CITY OF SULTAN
RESOLUTION 19-06

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF SULTAN ADOPTING A POLICIES FOR FISCAL AND FINANCIAL MANAGEMENT FOR THE CITY

WHEREAS, the City Council of the City of Sultan deems it beneficial for the City to have written and adopted financial policies; and

NOW, THEREFORE, be it resolved by the City Council of the City of Sultan as follows:

Section 1. The attached polices for:

A. Signature Stamp
B. Debt Management
C. Post Issuance Compliance Policy for Governmental Bonds

are incorporated herein by this reference as if set forth in full is hereby adopted as official policies for the City.

Passed by majority vote of the Sultan City Council in open meeting this 25th day of July, 2019.

Mayor John Seehuus

Attest:

Tami Pevey, City Clerk

ATTACHMENT A

CITY OF SULTAN
POLICY AND PROCEDURE

Title:	General Polices and Procedures
Subject:	Signature Stamp Use

Effective Date: July 25, 2019	Adopted: July 25, 2019

Purpose:
The purpose of the policy is to establish a procedure for use of signature stamps to insure that no misuse or improper use occurs.

Departments Affected:
All City Staff, Mayor and Councilmembers.

Policy:
Acquisition of signature stamps must be approved jointly by the City Administrator and Mayor. In the absence of a City Administrator the City Clerk will be the second approving authority. The Mayor's signature stamp must be registered with the Secretary of State.

Signature stamps may not be used on any original ordinance, resolution, certificate, contract, permit or other legally binding document.

Signature stamps may be used on other types of documents, provided the stamp-holder has given prior authorization on a "stamp authorization form" and the clerk or other individual using the stamp on the letter, signs their initials in a legible manner

In the Finance Department, the checks require two signatures. The Mayor's signature stamp may be used on payment checks after such payment has been approved.

Except as expressly set out, other uses are prohibited. Signature stamps are to be stored in a secure location. The City Clerk will maintain custody of the Mayor's signature stamp.

ATTACHMENT B

City of Sultan
Debt Management Policy

The Debt Policy for the City of Sultan (City) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability.

1.0 Uses of Debt

1.1 City of Sultan uses debt as a mechanism to equalize the cost of needed capital improvements for the benefit of both present and future citizens;

1.2 City of Sultan uses debt as a mechanism to reduce the immediate costs of substantial public improvements.

1.3 The City of Sultan will not use long-term debt to support current operations.

1.4 Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.

1.5 Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.

1.6 Interest, operating, and/or maintenance expenses will be capitalized only for enterprise activities, and will be strictly limited to those expenses incurred prior to actual operation of the facilities.

1.7 The City will not borrow money to fund studies.

2.0 Debt Limits

2.1 Legal Limits:

2.1.1 The general obligation debt of Sultan will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City. RCW 39.36.020

2.1.2 The following individual percentages shall not be exceeded in any specific debt category:

General Debt – 2.5% of assessed valuation
Non-Voted - 1.5% Limited Tax General Obligation (LTGO) Bonds
Voted - 2.5% Unlimited Tax General Obligation (UTGO) Bonds

Utility Debt – 2.5% of assessed valuation
Parks and Open Space – 2.5% of assessed valuation

2.2 Public Policy Limits:

2.2.1 The City will establish and implement a comprehensive multi-year Capital Improvement Program (CIP) to include transportation, water, sewer, stormwater and parks.

2.2.2 Financial analysis of funding sources will be conducted for all proposed capital improvement projects.

2.2.3 Debt will be issued in accordance with the CIP as necessary.

2.2.4 Where borrowing is recommended, the source of funds to cover debt service requirements must be identified.

2.2.5 The City, as determined by the City Council, may consider using long term debt toward public improvements, which have an identified public benefit to the City, associated with economic development to the extent that new revenues from the project, in excess of those identified by the City Council for other City purposes can be agreed upon to support the debt service.

2.3 Financial Limits:

2.3.1 The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

2.3.2 The City will conduct a debt affordability analysis to evaluate the City's ability to support debt. The analysis will review available resources for the amount of debt the City can initiate each year and project the effects of that financing through six years of the CIP.

