for financial advisors will require comprehensive municipal debt experience and experience with diverse financial structuring requirements and pricing of municipal securities. Upon expiration of a four year contract, the City has the option, after a full competitive process, of signing a new contract with the existing financial advisor. For each City bond sale the financial advisor will provide the City with information on pricing for comparable sales by other issuers. The Financial Advisor will be encouraged to maintain a diverse work force and provide subcontracting opportunities to women and minority owned businesses.

Policy 36. **Fiscal Agents:** The Department of Finance and Administrative Services will utilize a fiscal agent on all City indebtedness.

Policy 37. **Compensation for Services:** Compensation for bond counsel, underwriter's counsel, financial advisors, and other financial services will be as low as possible, given desired qualification levels, and consistent with industry standards.

Policy 38. **RFP Process:** The Director of Finance shall make all final determinations of selection for underwriters, bond counsel, and financial advisors. The determination will be made following an independent review of competitive bids or responses to requests for proposals (RFPs) or requests for qualifications (RFQs). The bids and responses to RFPs and RFQs will be reviewed by at least three City financial professionals. All underwriter bids will also be reviewed by the City's financial advisor.

Policy 39. **Other Service Providers:** The Director of Finance shall have the authority to periodically select other service providers (e.g., escrow agents, verification agents, trustees, arbitrage consultants, etc.) as necessary to meet legal requirements and minimize net City debt costs. These services can include debt restructuring services and security or escrow purchases. The Director of Finance may select firm(s) to provide such financial services related to debt without an RFP or RFQ, consistent with City and State legal requirements.

Policy 40. **Post Issuance Compliance:** The City shall maintain post-issuance compliance policies. The Director of Finance shall maintain a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of federal tax code.

Policy 41. **Financing Proposals:** Any capital financing proposal to a City Division, Agency, or Utility involving pledge or other extension of the City's credit through sale of securities, execution of loans or leases, marketing guarantees, or otherwise involving directly or indirectly the lending or pledging of the City's credit, shall be referred to the Director of Finance for review.

Policy 42. **LIDs*:*** The Director of Finance shall issue bonds, notes, or other financial instruments as necessary to finance Local Improvement Districts (LIDs) as authorized by the City Council.

Policy 43. **State Sponsored Loans:** By January 31 of each year, departments and utilities shall provide to the Directors an annual report of all state-sponsored loans, such as State Public Works Trust Fund loans, Department of Ecology Loans, etc. This report shall include an up-to-date amortization schedule for each loan and a list of any applications currently in-process for new loans, identifying the project, the loan amount, the expected interest rate, and term.