

CITY OF SEQUIM, WASHINGTON  
2013 RATING PRESENTATION

Standard & Poor's Rating Services  
July 12, 2013



**REQUEST FOR RATING**

- Approximately \$10 million of Limited Tax General Obligation Bonds (the “Bonds”) potentially sold as two series of taxable and tax-exempt.
- Expected sale date: July 25, 2013
- Rating and Rating Report requested by: Thursday, July 18, 2013
- Sale Date: Thursday, July 25, 2013
- Closing Date: Thursday, August 15, 2013

**PARTICIPANTS**

Ken Hays	Mayor
Steve Burkett	City Manager
Elray Konkell	Administrative Services Director
Sue Hagener	Accounting Manager
Bill Dickinson	Police Chief
Annette Sommer	Financial Advisor, Seattle-Northwest Securities

**AGENDA**

- Overview of the City of Sequim
- Economy/Demographic Information
- Bonded Indebtedness
- Financial Operations
- Summary and Financing Schedule

**CREDIT STRENGTHS**

- Healthy financial position and reserve levels
- Strong management team with adopted polices
- Conservative financial operations
- Diverse tax base and revenue sources
- Low debt ratios
- Stable labor relations/pensions/OPEB



The City of Sequim (the “City”), and the surrounding Sequim-Dungeness Valley, is located on the Strait of Juan de Fuca on the north coast of Washington State near the base of the Olympic Mountains.

### ABOUT THE CITY

- The City was incorporated in 1913 and employs 72 full-time equivalent with part-time and seasonal positions.
- The City has an estimated 2013 population of 6,855 and encompasses six square miles.
  - The Sequim-Dungeness Valley lies in unincorporated Clallam County and is home to an additional 20,000 residents who rely on the City for certain amenities and community activities.
- Services provided by the City include public safety, water supply, water treatment and distribution, sewage collection and tertiary class-A treatment/reclamation, street maintenance, comprehensive planning/zoning, building permitting/inspection, parks and administrative services.
- The City Council created the Sequim Transportation Benefit District (the “TBD”) as a quasi-municipal corporation, an independent taxing district, on July 14, 2008.
  - The TBD is a governmental special- purpose entity governed by a Board of Directors, created for the sole purpose of acquiring, constructing, improving, providing and funding transportation improvements within the TBD.
  - The seven member board is composed of the seven members of the City Council.
  - The TBD was added to the financial statements in 2012 as a blended component unit.

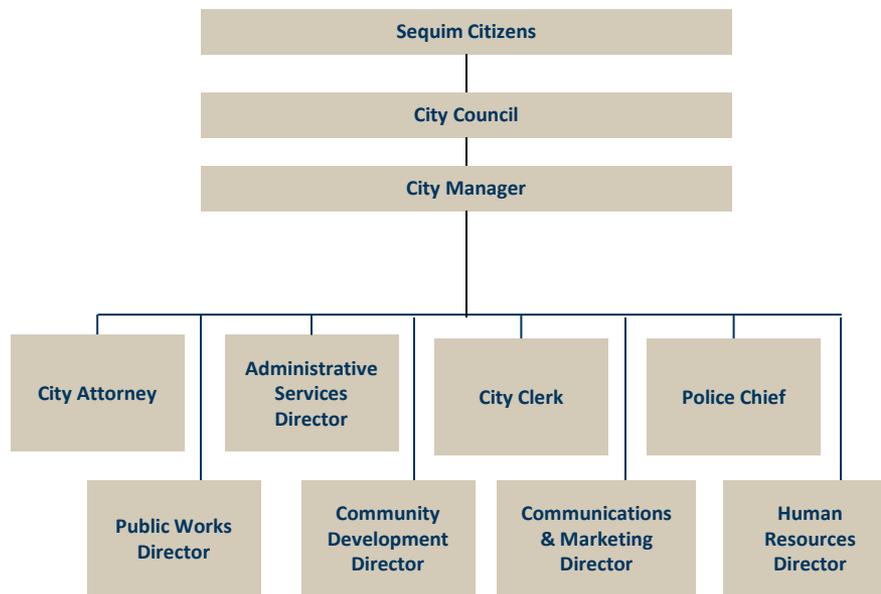
### Washington



The City is about two hours away from the cities of Seattle, Tacoma and Olympia and is a gateway to the Olympic Peninsula and its numerous tourist attractions.

### CITY GOVERNANCE

The City is a non-charter code city, with a council-manager form of government. City Council members are elected by the City residents to staggered four-year terms; the Mayor is elected by the Council and serves in that position for two years.



The economy has diversified from an agricultural base to become a regional retail center, a nucleus for medical and community services, and an internationally recognized tourism destination.

## LOCAL ECONOMY

### Regional Retail

- There are currently 1,251 active business licenses in the City, representing a 21% increase from 2007 prior to the recession.
- The Port of Port Angeles focuses on economic development in Clallam County and operates the John Wayne Marina on Sequim Bay.
  - The marina was constructed in 1982 on 22 acres of land donated by the John Wayne family and was named “Best of the West” for small marinas by SEA Magazine.
- The retail economy in the City began its major expansion with the 2003 announcement that Wal-Mart was building a store on the west end of the City.
  - The store opened in October 2004 and has since expanded to become a Super Wal-Mart.
  - Home Depot, Costco, Office Depot, Petco, Starbucks, Discount Tire, Sleep Country USA, Grocery Outlet, and Ross Dress for Less are all located within close proximity, making the City the retail center for the Olympic Peninsula.
- Recognizing the importance of a healthy downtown area to the continued success of the City, the City Council adopted a Downtown Plan in July of 2011 which provides a strategic guide for the growth, development, and visual style of the area.
  - Since the plan’s adoption, refinement has been made to the relevant zoning codes to ensure development remains consistent with the plan’s vision.

### Medical Services

- Olympic Medical Center, located in the City of Port Angeles 15 miles west of the City and recently named the safest hospital in the State of Washington by Consumer Reports, opened the Olympic Medical Center Physicians Specialty Clinic in the City in 2002.
  - The clinic provides services in the areas of cardiology, gastroenterology, neurology, pulmonary medicine, sleep medicine, urology, and critical care.
- The Jamestown S’Klallam Tribe opened the newest Jamestown Family Health Clinic in Sequim in 2010.
  - The clinic is open to non-tribal clients as well as members of the Jamestown S’Klallam Tribe and offers services in preventative care for all ages, geriatric care, disease management for chronic medical conditions, obstetric care, family planning, cardiac stress testing, casting, gynecology, and minor surgery.

### Tourism

- There are over 360 hotel rooms in the City, plus bed and breakfast facilities, vacation rental homes, and recreational vehicle parks.
- Accommodations and food services account for 13% of the City’s sales tax.
- 2013 marked the 118<sup>th</sup> Irrigation Festival, the longest running event of its kind in the State of Washington.
- The City is most well-known on a national and international level for the family owned farms that grow the herb lavender.
  - Each year the Sequim Lavender Weekend draws approximately 30,000 visitors for the three day event.
- The spring of 2014 will bring the Sequim Outdoors Exposition celebrating all the great outdoor activities of the Olympic Peninsula.
- City boasts a favorable quality of life and retirement community, mild weather, local art scene, and a variety of restaurants

The City has a growing population and diverse tax base with limited taxpayer concentration.