3.0 Allowable Types of Debt

3.1 Short Term Obligations: Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received. The City may issue inter-fund loans rather than outside debt instruments to meet short-term cash flow needs. Inter-fund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the funds current operations. All inter-fund loans will be subject to Council approval, will bear interest based upon prevailing rates and have terms consistent with state guidelines for inter-fund loans.

3.2 Assessment/LID Bonds: Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the City. LIDs are formed by the City Council after a majority of property owners agree to the assessment.

3.3 General Obligation Bonds Limited Tax: General Obligation debt is backed by the full faith and credit of the City and is payable from General Fund revenues and taxes collected by the City. Limited Tax General Obligation (LTGO) Bonds can be issued with the approval of the City Council and will only be issued if:

- A project requires funding not available from alternative sources;
- Matching fund monies are available which may be lost if not applied for in a timely manner;
- Or Emergency conditions exist.

3.4 General Obligation Bonds Unlimited Tax: Unlimited Tax General Obligation (UTGO) Bonds are payable from excess tax levies and is subject to voter approval by 60% of the voters.

3.5 Revenue Bonds: Revenue bonds are used 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.

3.6 Leases: Lease purchase or financing contracts are payment obligations that represent principal and interest components which are general obligations of the City.

3.7 Other Loan Programs:

3.7.1 The Local Option Capital Asset Lending (LOCAL) Program is a financing contract with the Office of the State Treasurer under RCW 39.94. It is an expanded version of the state agency lease/purchase program that allows pooling funding needs into larger offerings of securities. This program allows local government agencies the ability to finance equipment needs through the State Treasurers office, subject to existing debt limitations and financial consideration.

3.7.2 Other state funding programs.

3.7.3 Private funding/bank financing

3.8 Alternative types of debt: No variable-rate debt or derivative products shall be utilized.

4.0 Debt Structuring Practices

4.1 Maximum term, Payback Period and Average maturity:

4.1.1 The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the assets useful life with the average life of the bonds less than or equal to the average life of the assets being financed.

4.1.2 General Obligation bonds will be issued with maturities of 25 years or less unless otherwise approved by Council.

4.1.3 The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.

4.2 Debt Service Structure:

4.2.1 Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.

4.3 Criteria for issuance of advance refunding and current refunding bonds:

4.3.1 The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt. A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will not be pursued without a sufficient net present value benefit after expenses. The targeted net present value savings percent is 4% or greater.

4.4 Other structuring practices:

4.4.1 Bond amortization schedules will be structured to minimize interest expense with the constraints of revenues available for debt service. The bonds should include call features to maximize the City's ability to advance refund or retire the debt early. However, call features should be balanced with market conditions to ensure that the total cost of the financing is not adversely affected.

5.0 Issuance Practices

5.1 Council Approval: City Council approval is required prior to the application and/or issuance of debt.

5.2 Analytical Review: An analytical review shall be conducted prior to the issuance of debt including, but not limited to, monitoring of market opportunities and structuring and pricing of the debt.

5.3 Use of credit ratings, minimum bond ratings, determination of the number of ratings and selection of rating services: The City will continually strive to maintain its bond rating by improving financial policies, budget, forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved. The City will maintain good communication with bond rating agencies about its financial condition, coordinating meetings, and presentations in conjunction with a new issuance as necessary.

5.4 Compliance with Statutes and Regulations: The Finance Director, City Attorney and bond counsel shall coordinate their activities and review all debt issuance to ensure that all securities are issued in compliance with legal and regulatory requirements by the State of Washington and the Federal Governments laws, rules and regulations.

5.5 Selection and use of professional service providers:

5.5.1 The City's Finance and Administration Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.

5.5.2 Bond Counsel: All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all city and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debts federal income tax status and any other components necessary for the proposed debt. The Bond Counsel may possibly prepare the official statements of disclosure

5.5.3 Financial Advisor: A Financial Advisor(s) may be used to assist in the issuance of the City's debt. The Financial Advisor will provide the City with the objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring of market opportunities, structuring and pricing of debt, and possibly preparing official statements of disclosure.

5.5.4 Underwriters: An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors. For a negotiated bond sale, the underwriter may possibly prepare the official statements of disclosure.

