San Juan County

DEBT POLICY

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SAN JUAN COUNTY

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San Juan County, Washington

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I. Roles and Responsibilities

The ***County Council*** must approve all debt issuance. Requests for debt may be initiated by elected officials or by the County Administrator. Debts for capital financing must be in accordance with the County's Capital Improvement Plan (CIP). Any debt issued by the County shall be incurred in accordance with an Ordinance adopted by the Council (Title 36 and Chapter 39.46 RCW).

The ***County Administrator*** shall make a recommendation to the County Council on all requests for action on financing. The County Administrator shall coordinate the annual update of the CIP, which update shall be completed by October 31 of each year.

The ***County Treasurer*** shall provide the activities and services required for the issuance of debt, in consultation with required professionals and other service providers. The County Treasurer shall inform the County's Finance Committee of all debt issuance plans and the status of financings in process. The County Treasurer shall receive any bond proceeds on behalf of the County and provide a receipt therefor, and shall be responsible for remitting payments to the Fiscal Agent.

The ***County Auditor*** shall be responsible for tracking long-term debt and for submitting requests to the County Treasurer to remit payments.

In accordance with State law, the ***County Finance Committee*** shall adopt a Debt Policy, (Title 36 and Chapter 48.070 RCW) which shall be reviewed and updated at least every four years.

II. Legal Governing Principles

In the issuance and management of debt, the County shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local rules and regulations, as applicable. This section highlights the legal framework of the debt issuance by the County.

State Statutes – The County may contract indebtedness as provided for by Title 36 and Chapter 39.46 RCW. Indebtedness is subject to the limitations on indebtedness provided for in Title 36 and Chapter 39.52 and Article VIII of the Washington State

Constitution. Bonds evidencing such indebtedness shall be issued and sold in accordance with Title 36 and Chapter 39.46 RCW.

Federal Rules and Regulations – The County shall issue and manage debt in accordance with the limitations and constraints imposed by federal rules and regulations, including Internal Revenue Code of 1986, as amended; the Treasury Department regulations thereunder; and the Securities Acts of 1933 and 1934.

County Charter/Local Rules and Regulations – The County shall issue and manage debt in accordance with the limitations and constraints imposed by local statutes, charters, ordinances, rules and regulations. The County's Charter was approved by the voters at an election November 5, 2005, and went into effect January 9, 2006.

III. Credit Objectives

Credit Ratings

As of April 23, 2012 the County has a general obligation bond rating from Moody's Investors Service of Aa3 for non-voted (limited tax) debt. The County does not have any unlimited tax debt, so has no rating therefor. No other agency rates the County's debt.

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.

Policies intended to support the maintenance of the County's current ratings are contained throughout this Debt Policy and include:

1) Capital planning;
2) Purpose, type and use of debt; and
3) Structure of debt (terms of financing and payback period).

In determining the County's credit rating for long-term bonds, the rating agency will consider: (a) the County's management, including qualifications and longevity of commissioners and other elected officials; (b) the financial condition of the County, including the amount of debt outstanding, payback period, direct and overlapping debt burdens, and debt management; and (c) economic conditions in the County. Additionally, the rating agencies will consider the level of cash balances and reserves.

The County has established a target fund balance for the Current Expense (general) fund, based on an analysis of annual cash flow, revenue volatility and emergency disaster recovery. The fund balance is targeted to range between 8 and 10% of annual expenditures.

Credit Enhancement/Bond Insurance

When anticipated to be advantageous to the County, 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. Bond insurance will only be purchased 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 obtain more than one bond rating for insured debt.

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

IV. Debt and Capital Planning

The County shall develop a Capital Improvement Plan that lists the capital plans and needs of the County for a six year period (chapter 36.70A.070 RCW), consistent with the period of the County's Transportation Improvement Plan. The plan shall include a description of each project or need identified, projected cost and timing of capital expenditures over a six year period, and preliminary sources of funds identified for repayment. Priorities shall be established based upon (1) the need for the project, in order to provide required County services, (2) availability of funding or debt repayment source, and (3) availability of staff to carry out the project in the timeframes specified. The plan shall be updated and priorities reviewed annually in light of changes in needs, available funding or available staffing.