### 2013 MAJOR PROPERTY TAXPAYERS

Taxpayer	Nature of Business	Assessed Valuation (AV) <sup>(1)</sup>	Percentage of Total AV <sup>(2)</sup>
Reef Sequim LLC	Developer	\$14,541,987	1.76%
Wal-Mart Stores Inc.	Retail	13,212,217	1.60
Costco Wholesale Corp.	Retail	11,882,479	1.44
Union Bank	Retail Banking	11,065,724	1.34
Lodge at Sherwood Village	Senior Independent Living	10,523,099	1.27
Sequim Health & Rehabilitation	Skilled Nursing Facility	9,662,433	1.17
Vintage at Sequim LLC	Senior Independent Living	9,190,082	1.11
Union Community LLC	Developer	8,153,043	0.99
The Home Depot Inc.	Retail	7,416,419	0.90
McNish Family II LLC	Developer	6,714,547	0.81
Total – 10 Largest City Taxpayers		\$102,362,030	12.39%

(1) Based on assessed valuation for taxes payable in 2013.

(2) Totals may not foot due to rounding.

Source: Clallam County Assessor's Office.

### CLALLAM COUNTY MAJOR EMPLOYERS

Employer	Product/Service	Employees
Olympic Medical Center	Medical Services	1,062
Peninsula College	Education	544
Port Angeles School District No. 323	Education	505
Clallam County	Government	466
Seven Cedars Casino	Entertainment	435
Clallam Bay Corrections Center	Reform	430
Westport Shipyard	Marine Products	416
Wal-Mart	Retail	390
Safeway	Grocery	360
U.S. Coast Guard	Government	350-400

(1) As of July 2011. Most recent data available.

Source: "2010 Clallam Community Profile," Clallam County Economic Development Council, July 2011.

### POPULATION

Year	The City	Clallam County		
		Incorporated <sup>(1)</sup>	Unincorporated	Total
2013	6,855	29,520	42,830	72,350
2012	6,795	29,440	42,560	72,000
2011	6,625	29,205	42,395	71,600
2010 <sup>(2)</sup>	6,606	29,176	42,228	71,404
2009	6,378	28,784	42,243	71,027
2008	6,211	28,554	42,075	70,629

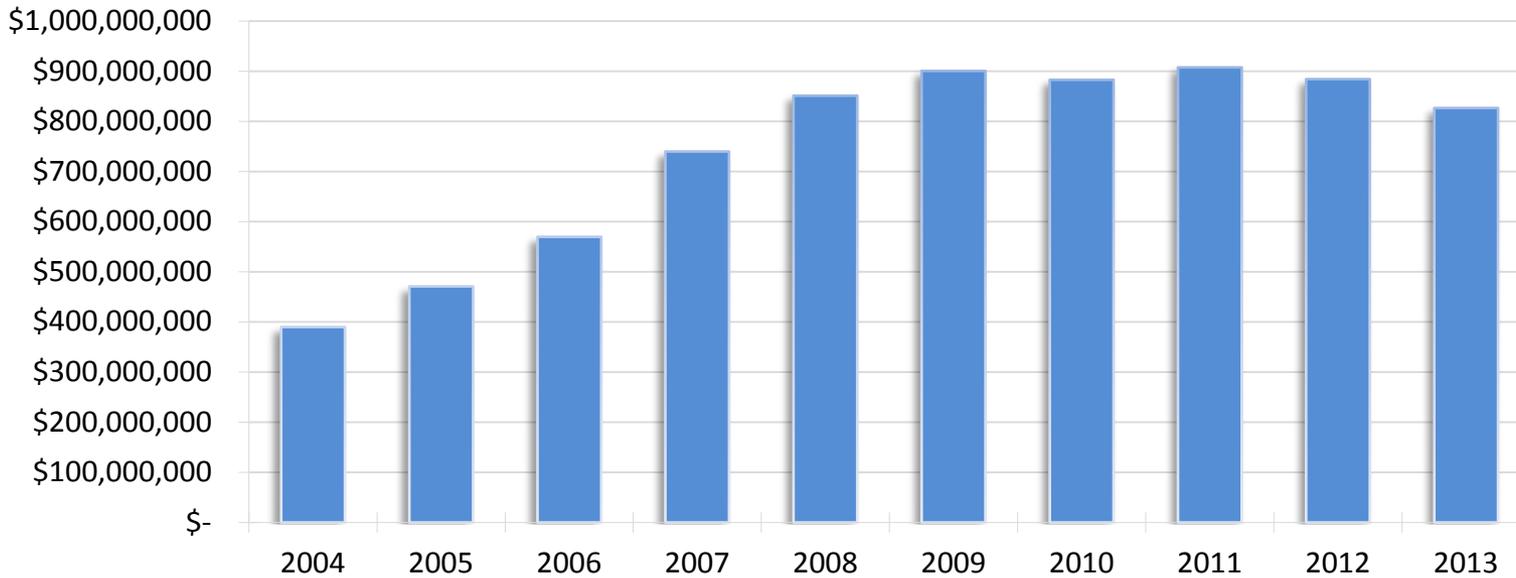
(1) Includes the City.

(2) U.S. Census numbers.

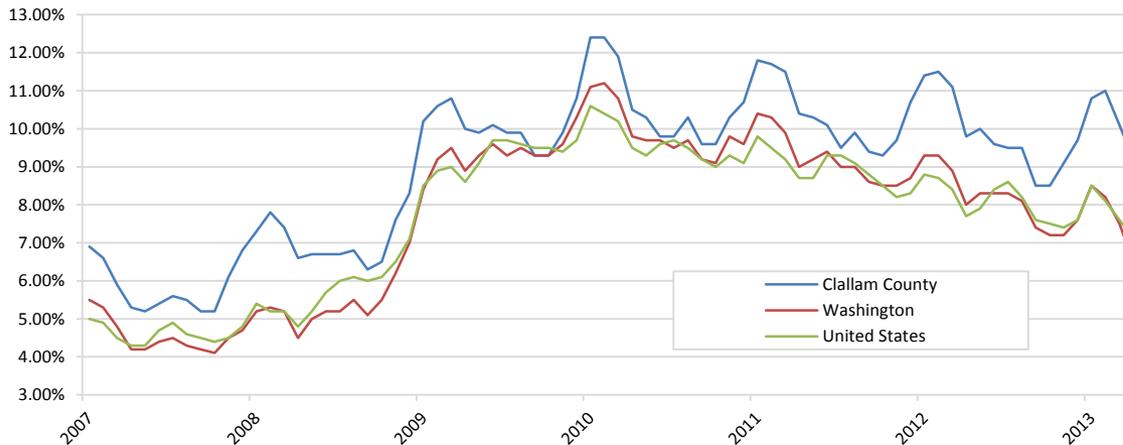
Source: Washington State Office of Financial Management; US Census Bureau

ASSESSED VALUE HISTORY

- After a period of rapid growth, the City's assessed value has remained relatively flat since 2008.



