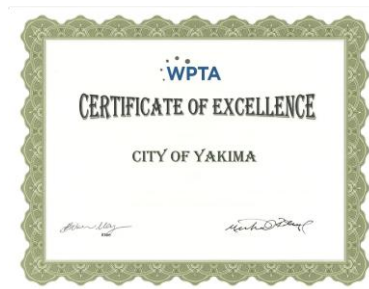


CITY OF YAKIMA



DEBT POLICY



**ADOPTED BY CITY COUNCIL
11-7-2023**

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ADMINISTRATIVE POLICIES

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Department: Finance

Authorized by: City Council

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Section I. Introduction

Purpose and Overview

The purposes of this Debt Policy ("Policy") of the City of Yakima ("City") are:

- To set forth comprehensive guidelines for the issuance and management of all City financings;
• To establish debt objectives and parameters necessary to safeguard the City's fiscal health and sustainability;
• To articulate the City Council's intent for the structure of debt issuance, governance over City debt and long-term planning;
• To communicate clear policy and strategy guidelines for City debt administration;
• To assure all debt complies with statutes and regulatory requirements; and
• To demonstrate to citizens, taxpayers and voters a transparent and accountable stewardship plan.

Adherence to this Policy is essential to ensure that the City issues debt prudently and cost effectively, maintains a sound debt position, and protects the credit quality of its obligations.

Section II. Governing Principles

In the issuance and management of debt, the City shall comply with the Constitution of Washington State (the "State") and with all other legal requirements imposed by federal, state, and local laws, rules and regulations, as applicable. The following section highlights the legal framework of the debt issuance.

Governing Law

State Law - The City may contract indebtedness as provided for by chapter 35.22 RCW and the City Charter, Article XII, Section 1. General obligation indebtedness secured by and payable from City tax revenues is subject to the debt limitations in RCW 39.36.020 and Article VIII of the State Constitution. Indebtedness secured by and payable from enterprise revenues (e.g., revenue bonds) or from special assessments are not subject to constitutional or statutory limitations. The City shall issue and sell bonds evidencing indebtedness in accordance with chapter 39.46 RCW, and shall issue and sell refunding bonds in accordance with chapter 39.53 RCW.

Federal Laws, Rules and Regulations - The City shall issue and manage debt in accordance with applicable federal laws, rules, and regulations, including the Internal Revenue Code of 1986, as amended (the “Code”), the Securities Act of 1933, and the Securities Exchange Act of 1934, together with proposed, temporary and final regulations promulgated, and official public guidance published, under these laws, as applicable. The City has instituted and shall comply with its separate policies and procedures relating to its obligations under the Code and securities laws in connection with its obligations.

Local Laws and Regulations - The City shall issue and manage debt in accordance with the limitations and constraints imposed by local rules and regulations, including the City Charter and City Municipal Code.

Permitted Debt by Type

Subject to changes in State law, the City may legally issue debt using only the debt instruments described below:

Unlimited Tax General Obligation Bonds – The City is authorized to issue Unlimited Tax General Obligation Bonds under State law, subject to City Council approval and approval of the voters within the jurisdiction of the City as required by law. Unlimited Tax General Obligation Bonds may be issued for any capital purpose approved by the voters, other than the replacement of equipment.

Limited Tax General Obligation Bonds – The City is authorized to issue Limited Tax General Obligation Bonds under State law, subject to City Council approval. Limited Tax General Obligation Bonds may be issued under State law for any lawful City purpose.

Revenue Bonds – The City is authorized to issue revenue bonds under State law, subject to City Council approval. Revenue bonds may be issued to finance construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Program and are generally payable from 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 nor is voter approval required.

Short Term Debt – The City is authorized to issue short term debt under State law, including bond anticipation notes or other evidences of indebtedness, subject to City Council approval.

Special Assessment Bonds/LID Bonds – The City is authorized to issue special assessment bonds, including but not limited to local improvement district bonds under chapter 35.22 RCW, subject to City Council approval after appropriate formation of a special assessment district. Special assessment bonds represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the City.