5.5.5 Fiscal Agent: A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.

5.6 Criteria for determining sales method and investment of proceeds:

5.6.1 The Director of Finance and Administration shall determine the method of sale best suited for each issue of debt.

5.6.2 The City may issue its debt through a negotiated process or competitive process. For any competitive sale of debt, the City 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).

5.6.3 The City will provide for the sale of debt by negotiating the terms and conditions of sale when necessary to minimize the cost and risks of borrowing under the following conditions:

i. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
ii. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are very favorable or volatile.
iii. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
iv. The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.
v. The City Administrator and Finance Director determine that the negotiated bond sale is in the best interests of the City.

5.7 Bond Insurance: For each issue, the City will evaluate the costs and benefits of bondinsuranceor other credit enhancements. Any credit enhancement purchased by the City shall be competitively procured.

6.0 Debt Management Practices

6.1 Investment of Bond Proceeds
The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds, including City of Sultan Investment Policy.

6.2 Continuing Disclosure
The City shall provide annual disclosure information to established national information repositories and maintain compliance with disclosure statements as required by state and national regulatory bodies. Disclosure shall take the form of the Comprehensive Annual Financial Report (CAFR) unless information is required by a particular bond issue that is not necessarily contained within the CAFR.

6.3 Arbitrage Rebate monitoring and filing
The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations, and will perform (internally or by contract consultants) arbitrage rebate calculations each issue subject to rebate. All necessary rebates will be filed and paid when due in order to preserve the tax-exempt status of the outstanding debt.

6.4 Federal and state law compliance practices
Discussed in Debt Issuance Practices sections 5.3 and 5.4 and Debt Management Practices sections 6.1 and 6.3.

6.5 Market and Investor relations efforts
The City shall endeavor to maintain a positive relationship with the investment community. The City shall communicate through its published Budget, Capital Improvement Program and Comprehensive Annual Financial Statement the City's indebtedness as well as its future financial plans.

6.6 Periodic review
The City's debt policy shall be adopted by City Council. The policy shall be reviewed every four years by the Council Finance Committee and modifications shall be submitted to and approved by City Council.

ATTACHMENT C

CITY OF SULTAN
POST ISSUANCE COMPLIANCE POLICY (FOR GOVERNMENTAL BONDS)

ADOPTED: JULY 25, 2019

Scope. This Post Issuance Compliance Policy addresses the City of Sultan, Washington's (the "'City") compliance with federal tax requirements applicable to the City's tax-advantaged governmental bond issues. This policy is intended to supplement the City's Fiscal Management Policies and other policies and procedures adopted by the City relating to its debt issuances, which may include, but are not limited to, policies and procedures relating to federal securities and state law requirements.

This policy applies generally to all of the City's tax-exempt governmental bonds, and other bonds subject to comparable requirements. As used in this policy, references to "bonds" include bonds, lines of credit, bond anticipation notes, and equipment and other financing leases.

Purpose. This policy is intended to improve the City's ability to:

- Prevent violations in bond requirements from occurring,
- Timely identify potential violations, and
- Correct identified violations through appropriate remedial steps.

Schedule of Review. The policy is to be reviewed at least annually and upon each issuance of new bonds, including refunding bonds. In connection with this periodic review, the City will consider whether this policy should be amended or supplemented:

- To address any particular requirements associated with the new bond issue, or
- To reflect general changes in legal requirements since the prior bond issue.

Requirements at Bond Closing. Numerous federal tax, federal securities and state law requirements must be met in connection with a bond issue. In some circumstances (e.g., revenue bonds) rate and other covenant requirements will also need to be satisfied. These requirements are addressed in the bond transcript completed at bond closing, and confirmed in certain respects by the legal opinions included in the bond transcript. For each bond issuance, the Responsible Officer (defined below) will create a written schedule for due diligence reviews, with the appropriate officials set forth below, based upon the expectations set forth in the transcripted documents.

Requirements After Bond Closing. Other federal tax, federal secunt1es law and state law requirements and contractual obligations require on-going monitoring after the issuance of the bonds. The following addresses requirements after bond closing relating to federal tax law.

<u>Primary Responsibility.</u> The Finance Director (the Responsible Officer) will undertake post-issuance compliance relating to the City's bonds. The Responsible Officer is familiar with the provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations (the Regulations) governing the tax-exempt status of the bonds. The Responsible Officer may delegate tasks to other officers or staff of the City or to outside attorneys or other experts.