UNEMPLOYMENT RATE (THROUGH APRIL 2013)

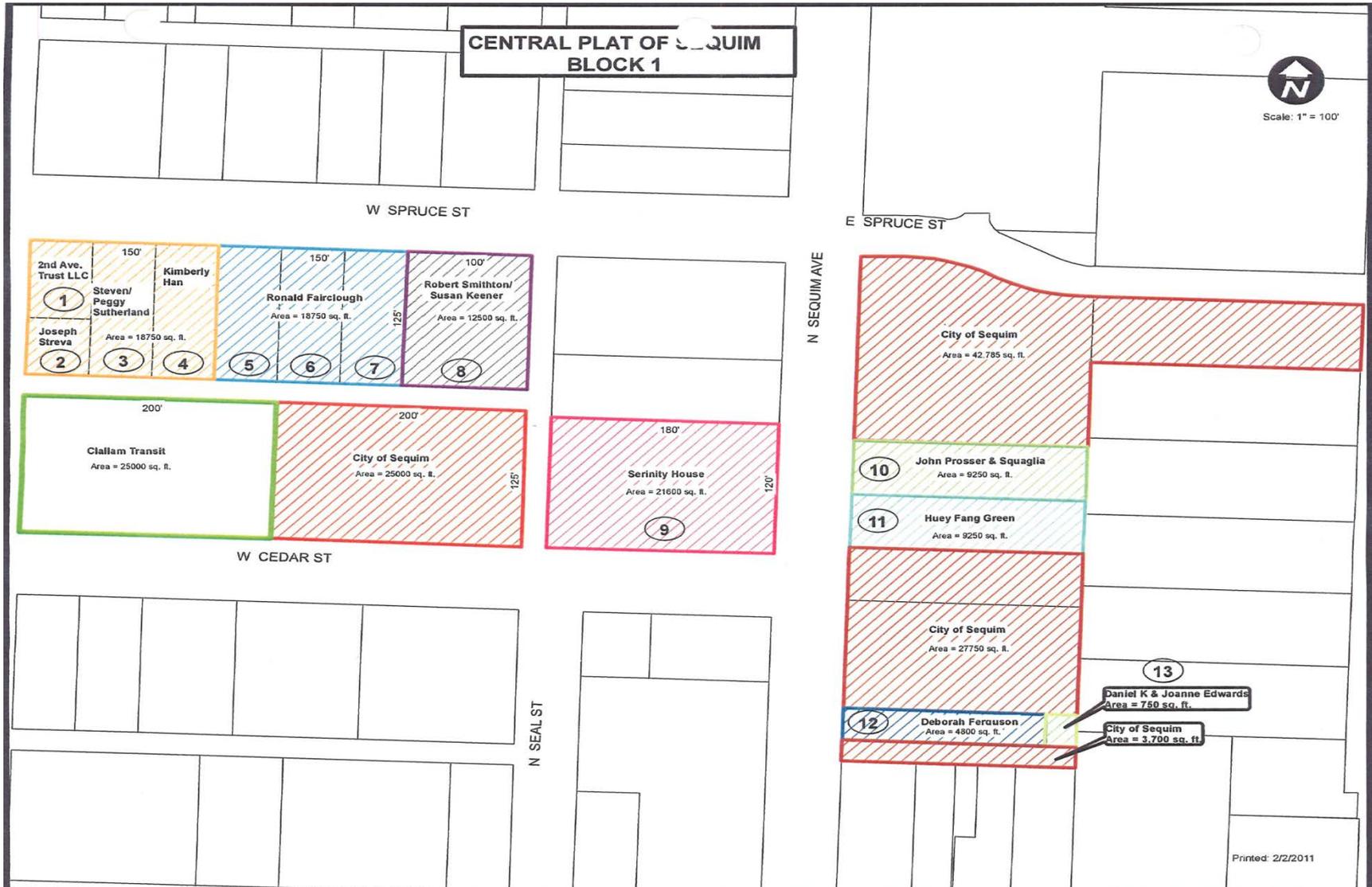


The Bonds represent the only material general obligation bonded indebtedness of the City.

Use of Proceeds

- The planning, design, development and construction of a new city hall and public safety facility to provide consolidated office space for city employees, public safety and public works functions, and related capital purposes (the “Project”).
  - Includes acquisition, construction and installation of all necessary furniture, equipment, apparatus, accessories, fixtures and appurtenances.
  - Total cost of the Project is approximately \$15 million – \$2.5 million of which will be paid for by General Government cash resources; \$2.5 million by Utility (Water and Sewer) cash resources; and \$10 million from proceeds of the Bonds.





**OUTSTANDING DEBT**

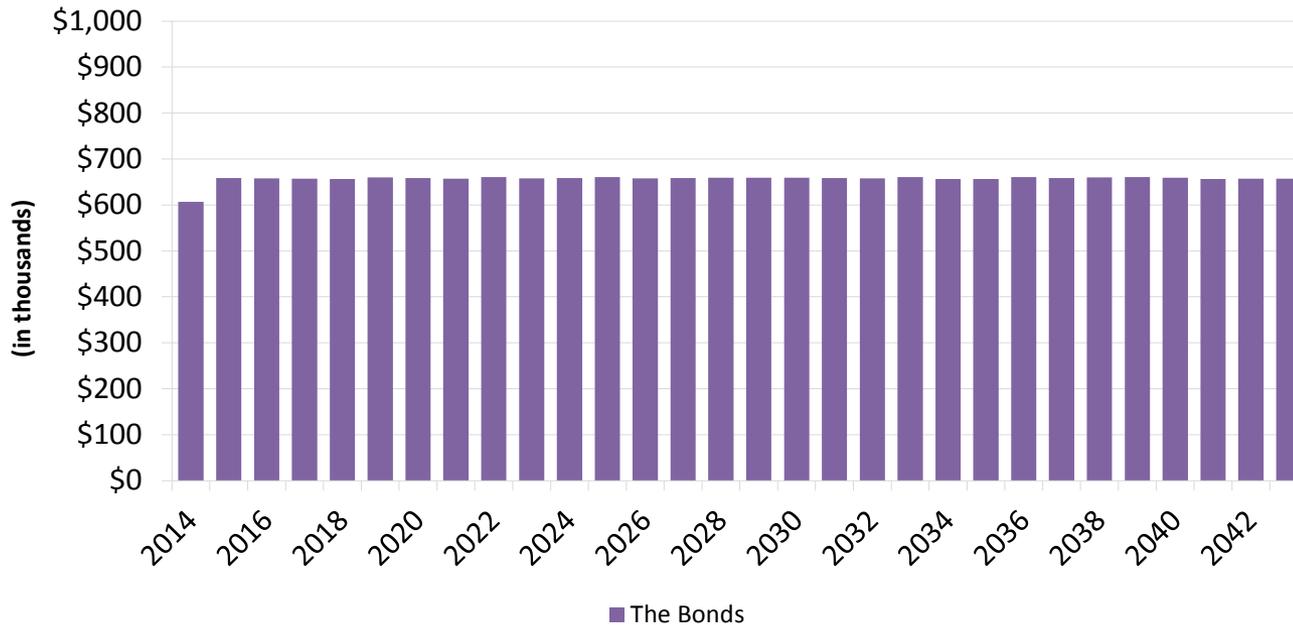
LTGO Bonds	Issue Date	Maturity Date	\$ Issued	\$ Outstanding
2013A Bonds	08/15/13	12/01/43	\$ 10,000,000 <sup>(1)</sup>	\$ 10,000,000 <sup>(1)</sup>
2013B Bonds	08/15/13	12/01/15	300,000 <sup>(1)</sup>	300,000 <sup>(1)</sup>
Total LTGO Bonds			\$ 10,300,000	\$ 10,300,000

**Other Non-Voted General Obligation Debt**

Keeler Park Loan	03/31/09	12/01/16	675,050	\$ 280,021 <sup>(2)</sup>
2008 Police Vehicle Capital Lease <sup>(3)</sup>	12/16/08	12/01/13	46,150	11,021 <sup>(2)</sup>
Total Other Non-Voted General Obligations			\$ 721,200	\$ 291,042

- (1) Preliminary, subject to change.
- (2) Outstanding as of January 1, 2013.
- (3) Financing lease entered into with the State of Washington with respect to its Local Option Capital Asset Lending Program ("LOCAL Program"), financed through the issuance of State of Washington Certificates of Participation.