Local Option Capital Asset Lending (“LOCAL”) Program Debt – The City is authorized to enter into financing contracts with the Office of the State Treasurer under chapter 39.94 RCW and the LOCAL program, subject to City Council approval.

Public Works Trust Fund (“PWTF”) Loans – The City is authorized to enter into loan agreements with the Public Works Board under chapter 43.155 RCW, subject to City Council approval.

Other Debt Instruments - The City is authorized to enter into capital leases, conditional sales contracts, and other forms of debt instruments subject to State law and the approval of the City Council.

The City is authorized to enter into intergovernmental loans such as a Supporting Investment in Economic Development (SIED) loan subject to City Council approval.

Purpose for Borrowing

The City shall issue long-term debt solely for the purpose of financing or refinancing the cost of design, acquisition and/or construction of long-lived capital projects or to refund outstanding debt. Debt can be used to equalize the cost of a capital need over the useful life of the capital item. Long-term debt will not be used to support current operations.

Limitations on Debt Issuance

Legal Debt Limits – The State Constitution and RCW 39.36.020 limit the City’s ability to incur indebtedness based on a percentage of the assessed valuation of the taxable property within the City at the time the debt is incurred. Specifically, the City’s unlimited tax general obligation indebtedness (subject to 60% voter approval) is limited to 2.5 percent of the City’s assessed value for general purposes, with an additional 2.5 percent of assessed value for certain utility purposes and an additional 2.5 percent of assessed value for open space, park facilities and capital facilities associated with economic development. Accordingly, the City’s total general obligation indebtedness for all purposes may not exceed 7.5 percent of the City’s assessed valuation.

Within the 2.5 percent of assessed value for general purposes, the City may, without voter approval, incur general obligation indebtedness in an amount not to exceed 1.5 percent of assessed value.

In calculating the City’s legal debt limit, the City will consult with its legal advisors to determine whether particular obligations are to be treated as debt within the statutory and constitutional limits.

Ethical Standards Governing Conduct

The City’s officers and elected officials will adhere to standards of conduct as stipulated by the following:

- Adopted City policies, ordinances, and resolutions and the City Code;
- Code of Ethics for Municipal Officers Act, chapter 42.23 RCW; and
- Applicable federal laws, rules and regulations.

Section III. Roles and Responsibilities

Legislative Authority – It is the responsibility of the City Council to:

- Approve this Debt Policy;
- Approve projects to be financed;
- Adopt ordinances authorizing the issuance of indebtedness and, if appropriate, designate authority to approve the final sale to a designated representative within the parameters for delegation under chapter 39.46 RCW; and
- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt.

Director of Finance & Budget Authority - Primary responsibility for debt management is delegated to the Director of Finance & Budget or designee, with City Manager oversight. The Director of Finance & Budget or designee shall be responsible for the following:

Overall Debt Management

- Apply and promote prudent fiscal practices;
- Maintain a current database with all outstanding debt;
- In consultation with the City Attorney, municipal advisor, and bond counsel, determine the most appropriate debt instrument for a proposed sale;
- Determine and inform the City Council of the debt capacity;
- Provide for the issuance of debt at the lowest possible cost and risk;
- Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
- Monitor opportunities to refund debt and recommend such refunding as appropriate;
- Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued, including policies and procedures relating to City debt;
- Provide for the distribution of pertinent information to rating agencies;
- Comply with all Internal Revenue Service (IRS), Securities and Exchange Commission (SEC), and Municipal Securities Rulemaking Board (MSRB) rules and regulations governing the issuance of debt;
- Provide for the timely payment of principal of and interest on all debt, ensure that the fiscal agent receives funds for payment of debt service on or before the payment date; and
- Distribute to the “Electronic Municipal Market Access” (EMMA) system information regarding financial condition and affairs at such times and in the form required by law, regulation, City policies and procedures, and general practice, including Rule 15c2-12 regarding continuing disclosure.

Debt Issuance

- Recommend to the City Council the type of debt to issue and the manner of sale of debt;
- Assist bond counsel with drafting an ordinance for submission to the City Council that authorizes debt and establishes parameters for the issuance and sale of such obligations;
- Develop a financing structure for a particular bond issue that minimizes the cost and risk to the City, within the parameters set by the authorizing ordinance/resolution; and
- Provide for and participate in the preparation, review, and approval of offering documents and disclosure documents.