<u>Officials or employees responsible for review.</u> The following officers and employees of the City are identified as the responsible persons for reviewing compliance with the City's post-issuance obligations. Each responsible individual is to institute a calendaring system to track compliance with tasks in a timely manner.

Federal tax requirements, including arbitrage, use of proceeds, use of facilities and IRS filings:

- Arbitrage, IRS Filings: Finance Director
- Use of Proceeds: Finance Director/Public Works Director
- Use of Facilities: Finance Director

The Finance Director is responsible for reviewing the other requirements under this policy.

The responsible persons identified above may need to confer, from time to time, with the City's bond counsel, and/or financial advisor (if any), to confirm the applicability and scope of the requirements outlined in this policy. For reference, the contact information for these advisors is provided below:

- Pacifica Law Group LLP, as bond counsel
- Deanna Gregory at 206-245-1716 or Deanna.gregory@pacificalawgroup.com, or
- Stacey Crawshaw-Lewis at 206-245-1714 or Stacey.Lewis@pacificalawgroup.com
- Alison Benge at 206-602-1210 or Alison.Benge@pacificalawgroup.com

Training of the responsible official/employee. The City provides opportunities for training to the responsible individuals, specifically including the following training opportunities:

- At or after bond closing, a conference call or meeting with bond counsel to review the requirements applicable to a new bond issue.

- Other training activities - such as participation in in-house training sessions, CPE seminars, or seminars conducted by professional organizations (e.g. WPTA, GFOA, and so on)

Records to be Maintained. The following documents are maintained in connection with each bond issue. The goal is to retain adequate records to substantiate compliance with federal tax requirements applicable to the City's bonds. Generally, records should be maintained for the term of the bonds (plus any refunding) plus three years. Unless otherwise specified, the following records are to be maintained in the office of the Finance Director.

- Complete bond transcript (provided by bond counsel) in electronic or hard copy.

- Records of investment of bond proceeds in a format showing the date and amount of each investment, its interest rate and/or yield, the date any earnings are received and the amount earned, and the date each investment matures and if sold prior to maturity, the sale date and sale price.

- Records of expenditure of bond proceeds in a format showing the amount, timing and the type of expenditure.

- Records of invoices or requisitions, together with supporting documentation showing payee, payment amount and type of expenditure, particularly for projects involving multiple sources of funds.

- Records necessary to document the allocation of bond proceeds and other sources of funds to particular projects or portions of projects.

- Records documenting the final allocation of bond proceeds to projects, including any reallocations of bond proceeds, in a format showing the timing and substance of the reallocation, if applicable.

- Records demonstrating compliance with arbitrage and rebate requirements, including arbitrage calculations, documentation of spending exceptions to rebate, rebate reports and IRS filings and payments.

- Copies of contracts relating to the use of the bond-financed facility including leases, concession agreements, management agreements and other agreements that give usage rights or legal entitlements with respect to the facility to nongovernmental persons (e.g., advertising displays, cell tower leases, and naming rights agreements).

- Copies of contracts relating to ongoing compliance with respect to the bonds.

- Copies of any filings or correspondence with the **IRS,** the SEC or other regulatory body.

Investment of Bond Proceeds. In general, bond proceeds and certain other funds can only be invested at a rate that exceeds the yield on the bonds under limited circumstances. Furthermore, amounts earned by investing above the bond yield must be rebated to the IRS, unless the City qualifies as a small issuer or a spending exception is met. The arbitrage and rebate requirements for each bond issue are detailed in the federal tax certificate executed in connection with the applicable bond issue.

The Finance Director will monitor the investment and expenditure of the funds and accounts listed below. The Finance Director determines whether the bond issue meets the requirement for one of the expenditure exceptions to arbitrage rebate. The Finance Director in consultation with bond counsel will determine whether a rebate calculation is necessary and, if so, will perform the calculation or engage a rebate consultant. The Finance Director will arrange for the payment of any required rebate to the IRS together with the appropriate IRS form on the dates described below.

Funds to Monitor.

- Bond or debt service funds/accounts
- Project or construction funds/accounts
- Debt service reserve funds/accounts
- Other accounts with bond proceeds or amounts pledged to pay bonds

Arbitrage Reports: Rebate May Be Due.