**LTGO BOND DEBT SERVICE**



**With the issuance of the Bonds, the City still maintains low debt ratios.**

**DEBT CAPACITY**

**Limited Tax Debt Limitation**

2013 Collection Year Regular Assessed Value	\$ 826,359,277
Limited tax general obligation debt capacity (nonvoted) 1.5% of assessed valuation	\$ 12,395,389
Less: Outstanding Nonvoted Debt <sup>(1)</sup>	(291,042)
Less: The 2013A Bonds <sup>(2)</sup>	(10,000,000)
Less: The 2013B Bonds <sup>(2)</sup>	(300,000)
Remaining capacity (nonvoted)	\$ 1,804,347
Percent of nonvoted capacity available	14.56%

**Unlimited Tax and Limited Tax Debt Limitation**

Total general obligation debt capacity (voted and nonvoted) 2.5% of assessed valuation	\$ 20,658,982
Less: Outstanding Nonvoted Debt <sup>(1)</sup>	(291,042)
Less: The 2013A Bonds <sup>(2)</sup>	(10,000,000)
Less: The 2013B Bonds <sup>(2)</sup>	(300,000)
Less: Outstanding Voted Debt	0
Remaining capacity (voted and nonvoted)	\$ 10,067,940
Percent of voted and nonvoted capacity available	48.73%

(1) Includes non voted general obligation debt and a financing lease entered into with the State of Washington with respect to its Local Option Capital Asset Lending Program (“LOCAL Program”). Excludes obligation for compensated absences which was \$715,662 as of December 31, 2012.

(2) Preliminary, subject to change.

**DEBT RATIOS**

Net Direct Debt to Assessed Value	1.28%
Net Direct and Overlapping Debt to Assessed Value	1.84%
Per Capita Assessed Value	\$ 120,548
Per Capita Direct Debt	\$ 1,545
Per Capita Total Direct and Net Overlapping Debt	\$ 2,213

**The City maintains strong general fund balances.**

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES**

- The following shows the City’s statement of revenues and expenditures for the General Fund for 2008 through 2012.
  - In addition to the General Fund, the City maintains a number of other governmental funds.
  - General tax revenues are accounted for in the General Fund.
- Taxes dedicated or restricted to specific purposes are accounted for in separate funds.
  - The revenues deposited into the non-General Fund governmental funds were \$1.7 million in 2011 and \$1.6 million in 2012 and the ending fund balances in these other governmental funds were \$3.2 million in 2011 and \$2.0 million in 2012.

	2008	2009	Audited 2010 <sup>(1)</sup>	2011	Unaudited 2012
<b>REVENUES:</b>					
Taxes	\$ 4,440,701	\$ 4,553,094	\$ 4,740,511	\$ 5,086,645	\$4,945,522
Licenses and Permits	233,460	179,902	258,940	162,114	156,158
Intergovernmental	245,313	236,700	355,797	336,495	398,979
Charges for Goods and Services	2,178,899	1,888,201	1,821,272	2,208,417	2,748,391
Fines	105,275	91,843	69,613	66,136	69,577
Miscellaneous	113,048	88,012	103,845	188,653	151,553
Other Financing Sources	26,179	0	231,117	147,224	137,312
<b>TOTAL REVENUES:</b>	<b>\$ 7,342,876</b>	<b>\$ 7,037,751</b>	<b>\$ 7,581,095</b>	<b>\$ 8,195,684</b>	<b>\$8,607,492</b>

(1) In 2010, the Streets Unrestricted Fund and Equipment Fund were reported in the General Fund.  
 Source: The City

**GENERAL FUND STATEMENT OF REVENUES, EXPENDITURES & CHANGES IN FUND BALANCES (CONT'D)**

	Audited			Unaudited	
	2008	2009	2010 <sup>(1)</sup>	2011	2012
<b>EXPENDITURES:</b>					
General Government	\$ 2,034,886	\$ 2,194,031	\$ 2,277,334	\$ 2,642,653	\$ 2,546,156
Public Safety	2,881,935	2,817,086	2,908,567	2,896,962	3,130,561
Physical Environment	708,008	546,540	792,626	760,330	942,755
Transportation	174,687	133,303	767,633	762,757	1,011,479
Economic Environment	332,973	284,165	361,989	362,980	199,639
Mental and Physical Health	51,854	51,500	51,500	71,650	70,403
Culture & Recreation	189,909	179,902	184,176	237,130	223,625
Debt Service	85,514	90,857	37,567	11,372	11,372
Capital Outlay	115,438	14,425	36,013	75,813	210,376
Other Financing Uses	875,000	626,000	0	118,500	59,685
<b>TOTAL EXPENDITURES:</b>	<b>\$ 7,450,205</b>	<b>\$ 6,937,808</b>	<b>\$ 7,417,405</b>	<b>\$ 7,940,146</b>	<b>\$ 8,406,051</b>
Excess of Revenues Over/ (Under) Expenditures	\$ (107,329)	\$ 99,943	\$ 163,690	\$ 255,538	\$ 201,441
<b>OTHER FINANCING SOURCES (USES):</b>					
NonRevenues	\$ 2,323	\$ 12,850	\$ 8,191	\$ 6,351	\$ 0
NonExpenditures	(34,431)	(1,894)	(1,565)	(3,582)	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (32,107)</b>	<b>\$ 10,956</b>	<b>\$ 6,626</b>	<b>\$ 2,769</b>	<b>\$ 0</b>
Excess of Revenues & Other Sources Over (Under) Expenditures & Other Uses	\$ 139,436	\$ 110,899	\$ 170,316	\$ 258,307	\$ 201,441
<b>Beginning Fund Balance, Jan. 1</b>	<b>\$ 1,755,879</b>	<b>\$ 1,642,786</b>	<b>\$ 1,880,958</b>	<b>\$ 2,050,134</b>	<b>\$ 2,308,440</b>
Prior Period Adjustments	(26,343)	0	0	0	0
<b>Ending Fund Balance, Dec. 31<sup>(2)</sup></b>	<b>\$ 1,642,786</b>	<b>\$ 1,753,685</b>	<b>\$ 2,051,273</b>	<b>\$ 2,308,440</b>	<b>\$ 2,509,885</b>