Section IV. Professional Services

Professional Services

The Director of Finance & Budget shall procure professional services as necessary to execute financing transactions and to advise on non-transaction related work. Such professional services may include those provided by municipal advisors, legal counsel (bond, disclosure and tax counsel) and underwriters (collectively, the "Finance Team"), as well as other service providers, such as rating agencies, trustees or escrow agents, verification agents, printers, arbitrage rebate calculation firms, bidding agents, and credit enhancement providers.

Selection Process - The selection of financial and legal professionals to assist the Director of Finance & Budget in carrying out financing programs must be consistent with procurement procedures required by federal, state or local law, or by local policy. If not required by federal, state or local law or policy, the Director of Finance & Budget may elect to use a competitive bid process involving a Request for Proposals (RFP), Request for Qualifications (RFQ), or similar process.

Appointment of Municipal Advisor - The Director of Finance & Budget may select a municipal advisor (or advisors) to assist in the issuance and administration of all debt if sufficient in-house expertise is not available. The firm(s) the City selects as municipal advisor will provide a full range of advisory services in connection with the City's financing programs, and must be duly registered under applicable MSRB rules.

A municipal advisor under contract with the City will not purchase or sell any City debt.

The Director of Finance & Budget shall monitor the services provided by the municipal advisor.

Appointment of Bond Counsel - Bond counsel renders an opinion on the legality and validity of an offering of debt, the security for the offering, and whether and to what extent interest on the debt is exempt from federal income tax.

All debt issued by the City shall be accompanied by a written opinion by legal counsel affirming that the City is authorized to issue the proposed debt, that the City has met all federal, state, and local legal requirements necessary for issuance and, where applicable, a determination of the proposed debt's federal income tax status. This approving opinion and other documents relating to the issuance of debt shall be prepared by a nationally recognized legal firm with extensive experience in public finance and tax issues, significant operations in the State and experience with State law.

The firm selected as bond counsel may be engaged to provide the full range of legal services require in connection with a) the issuance and delivery of particular bond issues and b) on-going legal services for the City financing programs, including advising the City on compliance with regulatory requirements.

The City Manager or Director of Finance & Budget shall submit to the City Council a recommendation for the appointment of bond counsel(s). The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action. The Director of Finance & Budget shall monitor the services rendered by the bond counsel(s).

A bond counsel under contract with the City will not simultaneously represent any other party involved in the City's financing, unless the City provides a written waiver of the conflict in writing.

Appointment of Disclosure Counsel ("Disclosure Counsel") – In order to comply with federal securities laws in connection with disclosure to investors, the City may retain the services of a disclosure counsel. Disclosure counsel advises on federal securities laws and at the conclusion of certain debt, will deliver a letter to the City addressing federal securities laws. The City may appoint bond counsel to provide the services of disclosure counsel, or appoint separate disclosure counsel, at its discretion.

Appointment of Underwriters - If the City Council approves a negotiated sale under Section V below, the City shall select an underwriter(s). The primary role of the underwriter in a negotiated sale is to market the debt to investors and purchase the debt from the City. The City's selection of underwriters may be based upon a competitive evaluation of proposals submitted in response to a Request for Proposals.

Criteria used in the appointment of qualified underwriters shall include, but not be limited to:

- Demonstrated ability serving on financial transactions with similar complexity to the transaction being planned;
- Demonstrated ability to structure a debt issue efficiently and effectively;
- Demonstrated ability to sell debt to institutional and retail investors;
- Demonstrated ability to put capital at risk;
- Experience and reputation of assigned personnel; and
- Fees and expenses.

Prior to starting work on a particular financing, the underwriter shall provide a complete and detailed list of all proposed fees and expenses, including, but not limited to takedown, management fees, and itemized not-to-exceed underwriting expenses to be paid by the City. The underwriting expense component must be discussed and reviewed by the Director of Finance & Budget prior to the day of pricing and finalized and approved on or before the day of pricing.

The Director of Finance & Budget with assistance from the independent municipal advisor, if applicable, shall monitor the services rendered by the underwriter(s).

