City of Sequim
Adopted Budget 2024



Last updated 11/28/23

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DEBT

Municipal Debt: Capacity and Type of Debt



General Obligation Debt[1]

According to Washington State law, voters may approve general obligation debt issues of up to 7.5% of the City's assessed valuation. This 7.5% debt capacity is allocated evenly between general government purposes, utilities and open space, park facilities and capital facilities associated with economic development, resulting in a 2.5% limit for each. All voted bonds require a 60% majority approval. To validate the election, the total votes cast must equal at least 40% of the total votes cast in the last general election.

Under RCW 39.36.020(2), the public may vote to approve **Unlimited Tax General Obligation (UTGO)** bond issues for general government in an amount not to exceed 2.5% of the assessed valuation. UTGO Bonds represent debt that was approved by voters for a specific purpose. In this case, citizens have agreed to levy property taxes to repay the debt generally over a thirty-year period. Within the 2.5% limit, the City Council may approve **Limited Tax General Obligation (LTGO)** bond issues (also called Councilmanic Bonds) not to exceed 1.5% of the City's assessed valuation. LTGO Bonds can be issued with approval of the City Council. The 1.5% can be used for any municipal purpose, including using the entire amount for bonds. This non-voted debt is repaid from general revenues of the City.

Under RCW 39.36.020(4), the public may vote to approve **Parks, Open Space and Capital Facilities associated with Economic Development** bond issues and **Utility Purpose** bond issues. Each of which is also limited to 2.5% of the City's assessed valuation.

Although the City can legally issue up to 7.5% of its assessed valuation, bond-rating agencies have a lower threshold for an acceptable debt load. Bond-rating agencies use several criteria for determining the level of debt a city can maintain. The two most important are debt as a percent of assessed valuation and debt per capita. As a general rule, debt in excess of 4.5% of assessed valuation is viewed as a cause for concern.

Other Long-Term Debt

Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City and are generally payable from the revenues of the enterprise. No taxing power or General Fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation and voter approval is not required.

Public Works Trust Fund loans and State Revolving Fund Loans are low interest and/or interest-free loans granted to Washington cities based on a competitive and comprehensive loan application process. Those cities scoring highest in the State's evaluation process receive the favorable loans. The more significant qualifying criteria require cities to, among other things: have rate studies supporting fee adoption, adopt a Comprehensive Plan and long-term plan for financing public works needs, demonstrate a history of maintaining the City's utility system, demonstrate ability to complete the proposed project, demonstrate financial health and ability to repay the loan, have the technical and managerial capacity.

The City accepts the concept that utility infrastructure users change over the useful life of those assets and fairness requires that the cost of that infrastructure be spread to those who will use it over time. Long term financing is often more equitable than using currently available funds because the users/beneficiaries/ratepayers of the system pay for the related debt. This "pay-as-you-*use*" concept also takes into account the negative carry costs of cash funding. Finally, our City Council will determine what is best for the community, with available and limited resources.**2**

[1] RCW 39.36 – Public Contract & Indebtedness – Limitation of Indebtedness of taxing districts
[2] MRSC Financing Public Infrastructure: Generational Equity and Municipal Debt



2024 Debt Summary

2024 Key Goal

- Manage the City's Municipal Debt and protect the City's credit rating (AA- for LTGO and A+ for Revenue Bonds)
  - Conservatively manage funding sources
  - Make timely debt payments
  - Prepare timely and accurate financial information that demonstrates compliance with financial policies for Council and Rating Agencies

2024 Budget

- $10.68ml in LTGO debt was issued in August 2013 for the Civic Center project with total debt service in 2024 of $659k
  - A total of $700k is being transferred into this fund to service the debt and save for possible future pre-payment of debt.
  - $250k from the General Fund, $350k from the Public Safety Tax, and $100k from REET
- 2024 Utility Debt payments continue as in prior years and are funded by Utility Rates and regional contracts. 2024 begins the year with the following outstanding debt:
  - Water and sewer revenue bonds totaling approximately $1.995m to fund the utility portion of the Civic Center project, and related debt service of $115k per utility
  - State Revolving Funds - $1.689ml in outstanding principal
  - Public Works Trust Fund - $231k in outstanding principal

General Obligation Debt

2013 Limited Tax General Obligation (LTGO) Bond – Civic Center Project

In 2013, the City issued $10.68ml in LTGO debt to provide funds for a portion of the City's Civic Center Project as well as to pay the costs of issuance and sale of the bonds ($241k). Payment on the $10.68ml 30-year bond at 4.53% began in 2014, with interest-only payments required in the first year and a half. Payments thereafter approximate $660k annually. The bond matures in December 2043.

Compensated Absences

The City is obligated to pay accrued vacation and sick leave to its employees in accordance with union contracts and internal personnel policies. Although Compensated Absences are not payable to employees on a particular schedule, like loans and bonds, they can become a sizable liability to agencies. Rating agencies exclude this particular obligation when calculating debt capacity.

Utility Debt

2013 WA State Public Works Trust Fund Loan (PWTF) for Aerobic Digester Upgrade

City Council approved a loan of $520k with an interest rate of 1% for a project to upgrade the current digesters and aeration system to allow greater control by the operators as well as improve energy efficiency. Ten annual payments of principal and interest ($60k) commenced in 2019. The loan matures in 2027.

2014 WA State Revolving Fund (SRF) – WRF Aerobic Digester and Headworks Upgrade

In 2014, Council approved a loan for $720k, paid over 5 years at 1.4%, with an annual payment of principal and interest of $168k per year. This loan matured in 2021.