Any costs of operating and maintaining the projects listed in the plan should be identified separately, to ensure that adequate funds will be available for ongoing costs relating to the projects. When considering the priority and funding of each capital project, the County shall consider the operating impacts (i.e. reduction in outside rentals, increased staff and facilities maintenance).

The CIP shall be submitted to the County Council for adoption and the adopted CIP shall be provided to the Finance Committee each year. The process for updating the CIP shall be consistent with the steps and timing required for updates to the County's Transportation Improvement Plan.

Based upon the projects and priorities listed in the CIP, the County Administrator, in consultation with the County Council, will develop a plan of finance and calendar of debt issuance to address the financing needs identified in each year. The plan of finance will be provided to the members of the Finance Committee each year.

V. Purpose, Type and Use of Debt

General Obligation Debt

General Obligation Debt is backed by the full faith and credit of the County and is secured by general fund revenues and taxes collected by the County. Any financing of the County completed through the State's LOCAL Program (discussed below) will constitute general obligation debt.

> ***Limited Tax General Obligation Debt*** is secured by 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 1.5% of the County's assessed value (chapter 39.36.020 RCW).
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> Limited tax debt will be used for general county purposes, when a specified repayment source has been identified through designated revenue sources, expenditure reductions, increased revenue base, or in the event of an emergency. As a target, the amount of limited tax debt outstanding should not exceed 35% of the statutory debt limitation, unless required to meet an emergency requirement caused by natural disaster, legal judgment or similar unplanned events.
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> ***Unlimited Tax General Obligation Debt*** is payable from excess tax levies and is subject to voter approval. Any proposition for UTGO debt must be approved by 60% of the voters casting a vote and the total number of ballots cast must be at least equal to 40% of the total number of voters voting in the last general county or state election (chapter 39.40 RCW). Total GO debt (including limited and unlimited tax) is subject to a statutory limitation of 2.5% of the County's assessed value (chapter 39.36.020 RCW).
>
> Unlimited Tax Debt will be used for capital purposes when the use of an excess tax levy is necessary for debt service payments.

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 system 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 (chapter 36.67.570 RCW).

Revenue bonds are generally subject to certain tests and requirements, including (1) establishment and maintenance of a debt service reserve fund (generally equal to the lesser of 10% of the proceeds of the bonds, 125% of average annual debt service, or maximum annual debt service), (2) 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.

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. In the event of annexation of property from the County, the property owners will still be responsible for payment of assessments. There are detailed statutes for the formation of assessment districts and assessing property, which contain specific timeframes for notice and conducting public hearings (chapter 36.88 RCW).

The County will form road improvement districts (RIDs) or local improvement districts (LIDs) upon petition of benefiting property owners, unless the County Council determines to establish the districts by resolution.

The County Administrator and County Treasurer will be provided with each proposed resolution forming an assessment district prior to its consideration at a public meeting.

The County Administrator and County Treasurer shall be provided with enough detail to determine the size, timing and characteristics of the project and any contribution the County is providing to the cost of the improvements. No assessment district in which there is undeveloped land, land owned by governmental entities, land designated as "open space," or a concentration of ownership in a few property owners, will be formed without prior review by the County's financial advisor or underwriter, and bond counsel.

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. Other financing contracts include property acquired subject to real estate contract.

The LOCAL Program is available for use by the County through the State Treasurer's Office (chapter 39.94 RCW). It is a financing program that allows pooling by the State of equipment financing and certain real estate project needs into larger offerings of securities, and allows local government agencies the ability to finance equipment and certain real estate needs through the State Treasurer's office, subject to existing debt limitations and financial consideration. Participants in the LOCAL Program benefit from lower borrowing costs due to efficiencies in costs of issuance, and low rates of interest due to the program credit rating of Moody's Aa2 (current as of September 2008). The LOCAL Program should be given consideration because of the potential benefit to be realized by utilizing the program.

The County Council will provide the County Administrator and County Treasurer with a copy of each proposed resolution for a lease purchase or other financing contract prior to its consideration at a public meeting. The County Administrator and County Treasurer shall be provided with detail regarding the purpose, cost and financing term for any proposed contract, and will recommend for or against the resolution.

When deemed by the County Administrator to be cost effective, lease purchase financing will be completed through the LOCAL Program. Upon such determination, a Notice of Intent will be provided to the Office of the State Treasurer. The County Treasurer shall be notified of any financing to be completed through the LOCAL Program.