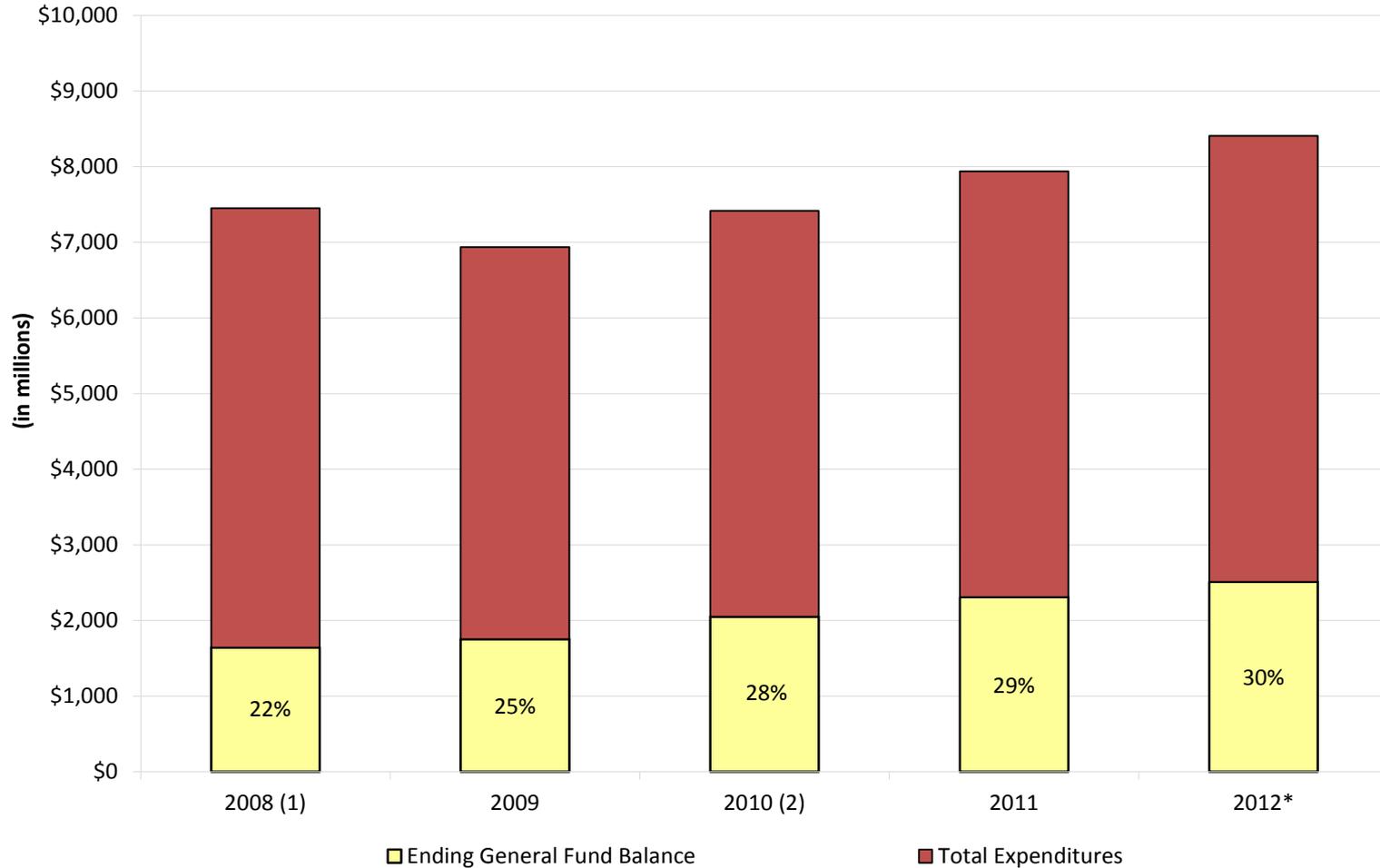
(1) In 2010, the Streets Unrestricted Fund and Equipment Fund were reported in the General Fund.

(2) The Ending Fund Balance for December 31, 2010 is overstated by \$1,140 for a 2011 expense correction erroneously posted to 2010. The City corrected this entry after the 2010 financial statements were prepared. Subsequently, this does not affect the 2011 balances as reviewed.

Source: The City

The City's financial performance has been strong with general fund balances over 20% for well over a decade.

GENERAL FUND BALANCE RELATIVE TO TOTAL EXPENDITURES



\* Unaudited.

- (1) City transferred \$2.4ml to the Facilities Fund from the General Fund and REET to set aside cash for the Project in 2007. There has been interest applied and other nominal additions made annually since.
- (2) Balances include General Fund, Equipment Reserve and Streets Unrestricted funds, consistent with financial reporting standards required by the State Auditor's Office beginning in 2010.

The 2013 budget is conservative and reveals the City's ability to utilize its previous commitment to find solutions and change processes in order to provide excellent services to its citizens and enhance the community's quality of life within its budget constraints.

### 2013 GENERAL FUND BUDGET <sup>(1)</sup>

The following is the City's 2013 General Fund budget (including Streets Operations and Equipment Replacement).

<b>REVENUES:</b>	
Taxes	\$4,980,129
Licenses and Fees	150,387
Intergovernmental	314,672
Charges for Goods and Services <sup>(2)</sup>	2,684,286
Fines and Forfeits	77,844
Miscellaneous	156,247
NonRevenues/Transfers	643,472
<b>TOTAL REVENUES:</b>	<b>\$9,007,038</b>
<b>EXPENDITURES:</b>	
Salaries and Benefits	\$5,578,412
Operating Supplies	494,199
Charge for Services	1,664,424
Intergovernmental	432,250
Debt Service	11,375
Capital Outlay	20,000
Interfund Allocations	244,941
NonExpenses/Transfers	554,268
<b>TOTAL EXPENDITURES:</b>	<b>\$8,999,868</b>
Net Surplus/(Deficit)	7,170

Source: The City's 2013 Budget.

- (1) Balances include General Fund, Equipment Reserve and Streets Unrestricted funds, consistent with financial reporting standards required by the State Auditor's Office beginning in 2010. As of June 1, 2013, the City expects the 2013 Ending General Fund Balance to be \$1.65M, Streets Unrestricted to be \$0.2M and General Government Equipment Reserve to be \$0.4M.
- (2) \$2.3 million of this revenue represents Interfund Revenues booked in accordance with a Council approved and auditor reviewed Cost Allocation Plan which charges benefiting funds for services provided by the General Fund.

In addition to regular property tax levies, the City is also authorized to impose various other taxes.

### HISTORICAL GENERAL FUND TAX REVENUE SOURCES

	Actual			Budgeted	
	2009	2010	2011	2012 Unaudited	2013
Property Tax	\$1,160,061	\$1,233,066	\$1,385,322	\$1,338,578	\$1,330,084
Utility Tax	1,045,850	1,063,651	1,262,569	1,301,547	1,367,271
Sales Tax (1)	2,297,322	2,394,718	2,392,624	2,258,443	2,230,476
Excise Tax	49,862	49,076	46,130	46,954	52,297
Total	\$4,553,094	\$4,740,511	\$5,086,645	\$4,945,522	\$4,980,129

(1) Includes criminal justice tax.