Appointment of Arbitrage Rebate Calculation Firm – The City shall, when deemed necessary, procure the services of an arbitrage rebate calculation firm. The purpose of the arbitrage rebate calculation firm is to provide arbitrage rebate compliance services in accordance with the Code.

Criteria used in the appointment of a qualified arbitrage rebate calculation firm shall include, but not be limited to:

- Firm's qualifications and experience in providing arbitrage rebate calculation services;
- Staff qualifications, tax expertise, and experience;
- Demonstrated ability to provide timely reports; and
- Cost of services.

In selecting an arbitrage rebate calculation firm, the City may seek advice from its bond counsel and/or municipal advisor.

Section V. Transaction-Specific Policies

Method of Sale for Public Sales

The Director of Finance & Budget shall select a method of public sale that is most likely to achieve the lowest cost of borrowing while considering both short-range and long-range implications for taxpayers and ratepayers, based on a thorough analysis of the relevant rating, security, structure, market conditions, and other factors pertaining to the proposed issue.

Competitive Bid Method - Debt issued on a competitive bid basis will be sold to the bidder offering the lowest true interest cost to the City, subject to the terms of the notice of sale.

Negotiated Sale Method – When market conditions or special complexity or other features of a debt issuance may cause the debt issuance to be less suited for sale by the competitive bid method, the City may issue debt on a negotiated basis to one or more underwriters.

If the City sells debt on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, yields, priority of orders, and underwriting or remarketing fees.

The Director of Finance & Budget, with the assistance of its municipal advisor, shall evaluate the terms offered by the underwriting team. Evaluations of prices, interest rates, yields, and fees shall include prevailing terms and conditions in the marketplace for comparable issuers.

If the City includes more than one underwriter in the negotiated sale of debt, the Director of Finance & Budget shall establish appropriate levels of underwriting liability and the method of allocating compensation among the members of the underwriting group.

The City shall require a post-sale analysis and reporting for each negotiated bond sale. The underwriter shall perform such analysis and provide a final pricing book by the day of the closing. A post-sale analysis will include, but not be limited to:

- Summary of the pricing, including copies of the actual pricing wires;
- Results of comparable bond sales in the market at the time of the City's pricing;
- Historic comparisons to Municipal Market Data indexes -- day of sale basis; and
- Details of orders and allotments.

No debt issue will be sold on a negotiated basis without the participation of an independent registered municipal advisor.

Method of Sale for Direct Purchases

When deemed appropriate to minimize the costs and risks of the City's debt issue, including to facilitate a debt issuance of small size or having other characteristics which may cause the debt issuance to be less suited to sale in a public offering, whether by competitive bid or negotiated sale, the Director of Finance and Budget may recommend to the City Council that the debt be sold directly to a purchaser. Purchasers may include banks, the State through its lending programs, the federal government through its lending programs, or other direct purchasers.

Debt Structural Elements

Maturity – The City shall issue debt with an average maturity that is not longer than the weighted average reasonably expected economic life of the assets being financed. In any case, the City shall not issue debt with a maturity longer than 30 years unless approved by the City Council.

Debt Service Structure - Unless otherwise justified, in consultation with Bond Counsel, Underwriter and/or Financial Advisor, debt service should be structured on a level or declining repayment basis. Refunding bonds issued to achieve interest cost savings should typically be structured to produce approximately level savings in each fiscal year. Unless otherwise justified, debt shall not have capitalized interest. If appropriate or required by applicable bond covenants, debt service reserve funds may be used.

Coupon Type – Unless otherwise justified, in consultation with Bond Counsel, Underwriter and/or Financial Advisor, long-term debt will be sold with maturities paying interest on a periodic basis.

Redemption Features - For each transaction, the Director of Finance & Budget shall evaluate the costs and benefits of call provisions.

Maturity Structure – The City’s long-term debt may include serial and term bonds. Unless otherwise justified, term bonds should be sold with annual mandatory redemption requirements.

Tax-exemption – Unless otherwise justified, the City shall issue its debt on a tax-exempt basis.