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. Short term obligations can take the form of bond anticipation notes, tax anticipation notes, revenue anticipation notes, a bank line of credit, or registered warrants (chapter 39.50 RCW).

In no case will notes or other obligations be entered into for the purpose of funding deficits without prior development and review of a long-term deficit funding plan by the Finance Committee.

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

VI. Structure of Debt

Term of Financing

The term of any capital financing shall not exceed the life of the asset being financed. The term of any non-capital financing must be justified by the circumstances of the project and be consistent with a long term plan.

The length of maturity will take into account the repayment source when one is specifically identified, in order to maximize the benefit to the County.

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.

Payback Period

To the extent possible, the County will strive to repay at least 20% of each long-term debt within five years and 40% 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.

VII. Refunding Obligations

The County Treasurer will continually review (or cause the County's financial advisor to 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 justified by extenuating circumstances. 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 not be completed unless net present value savings equal at least 3.5% of the amount of debt being refunded. Advance refunding transactions are those undertaken in advance of the first date on which the refunded debt can be called for optional redemption, and require 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:

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

VIII. Debt Issuance

Method of Sale

Unless otherwise necessary to minimize the costs and risks of borrowing, all fixed rate debt of the County will be sold by competitive bid, which may be conducted through an electronic bid provider. 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).

The County Treasurer will recommend to the County Council the method of sale best suited for each issue of debt. When necessary to minimize the costs and risks of borrowing, the County may provide for the sale of debt by negotiating the terms and conditions of sale, including prices, interest rates, underwriting fees and other compensation. The underwriter for negotiated sale will be selected as described below.

Use of Professionals and Other Service Providers

Bond Counsel – All debt issued by the County will include a written opinion 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. Chapter 36.27.040 RCW.

Financial Advisor – If the County Treasurer determines that it is in the best interest of the County to retain a financial advisor, then the County Treasurer shall recommend a financial advisor consistent with the County's general authority to contract. 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.

Underwriter – For negotiated sales the County Treasurer, in consultation with the Finance Committee, the County's Financial Advisor, and County Administrator, will recommend an underwriter, consistent with the County's general authority to contract, 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 County Treasurer in consultation with the

Finance Committee and County Administrator. The underwriter shall have sufficient capitalization and experience to serve as underwriter for the County's bonds.

Fiscal Agent – The County Treasurer will appoint the Fiscal Agent (chapter 39.44.130 RCW) and may, at his/her sole discretion, 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.

Other Service Providers – Professional services such as verification agent, escrow agent or rebate analyst shall be appointed by the County Treasurer, in consultation with the County's Financial Advisor, and are considered incidental to undertaking the issuance of debt.

IX. Other Duties and Obligations

Investment of Bond Proceeds

Each Bond Resolution will provide for establishment of funds and accounts, which will be designated in advance by the County Auditor.

Responsibility for investment direction for any bond proceeds rests with the investing officer of the department receiving bond proceeds. The investing officer will give direction to the County Treasurer on the length of time bond proceeds are to be invested. Investments will be made, in accordance with San Juan County's Investment Policy and procedures established by the County Treasurer.

Arbitrage and Tax Law Requirements

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

The County Treasurer will keep records of investment of bond proceeds and the department receiving bond proceeds will keep records of expenditure of those proceeds, all sufficient to develop data required for compliance with arbitrage and other tax law requirements.

The County Treasurer shall coordinate with the department receiving bond proceeds relative to compliance with arbitrage reporting and other tax law requirements. The County may retain the services of a qualified professional firm to provide computations relating to potential arbitrage rebate liability of the County.

Disclosure Documents

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, information required for disclosure to investors and rating agencies. Each department bears responsibility for the information provided for use in the County's official statements.

The County Council will be provided with a copy of the official statement for each issue of debt, and the Council Chair or his or her designee will sign a statement attesting to the accuracy and completeness of the information therein.

Secondary market disclosure – The County Treasurer shall review any proposed undertaking to provide secondary market disclosure, and will provide secondary market disclosure annually, if the County has contracted to provide any.

Approved and adopted this 21st day of August, 2012, by the San Juan County Finance Committee.

Jan Sears

Jan Sears, Treasurer

Patty Miller

Patty Miller, Council Chair

Milene Henley

Milene Henley, Auditor