#### Property Taxes

- The City’s maximum regular levy authority is \$3.60/\$1,000 (\$0.225/\$1,000 of which must be used for fire pension funding purposes, if required), but is impacted due to its annexation into the North Olympic Library District and Fire Protection District No. 3 of Clallam County.
  - \$3.60 is reduced by the Library District levy not to exceed \$0.50/\$1,000 of assessed value (actual 2013 levy is \$0.50/\$1,000)
  - \$3.60 is further reduced by the Fire District’s regular levy of \$1.50/\$1,000 of assessed value (actual 2013 levy is \$1.37/\$1,000)
  - Statutory maximum 2013 levy for the City is: \$3.60 less \$0.50 (Library District) less \$1.37 (Fire District) = \$1.73/\$1,000
  - 2013 City Levy is \$1.62, \$0.02 into the Fire Levy
  - Available banked capacity is \$16,169

#### Sales and Use Taxes

- Within the City, the total sales and use tax rate 8.7% of the selling price of the item or service.
  - Of that total tax rate, the State imposes 6.5% and the local governments (the City and the County) impose the remaining 2.2%.
  - The City’s sales and use tax is collected by the State Department of Revenue (the “Department”) under a contract with the City that provides for a deduction by the Department of 1% (not exceeding 2% of the tax collected) for the Department’s administration costs.
  - Of the remaining 99% of retail sales and use tax, the Department distributes 15% to the County and distributes the remaining 85% to the City on a monthly basis.
  - In 2012, the amount of the City’s distribution was \$2,180,508.
  - DOR reports sales tax on date of sale, City reports on date of receipt, creating a nominal timing difference.

**Sales and Use Taxes (cont'd)**

- In August 2012, voters authorized a 0.1% Public Safety Tax effective January 1, 2013 with no sunset.
  - Tax is pledged to pay a portion of debt service on the Bonds to provide funding for a new Police Station and Emergency Operations Center.
  - Expected to generate \$225K in its first full year in 2014.
- In November 2009 voters authorized a sales and use tax of 0.2% to be collected within the TBD, effective April 1, 2010.
  - An inter-local agreement obligates the TBD to transfer sales and use tax to the City to offset the City’s expenses in performing capital projects and maintaining City streets.
  - In 2012, the TBD transferred \$764,731 to the City for these purposes.
  - The TBD is expected to generate approximately \$510K in sales & use tax per year (current year budget).
  - Although this revenue is restricted for use on street O&M and infrastructure projects, it frees the General Fund from funding street maintenance and projects to the extent approved by its Board.
  - The TBD has a 10 year sunset but is expected and planned for a voted extension.
- City also receives a portion of a 1/10 of 1% sales tax for criminal justice purposes.
  - This tax is distributed with 10% going to the County and the remaining 90% distributed to cities and the County based on population. The City received \$77,934 in 2012 for this tax.

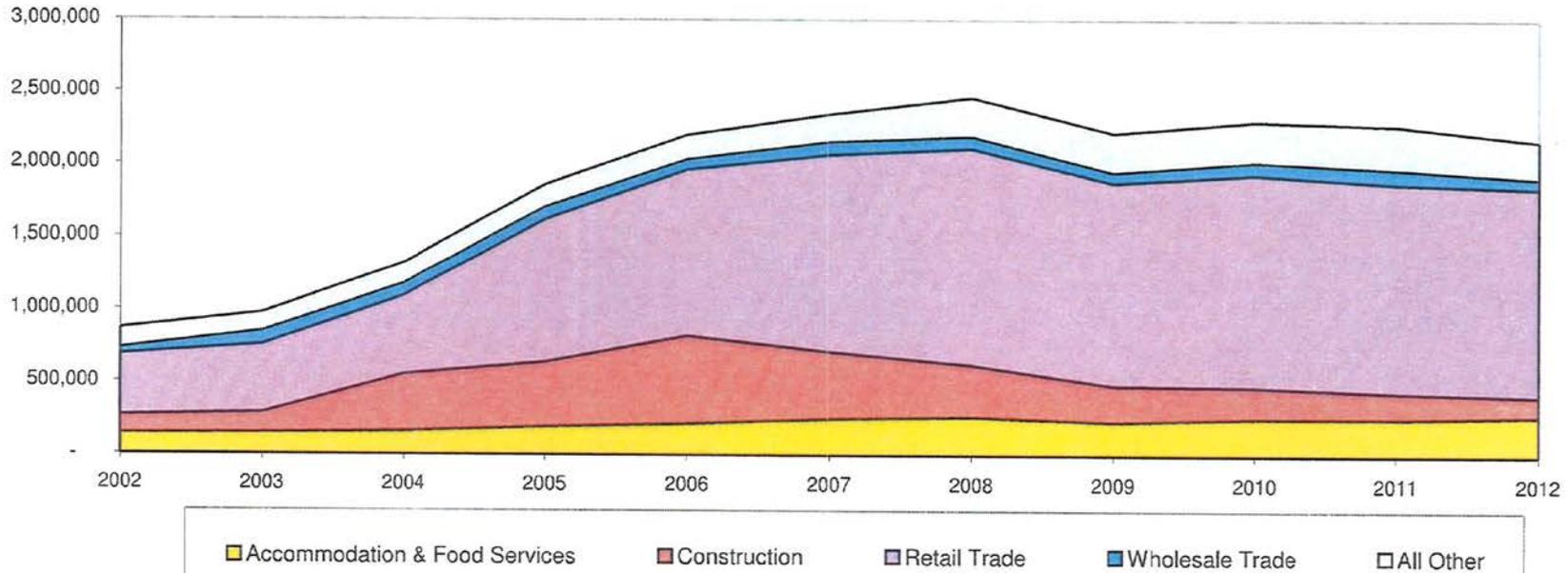
- Despite the recession that began in 2008, retail sales have remained steady in the City and are an important component of the City’s economy providing between 60 – 65% of the sales tax annually.
- It is estimated that nearly 70% of the retail sales within the City limits are generated by non-residents and annually puts the City in the top 25 Cities in the State of Washington for Sales Tax per capita.

TAXABLE RETAIL SALES		
	Clallam County	City of Sequim
2012	\$ 889,670,684	\$ 251,329,145
2011	909,513,519	259,665,899
2010	916,739,559	259,949,944
2009	888,109,138	259,337,079
2008	943,914,305	269,197,333
2007	1,063,474,587	307,558,253

Source: Washington State Department of Revenue, June 2013.