Bond Insurance – For each transaction, the Director of Finance & Budget may evaluate the costs and benefits of bond insurance or other credit enhancements.

Section VI. Compliance Policies

Issuance and Post-Issuance Tax Compliance Policies and Procedures

The Director of Finance & Budget or designee, in consultation with bond counsel and other members of the Professional Services Team, as appropriate, shall adopt comprehensive compliance policies and procedures to ensure that the City complies with applicable federal, State, and contractual requirements regarding the tax status of bonds, notes and other debt, both at the time of issuance and post-issuance, as necessary to maintain the tax exemption for tax-exempt debt. The policies and procedures shall provide for monitoring of whether requirements of the federal arbitrage regulations and the restrictions of the federal private activity bond regulations applicable to the investment and use of proceeds of tax-exempt bond issuances, as well as the facilities financed with those proceeds, are being properly observed.

Arbitrage Liability Management

Because of the complexity of arbitrage rebate regulations and the severity of non-compliance penalties, the Director of Finance & Budget shall solicit the advice of bond counsel and other qualified experts regarding arbitrage rebate calculations. The Director of Finance & Budget shall, when deemed necessary or when required, contract with a qualified third-party for preparation of the arbitrage rebate calculation.

The Director of Finance & Budget or designee shall maintain an internal record-keeping system for tracking investments and expenditures of bond proceeds.

Issuance and Post-Issuance Disclosure Policies and Procedures

The Director of Finance & Budget or designee, in consultation with its bond counsel and other members of the Financing Team, as appropriate, shall adopt comprehensive policies and procedures relating to the City's disclosure obligations. These include (i) the preparation, vetting/review and approval of official statements for all public offerings of its securities that must be delivered to the underwriter for distribution to potential and actual purchasers and that set forth the terms of the securities and information regarding the City; (ii) compliance with continuing disclosure obligations entered into by the City pursuant SEC Rule 15c2-12 that require the City to provide certain annual financial information and event notices to the public; and (iii) ensuring that if and when the City provides information that can reasonably be expected to be relied on by the financial market, that such information is not inaccurate or misleading.

The City has committed to provide or cause to be provided, either directly or through a designated agent, annual disclosure reports and notices regarding the occurrence of certain events specified by the SEC. These reports and notices will be submitted to the MSRB through EMMA.

Investment of Proceeds

General - The City shall comply with all applicable federal, State, and contractual restrictions regarding the investment of bond proceeds, including the City's Investment Policy. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds may be invested.

Arbitrage Compliance - The City will comply with arbitrage requirements on invested tax-exempt bond proceeds. The Director of Finance & Budget shall consult with bond counsel, and, if necessary, an arbitrage rebate consultant regarding which actions are necessary to comply with the arbitrage restrictions and arbitrage rebate requirements of the Code.

Refunding Escrow - Unless otherwise justified and deemed necessary Director of Finance & Budget shall utilize United States Treasury Securities State and Local Government Series (SLGS) for investments held in a refunding escrow.

Section VII. Other Policies

Rating Agencies

The Director of Finance & Budget in consultation with its municipal advisor, shall manage relationships with the rating analysts assigned to the City's credit, using both informal and formal methods to disseminate information.

Refunding Savings Thresholds

The City will consider refinancing debt to achieve savings as market opportunities arise, and conduct refunding in accordance with the Refunding Bond Act, chapter 39.53 RCW. Refunding

may occur on a current basis (within 90 days of the call date of the bonds to be refunded) or an advance basis (90+ days before the call date of the bonds to be refunded).

Unless otherwise justified, an “advance refunding” transaction (including on a taxable basis or a tax-exempt basis if authorized by law) will require a minimum present value savings of four percent of the principal amount of the refunded debt.

Derivative Products

The City will not use derivative products unless permitted by law, and only after adoption of a swap or derivative policy by the City Council. The City will not use derivative products without an analysis by an independent municipal advisor. The City will not use derivative products for the purpose of speculation.

Evaluating the Impact of Capital Program Spending

The Director of Finance & Budget shall evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition.

Debt Policy Review

The Director of Finance & Budget or designee shall review and update this debt policy, as necessary, but not less than once every five years.