2015 Water and Sewer Revenue Bonds
In 2014, Council approved a revenue bond proposal to fund the utility portion of the Civic Center project. Total proceeds were $3.3ml. Debt service for each of the utilities does not exceed $120k per year, per utility. This obligation is reflected in the budget (the 411 Water Restricted and 422 Sewer Restricted funds).

2016 WA State Revolving Fund Loans – For Water Pollution Control and Safe Drinking Water
In 2016, Council authorized the City Manager to enter into 4 separate loan agreements as the actual loan documents become available. These loans are repayable with utility revenues.

Water Pollution Control Revolving Fund (CWSRF) loans include: $513k for Sunnyside Sanitary Sewer Improvement, with a 20-year term, 1.8% interest and $25k in forgivable principal, $589k for Doe Run Lift Station Improvements, with a 20-year term, 1.8% interest and $41k in forgivable principal.

Drinking Water State Revolving Fund (DWSRF) loans include $732k for 5th and McCurdy Booster Station Improvements, with a 20-year term and a 1.0% interest rate, $641k for Sunnyside Water Main Replacement with a 20-year term and a 1.0% interest rate.

The amount of outstanding principal reflected on the next schedule is consistent with the CIP's prediction of progress on these projects and are only estimations.

2019 WA State Revolving Fund Loan – West Fir Street Sewer Improvements
The City has received reimbursements for sewer construction and improvements on West Fir Street in the form of a $420k, 20-year loan, at 1.4%. $67k is forgivable principal. Annual payment amounts are $20k and paid for with sewer revenues.

2023 WA State Public Works Board – Silberhorn Deep Well
The City is expected to receive reimbursement for the construction of a new supply production well in the form of a $4.830ml, 20-year loan, at 1.39%. Annual payment amounts are expected to be approximately $275k and paid for with water revenues.

The amount of outstanding principal reflected on the next schedule is consistent with the CIP's prediction of progress on this project and is only an estimation.



Debt Capacity

Based on Prior Year Assessed Value

Amount at End of Year		2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Budget
Prior Year Assessed Property Value		1,196,659,049	1,308,100,815	1,493,196,143	1,820,099,782	1,900,000,000
						2024 CC Estimated
General Oblication Debt Capicity (up to 7.5%)						
General Purpose Debt Limit (2.5%)						
NonVoted Debt Limit 1.5% (councilmanic)		17,949,886	19,621,512	22,397,942	27,301,497	28,500,000
Voted Debt Limit 1.0%		11,966,590	13,081,008	14,931,961	18,200,998	19,000,000
Debt Limit 2.5%		**29,916,476**	**32,702,520**	**37,329,904**	**45,502,495**	**47,500,000**
Utility Purpose Debt Limit (2.5%)						
Voted Debt Limit 2.5%		29,916,476	32,702,520	37,329,904	45,502,495	47,500,000
Open Space, Park & Capital Facilities Debt Limit (2.5%)						
Voted Debt Limit 2.5%		29,916,476	32,702,520	37,329,904	45,502,495	47,500,000
Total General Obligation Debt Capacity		**89,749,429**	**98,107,561**	**111,989,711**	**136,507,484**	**142,500,000**
NonVoted General Obligation Debt Outstanding						
City Hall/Police Facility LTGO		9,275,000	9,020,000	8,760,000	8,490,000	8,210,000
NonVoted GO Debt Outstanding		**9,275,000**	**9,020,000**	**8,760,000**	**8,490,000**	**8,210,000**
NonVoted Debt Capacity		8,674,886	10,601,512	13,637,942	18,811,497	20,290,000
Voted Debt Capacity		71,799,543	78,486,049	89,591,769	109,205,987	114,000,000
Available GO Debt Capacity		**80,474,429**	**89,087,561**	**103,229,711**	**128,017,484**	**134,290,000**
Industry Bond Rating Standard						
GO Debt as % of Assessed Value		**0.78%**	**0.69%**	**0.59%**	**0.47%**	**0.43%**
Industry Standard not to exceed	4.5%	53,849,657	60,255,689	67,193,826	81,904,490	85,500,000
GO Debt per Capita		1,156	1,114	1,066	1,017	955
Population		8,024	8,125	8,215	8,350	8,601
		2020 census				est based upon 3% growth

Revenue Debt Outstanding (excluded from General Purpose Debt limits)

Amount Outstanding at End of Year	2020 Actual	2021 Actual	2022 Actual	2023 Forecast	2024 Budget
PWTF 2013: Aerobic Digester Loan	404,445	346,667	288,889	231,111	173,334
2014 Water & Sewer Revenue Bond	2,415,000	2,280,000	2,140,000	1,995,000	1,845,000
CWSRF W Fir Sewer	419,384	419,384	399,291	380,248	360,936
PWB Silberhorn Deep Well					4,830,000
[1] CWSRF Headworks Project $720k	166,142	-	-	-	-
[1] CWSRF Sunnyside Sewer $513k	411,843	392,466	372,719	352,592	332,081
[1] CWSRF Doe Run Lift Station	40,528	40,528	42,331	40,463	38,559
[1] DWSRF 028 5th & McCurdy Booster Station $732k	604,031	563,762	523,493	483,224	442,956
[1] DWSRF 036 Sunnyside Water Main $641k	540,931	504,869	468,807	432,745	396,683
	5,002,304	**4,547,676**	**4,235,530**	**3,915,383**	**8,419,549**

[1] Estimated use of loan proceeds based upon Capital Improvement Plan

Per amortizaton Schedule Principal outstanding (cash basis: interest not recorded until due)

Debt Capacity