### Annual Sales Tax by Industry



Year	Grand Total	Accommodation & Food Services		Construction		Retail Trade		Wholesale Trade		All Other	
		Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage	Amount	Percentage
2002	865,550	139,926	16%	125,634	15%	420,254.52	49%	43,540	5%	136,195	16%
2003	975,782	146,934	15%	137,027	14%	472,732.80	48%	92,143	9%	126,945	13%
2004	1,319,954	161,561	12%	393,321	30%	540,049.73	41%	82,046	6%	142,977	11%
2005	1,858,701	192,157	10%	446,266	24%	978,469.44	53%	86,868	5%	154,941	8%
2006	2,207,586	212,845	10%	608,061	28%	1,144,059.03	52%	71,965	3%	170,656	8%
2007	2,348,937	248,590	11%	464,738	20%	1,356,325.27	58%	90,097	4%	189,187	8%
2008	2,466,084	262,720	11%	360,063	15%	1,491,648.47	60%	83,757	3%	267,896	11%
2009	2,224,229	230,702	10%	251,566	11%	1,396,520.72	63%	70,924	3%	274,517	12%
2010	2,304,765	253,484	11%	217,676	9%	1,466,840.01	64%	86,857	4%	279,908	12%
2011	2,280,574	254,626	11%	181,805	8%	1,438,378.71	63%	103,303	5%	302,462	13%
2012	2,174,850	272,504	13%	139,557	6%	1,434,724.33	66%	67,857	3%	260,209	12%

### Utility Taxes

- Utility taxes may be levied on the gross operating revenues earned by public and private utilities from operations within City limits.
- Public utility taxes have no limit whereas private utility taxes have a 6.0% maximum taxable rate.
- Legislation passed in 1982 limits the tax rate that the City may impose on gas, electric, and telephone utilities to 6.0%, unless a vote of the people authorizes a higher rate.
- Current Utility B&O tax rates on private utilities are as follows:
  - Television/Cable: 5.0%
  - Electric: 6.0%
  - Natural Gas: 6.0%
  - Telephone: 6.0%
  - Solid Waste: 8.0%
  - Water (City): 8.0%
  - Sewer (City): 8.0%

### Real Estate Excise Taxes - REET

- The City is authorized to impose a real estate excise tax on each sale of real property at the rate of 0.50% of the selling price, in addition to the real estate excise tax imposed by the State at the rate of 1.28%
- The City deposits real estate excise tax proceeds in a fund other than the General Fund.
- Revenues from this tax must be used for financing capital facilities.

### Cost Recovery/Audits

Cost recovery throughout the City is accomplished by a detailed Cost Allocation Plan which has been reviewed and approved by the Office of the Washington State Auditor which has also issued 23 consecutive years of “Clean” Audit opinions for the City.

### Debt Service Offsets

- Current rent factors are \$200K annually and will be eliminated upon occupying the new facility.
- Public Safety Sales Tax expected to be \$225,000 in 2014 and is dedicated to this facility
- REET \$75k annually with future growth increasing to \$100k annually
- General Governmental Revenues for additional debt service requirements

The City's future capital project needs are manageable.

## CAPITAL PROJECTS

The City adopted an updated Capital Improvement Planning (CIP) Policy on February 25, 2013. Adhering to this policy will ensure that the City preserves, maintains, and improves buildings, parks, roads, sewers, equipment and other capital investments. This policy will also help the City avoid emergency and unexpected major costs in the future.

### Capital Project Criteria

A capital project is included if it meets the following criteria:

- Projects that exceed \$50,000 in total cost.
- Projects that involve the purchase of land, buildings, building improvements or building components.
- Projects where the City is responsible for the purchase and/or development.
- Projects included in the City's Comprehensive Plan or related capital plans.

### Capital Project Prioritization

The City prioritizes the use of City funding for capital projects. Priority is given for projects that meet the following criteria:

- Projects that preserve existing capital infrastructure.
- Projects with low life-cycle costs.
- Projects that have a high percentage of project costs funded by non-city sources or that have a dedicated funding source.
- Projects that generate revenue or reduce operations and maintenance costs.
- Projects that have identified funding for operations and maintenance costs.
- Projects that have a high level of community support.

### Capital Project Funds

The City has established several capital project funds to be used to accrue moneys for the construction and/or completion of approved capital projects. All funding and expenses related to the capital project shall be accounted for in the appropriate capital projects fund.

- Water Restricted
- Sewer Restricted
- Streets Restricted
- Parks Restricted
- Capital Facilities Fund for buildings

## CAPITAL PROJECTS 2013

Projects	Base Project Cost	Total Project Cost	Funding Source
<b>Parks</b>			
1 Carrie Blake Park Entrance Construction -Phase 1	\$120,000	\$120,000	Hotel/Motel//Donations
2 City-wide Restroom Upgrade	\$30,000	\$30,000	Parks Restricted
3 Carrie Blake Park Docent/Host Site Construction	\$10,000	\$10,000	Parks Restricted
4 Park's Master Plan Update	\$25,000	\$25,000	Parks Restricted
5 Water System-Gerhardt-placeholder	\$15,000	\$15,000	Grant
6 Park Bridge Maintenance	\$20,000	\$20,000	REET
7 Park Kiosks	\$10,500	\$10,500	Grant
8 D.R. Standard Park Playground Equipment	\$30,000	\$30,000	Grant/Donations
9 Snack Bar/Storage @ Reuse Water Park	\$100,000	\$100,000	Grant
<b>Total Parks Projects</b>	<b>\$360,500</b>	<b>\$360,500</b>	
<b>Hotel/Motel</b>			
10 Downtown Design for Streetscape & Way-Finding Signs	\$50,000	\$50,000	Hotel/Motel
<b>Total Hotel/Motel Projects</b>	<b>\$50,000</b>	<b>\$50,000</b>	
<b>Building Facilities</b>			
11 City Hall - Architectural/Engineering & Project Manager	\$600,000	\$744,000	Capital Facilities
12 Guy Cole Remodel	\$100,000	\$124,000	Grant/Donations
<b>Total Capital Facilities Projects</b>	<b>\$700,000</b>	<b>\$868,000</b>	
<b>Streets</b>			
13 Stormwater Needs Assessment	\$40,000	\$48,000	General Fund/Water/Sewer
14 ADA Sidewalk Upgrades Fir/Washington/Widening	\$150,000	\$181,500	TBD /Grant
15 ODT stormwater upgrade	\$20,000	\$26,200	ODT
16 Pedestrian/Sidewalks-Pathways-3rd Ave. (Brownsfield to Reservoir)	\$150,000	\$247,000	TBD/Grant
17 Sequim/Fir Signal	\$250,000	\$327,500	Grant
18 West Sequim Bay Improvements-NEPA/SEPA/Partial Construction	\$750,000	\$982,500	STP Grant/Fairweather Bond/Water/Sewer
19 Pavement Rehabilitation	\$624,000	\$797,440	TBD/Water/Sewer/Grant
20 Fir Street Improvements-Sequim to 5th PE/ROW	\$200,000	\$262,000	Water/Sewer
21 Sequim/US 101 Signals-Unfunded	\$400,000	\$524,000	Grant/Development
22 Street Light LED Conversion	\$50,000	\$65,500	General Fund/Grant
23 West Prairie St. Improvements - Green Street-PE	\$50,000	\$65,500	Grant/Utilities
24 Prairie/Sequim Signal	\$250,000	\$327,500	Grant/Development
25 Signal/Roadway Traffic Engr.-Signal Improvements/Striping	\$50,000	\$60,500	TBD
26 Public Works Facilities Programming-Property Utilization	\$30,000	\$39,300	Capital Facilities
27 Safety/Capacity Improvements (Washington Taper at Priest Road)	\$50,000	\$65,500	Grant
28 Major Repair/Unidentified Street Projects	\$100,000	\$131,000	Grant
<b>Total Streets Projects</b>	<b>\$3,164,000</b>	<b>\$4,150,940</b>	
<b>Water Projects</b>			
29 Major Repair/Unidentified/Oversize Water Projects	\$150,000	\$192,000	Water
30 Etta St Water Main Roadway Design/Oversize/AC Repl-PE/ROW	\$100,000	\$128,000	Water
31 AC/Galv line Replacement--PE/ROW-various below			
a East Maple (South Sequim to Sunnyside)	\$50,000	\$64,000	Water
b East Bell (South Sequim to Sunnyside)	\$50,000	\$64,000	Water
c West Prairie (South Sequim to 2nd St)	\$50,000	\$64,000	Water
d West Maple (South Sequim to 2nd St)	\$50,000	\$64,000	Water
32 Replacement Meters	\$50,000	\$64,000	Water
33 Remotely Read Meters	\$230,000	\$294,400	Water/Sewer
34 New meter Replacement project	\$100,000	\$128,000	Water
35 Economic Development Project	\$1,008,000	\$1,290,240	Water/Opportunity Fund Grant/Development
36 Capacity Improvements	\$300,000	\$384,000	Water
37 Unidentified Regionalization Effort	\$50,000	\$64,000	Water/Sewer
<b>Total Water Projects</b>	<b>\$2,188,000</b>	<b>\$2,800,640</b>	
<b>Sewer Projects</b>			
38 Major Repairs /Unidentified/Oversize Sewer Projects	\$200,000	\$256,000	Sewer
39 Reclaimed Water Project	\$379,754	\$486,084	Sewer/DOE Grant
40 Economic Development Project	\$905,000	\$1,158,400	Sewer/Opportunity Fund Grant/Development
<b>Total Sewer Projects</b>	<b>\$1,484,754</b>	<b>\$1,900,484</b>	
<b>Total All Capital Projects</b>	<b>\$7,947,254</b>	<b>\$10,130,564</b>	