- During construction, monitor expenditures to confirm satisfaction of expected exception to rebate (such as six month exception, 18 month exception, 24 month exception)

- The first rebate payment is due five years after date of issue plus 60 days

- Rebate is due every succeeding five years, if there are unspent gross proceeds of the bonds

- Final rebate payment is due 60 days after early redemption or retirement of the bonds

Limitations on Type of Investments. Bond proceeds must be invested as permitted under state law. In addition, the bond ordinance or any bond insurance agreement may further limit the permitted investments. To monitor compliance with these investment restrictions, the City has adopted Financial Management Policies which details these requirements.

Use of Bond Proceeds during the Construction Period. Monitoring the expenditure of bond proceeds is necessary to assure that the required amount of bond proceeds are expended for capital expenditures and that not more than 10% of the bond proceeds are expended for projects that will be used for in a private trade or business (including by the federal government and nonprofit entities).

- The Responsible Officer, in consultation with the City Administrator and the Director of Public Works, is responsible for reviewing the transcript for the bonds, and in particular the authorizing documents and the federal tax certificate, as well as invoices and other expenditure records to monitor that the bond proceeds are spent on authorized project costs.

- If, at the completion of the project, there are unspent bond proceeds, the Finance Director, conferring with bond counsel, will direct application of the excess proceeds for permitted uses under federal tax law, state law, and bond authorization documents.

- If the project involves bond proceeds and other sources of funds and included both governmental and nongovernmental use of the financed facilities the Finance Director will undertake a final reconciliation of bond proceeds expenditures with project costs no later than 18 months after the later of the date of expenditure or the date that the project is placed in service (but in no event more than five years after the date of issue).

- Any change in the scope of the project financed with bond proceeds should be reviewed and documented.

Refundings.

- For refunding escrows, confirm that any scheduled purchases of State and Local Government Series or open market securities are made as scheduled.

- On the redemption date, confirm that the refunded bonds have been redeemed and cancelled.

- Promptly following the redemption date, confirm that all proceeds of the bonds and all proceeds of the refunded bonds have been spent. Verify that excess proceeds, if any, of the bonds do not exceed an amount permitted by the Regulations.

Use of Bond-Financed Facilities. Monitoring (and limiting) any private use of the bond-financed facility is important to maintaining the federal tax treatment of governmental bonds. In general, no more than 10% of the bond-financed facility can be used in a private trade or business (including by the federal government and nonprofit entities). Private use can arise through any of the following arrangements, either directly or indirectly.

- Types of Private Use
  - Selling all or a portion of the facility
  - Leasing all or a portion of the facility

- Entering into a management contract for the facility (except for qualified management contracts under IRS Rev. Proc. 97-13)
- Use of all or a portion of the facility for research purposes under a research contract (except for qualified research contracts under IRS Rev. Proc. 97- 14)
- Entering into contracts giving "special legal entitlement" to the facility (for example, selling advertising space or naming rights)

- Procedures for monitoring private use; procedures reasonably expected to timely identify noncompliance.
  - All leases and other contracts involving bond-financed prope11y will be sent prior to execution to the Responsible Officer for review.
  - The Responsible Officer, will confer with personnel responsible for bond financed projects at least annually to discuss any existing or planned use of bond-financed or refinanced facilities.
  - Private use for each bond-financed project will be calculated annually.

- Procedures ensuring that the City will take steps to timely correct noncompliance.
  - Consult with bond counsel regarding any private use or proposed change in use with respect to bond-financed property.
  - If noncompliance will be remediated under existing remedial action provisions or tax-exempt bond closing agreement programs contained in the Regulations or other published guidance from the IRS, dete1mine the deadline for taking action and proceed with diligence to take the required remedial actions.
  - If remedial actions are unavailable, determine whether to make a submission to the Tax Exempt Bonds Voluntary Closing Agreement Program ("VCAP"") under Internal Revenue Manual 7.2.3.

Reissuance. A significant modification of the bond documents may result in bonds being deemed refunded or "reissued." Such an event will require, among other things, the filing of new information returns with the federal government and the execution of a new arbitrage certificate. Bond counsel should be consulted in the event of modification of the bond documents.