Financial Policies
Debt Management

☒ ADOPTED BY COUNCIL: JANUARY 25, 2016	EFFECTIVE DATE: JANUARY 25, 2016

I. PURPOSE

The purpose of this policy is to identify the City of Sequim's approach to managing debt. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations.

II. POLICY

A. Policy Scope
   1. This policy shall apply to all debt issued by the City of Sequim (City).

B. Statutory Limitations
   1. All City debt management policies and practices shall comply with Washington State law.
   2. The general obligation debt of the City shall not exceed 7.5% of the assessed value of taxable property within the City.
      i) The City Council can approve debt up to 1.5% of the city's total assessed value.
      ii) The public may vote to approve debt for general government purposes in an amount not to exceed 2.5% of assessed valuation, inclusive of any City Council approved debt.
      iii) The public may vote to approve debt up to an additional 2.5% of assessed valuation for open space, park facilities, and capital facilities associated with economic development.
   3. The public may vote to approve debt up to an additional 2.5% of assessed valuation for city water or sewer utilities.

C. Authority to Borrow
   1. All borrowing, including short-term debt, will be subject to Council approval.
   2. Use of credit cards or vendor accounts are considered expenditures and are not considered short term obligations under this policy.

D. Revenue Bonds
   1. Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City and are generally payable from the enterprise. Revenue bonds are not subject to the City's statutory debt limitation and voter approval is not required.

E. Short Term Obligations
   1. Short term obligations are warrants, notes, capital leases, or other evidences of indebtedness expected to be repaid in three years or less.
   2. The City may use short term obligations to:

i) Meet the immediate financing needs of a capital project for which long term financing has been secured but not yet received.

ii) Cover temporary cash flow shortages, which may be caused by a delay in receipting tax revenues.

3. The City may make short term loans between City funds (interfund loans) as an alternative to using short term obligations.

i) Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of these funds will not impact the fund's current operations.

ii) All interfund loans shall bear interest based on prevailing rates and have terms consistent with state guidelines.

iii) All interfund loans shall be made in conformance with the City's Interfund Loan Policy.

F. Intermediate Term Debt

1. Intermediate term debt is debt that is used to finance a specific asset or set of assets with a useful life of more than three but less than seven years.
2. The City will only issue intermediate term debt for capital assets when the cost of borrowing or other factors make it in the City's best interest.
3. The term of any intermediate term debt will not exceed a conservative estimate of the useful life of the asset(s) to be financed.

G. Long Term Debt

1. Long term debt is that debt which is seven years or more to term.
2. The City will only issue long term debt for capital improvements that are included in the City's Capital Improvement Plan.
3. 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.
4. The term of any long term debt will not exceed a conservative estimate of the useful life of the asset to be financed.
5. The City will include a comprehensive debt repayment plan with any proposed use of long term debt.
6. The City will explore alternative financing mechanisms such as local improvement districts, Washington State Public Works Trust Fund Loans and the Local Option Capital Asset Lending (LOCAL) Program when planning to incur debt.
7. In 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.

H. Refunding Bonds

1. Refunding bonds are issued to refinance existing bonds to take advantage of lower interest rates.

2. The City will use refunding bonds, when appropriate, to restructure its outstanding debt.
3. Unless otherwise justified, such as the desire to change a bond covenant, the City shall only issue refunding bonds when the net present value of savings after expenses is at least 3%.

I. Debt Reporting

1. The City shall include a summary of its outstanding debt in its budget document and annual financial report.

III. PROCEDURE

A. City Council
   1. Approve Debt Management policy.
   2. Approve the issuance of all debt.

B. City Manager
   1. Propose revisions to Debt Management policy.
   2. Ensure the City is in compliance with the Debt Management policy.
   3. Recommend use of short and long term debt to City Council.
   4. Report all outstanding short term and long term debt in the City's budget document and annual financial report.

IV. REFERENCES

A. Sequim Financial Policies
   1. Interfund Loan Policy, April 13, 2013

B. Sequim Municipal Code
   1. Chapter 3.24 Section 3.24.020 Indebtedness Fund
   2. Chapter 3.76 Bonds and Obligations Registration System

C. Revised Code of Washington
   1. RCW 39.36 Limitation of indebtedness of taxing districts
   2. RCW 35A.40 Fiscal Provisions applicable to Code Cities
   3. RCW 39.50 Short-term Obligations – Municipal Corporations
   4. RCW 43.80 Fiscal Agencies along with all other City, State and Federal laws, rules and regulations
   5. RCW 43.09.2853 Municipal corporations authorized to establish line of credit for payment of warrants — Interest

D. Washington State Auditor's Office Budgeting, Accounting Reporting System (BARS) Manual
   1. Volume 1, Part 4, Chapter 3, Supplemental Schedules
      i) Long-Term Debt (Schedule 9)
      ii) Limitation of Indebtedness (Schedule 10)

2. Volume 1, Part 3, Chapter 4, Section A, “Interfund Loans”

E. Washington State Auditor’s Office Small City Handbook
   1. Section B – Disbursements
      i) B-19 – Managing Cash Flow Deficiencies