\$4,450,233 Total needed from Grants/Other funding

## FINANCIAL MANAGEMENT POLICIES

### ▪ Long Term Debt

- Long term debt is that debt which is seven years or more to term.
- The City will only issue long term debt for capital improvements that are included in the City's Capital Improvement Plan.
- The City will only issue long term debt for capital improvements that cannot be financed on a pay-as-you-go basis from anticipated cash flows.
- The term of any long term debt will not exceed a conservative estimate of the useful life of the asset to be financed.
- The City will include a comprehensive debt repayment plan with any proposed use of long term debt.
- The City will explore alternative financing mechanisms such as local improvement districts, Washington State PTF Loans and the LOCAL Program when planning to incur debt.
- Any proposal to use debt the City shall identify the future operating and maintenance costs associated with the capital improvement to be financed and how those operating and maintenance costs will be paid.

### ▪ Financial Planning

- The City's financial planning will look at least six years into the future.
- The Long range Financial Plan should include the following elements:
  - Economic Condition – recent trends in national, state and local economic indicators
  - City Service Delivery Context – important legislative statutory changes, City annexations, service level or changes
  - Revenue – trends, key assumptions and projections for the City's major revenues
  - Expenditures – trends, key assumptions and projections for the City's major expenditures
  - Fund Balance – historical trends and projections in total revenues, total expenses, net revenues and ending fund balance
  - Debt – projected debt service payments compared to overall expenses and revenues
  - Trends and projections in key financial indicators
  - Comparisons to other cities

## FINANCIAL MANAGEMENT POLICIES (CONT'D)

- Budget Development Policy
  - Budget adoption by the City Council shall be at the fund level.
  - Current revenues, including unencumbered fund balances should be sufficient to support current expenditures.
  - The City Council identifies specific goals as part of the City's work plan.
  - The City Council will establish municipal service levels and priorities prior to and during the development of the preliminary budget.
  - The full cost of providing central support services shall be allocated to other funds and capital projects, and if appropriate to grants and specific programs.
  
- Capital Improvement Planning
  - The City shall prepare a Capital Improvement Plan (CIP) that complies with the State Growth Management Act and related statutes.
  - The CIP shall include all projects anticipated for the long-range financial plan which is based on a six year planning horizon while the Comprehensive Plan or other related capital plans such as the City's Parks, Recreation and Open Space Plan or Pavement Management (Street) Plan may include projects with planning horizons greater than six years.
  - The CIP shall be updated annually as part of the City's budget process to reflect changes in the revenues and expenses of approved projects.
  
- General Fund Balance and Reserve Policy
  - Minimum Fund Balance Reserves: Minimum of 15% of ongoing revenues/Maximum of 20% of ongoing revenues.
  - Economic Uncertainty Reserves: Minimum of 1% of ongoing revenues/Maximum of 3% of ongoing revenues.
  - Future Liabilities Reserves: Minimum of 1% of ongoing revenues/Maximum of 3% of ongoing revenues
  
- Post-Issuance Compliance Policy
  - This policy is intended to guide the City in meeting its obligations under applicable statutes, regulations and documentation associated with publicly offered and privately placed securities of the City.
  - It is the policy of the City that the Administrative Services Director and his or her staff, as well as the principal operating officials of those departments of the City for which property is financed with proceeds of tax-exempt bonds should be provided with education and training on federal tax requirements applicable to tax-exempt bonds.

ECONOMIC FORECAST/MANAGEMENT DISCUSSION

**Financial Position and the Future of Sequim**

Despite the most severe economic downturn the State and the region has seen in a lifetime, the City of Sequim has remained steady in its commitment to strong policies and conservative budgets.

- Revenues continue to grow at a moderate rate.
- Retail sales have remained steady and for 2013 are showing a 6% improvement over budget.
- Construction is beginning to return and developer interest in the retail base continues.
- Stable labor relations and limited pension and OPEB liabilities.
- Tourism continues to be strong and the related revenues are growing.
- The City has positioned itself as the economic center of the Olympic Peninsula with unparalleled community support.



**SUMMARY OF CREDIT STRENGTHS**

- Healthy financial position and reserve levels
- Strong management team with adopted polices
- Conservative financial operations
- Diverse tax base and revenue sources
- Low debt ratios
- Stable labor relations/pensions/OPEB

**SCHEDULE**

<b>Rating Requested by:</b>	<b>Thursday, July 18, 2013</b>
<b>Sale Date:</b>	<b>Thursday, July 25, 2013</b>
<b>Closing Date:</b>	<b>Thursday, August 15, 2013</b>



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## Sequim, WA

Coastal Washington's sunniest town has the blue sky and outdoorsy vibe you'd expect, but lots of surprises too. If you've heard of Sequim (pronounced *skwim*) and its sunny skies, you've probably also heard that its world revolves around lavender. But young farmers—and bakers, chefs, and winemakers—have put down roots in Sequim, and now artisanal and organic are becoming the norm. It also doesn't hurt that you get a front-row seat to some of the most spectacular coast in Washington. As for Sequim's famous "blue hole," the sun patch formed by the Olympic Mountains' rain shadow, it's no joke. When you drive through the misty Olympic Peninsula and cross into the Dungeness Valley, blue sky appears above like a spotlight, as if on cue. Here, right smack-dab in the middle of cloud country, is a town almost as sunny as L.A., where serenity is the reality.



Photo by José Mandojana; written by Sophie Egan