

**BEFORE THE BOARD OF COUNTY COMMISSIONERS
LINCOLN COUNTY, WASHINGTON**

**IN THE MATTER OF ADOPTING A)
DEBT MANAGEMENT POLICY FOR) **RESOLUTION 18-20**
LINCOLN COUNTY)**

WHEREAS, the Board of County Commissioners of Lincoln County having convened in Regular Session, in their office at the Lincoln County Courthouse this 1st day of October, 2018, with all members present; and

WHEREAS, the Board finds the adoption of a Debt Management Policy for Lincoln County will assist the Treasurer, the public and potential investors and bond rating agencies by providing criteria for debt management and consistency and continuity to public policy development; and,

WHEREAS, the Treasurer has submitted a proposed Debt Management Policy which has been reviewed and approved by the county Finance Committee; and,

WHEREAS, the Board finds the adoption of said policy to be in the best interests of the citizens of Lincoln County;

NOW, THEREFORE, BE IT RESOLVED that Exhibit 1, attached hereto and incorporated herein, is hereby adopted as the Lincoln County Debt Management Policy.

DATED at Davenport, Lincoln County, Washington, this 1st day of October, 2018.



ATTEST

Clerk of the Board – Shelly Johnston

By Marci Patterson
Deputy Clerk of the Board
Marci Patterson

BOARD OF COUNTY COMMISSIONERS
OF LINCOLN COUNTY, WASHINGTON

Rob Coffman
Chairman – Rob Coffman

Scott M. Hutsell
Vice Chairman – Scott M. Hutsell

Mark R. Stedman
Member – Mark R. Stedman

LINCOLN COUNTY, WASHINGTON

DEBT POLICY

**ADOPTED
OCTOBER 1, 2018**

TABLE OF CONTENTS

SECTION I. INTRODUCTION1
 Purpose and Overview1

SECTION II. GOVERNING PRINCIPLES1
 Governing Law1
 Permitted Debt by Type1
 Ethical Standards Governing Conduct4

SECTION III. ROLES AND RESPONSIBILITIES4

SECTION IV. PROFESSIONAL SERVICES.....6

SECTION V. TRANSACTION-SPECIFIC POLICIES7
 Method of Sale7
 Debt Structural Elements7

SECTION VI. COMPLIANCE POLICIES.....8
 Issuance and Post-Issuance Tax Compliance Policies and Procedures8
 Ongoing Disclosure8
 Other Notice Requirements8
 Investment of Bond Proceeds.....8
 Arbitrage and Tax Compliance9
 Disclosure Practices9
 Primary Market Disclosure9
 Secondary Market Disclosure10
 Legal Covenants.....10

SECTION VII. OTHER POLICIES10
 Rating Agencies10
 Debt and Capital Planning.....10
 Credit Objectives.....10
 Derivative Products11
 Evaluating the Impact of Capital Program Spending12
 Debt Policy Review12

SECTION I. INTRODUCTION

Purpose and Overview

The Debt Policy for Lincoln County, Washington (the “County”) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth comprehensive guidelines for the issuance and management of all financings of the County. Adherence to the policy is essential to ensure that the Board of County Commissioners of the County (“Board”) 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 County shall comply with the state constitution 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 County may contract indebtedness as provided for by chapter 39.46 RCW, RCW 36.67.010 and other applicable statutes. Indebtedness represented by obligations for borrowed money payable from taxes is subject to the limitations on indebtedness provided for in RCW 39.36.020(2) and Article VIII of the Washington State Constitution. Indebtedness represented by obligations for borrowed money payable from enterprise revenues (revenue bonds) or special assessments (special assessment bonds) is not subject to these constitutional or statutory limitations. Bonds evidencing indebtedness shall be issued and sold in accordance with chapters 39.46, 39.48 and 39.50 RCW, as applicable. Refunding bonds shall be issued in accordance with chapter 39.53 RCW.

Federal Laws, Rules and Regulations - The County shall issue and manage debt in accordance with applicable federal tax and securities laws and regulations, including the Internal Revenue Code of 1986, as amended (the “Code”); the Treasury Department regulations thereunder; and the Securities Act of 1933 and Securities Exchange Act of 1934 and applicable Securities and Exchange Commission regulations thereunder.

Local Laws and Regulations - The County shall issue and manage debt in accordance with the limitations and constraints imposed by local ordinances and resolutions.

Permitted Debt by Type

The County may issue debt for any purpose authorized by state law. Long-term debt is used solely for financing or refinancing the cost of design, acquisition and/or construction of capital projects defined in the Capital Facilities Plan (CFP), adopted by the County Commissioners or to refund outstanding long-term debt.

State statutes dictate what types of financing are available to the County. Subject to changes in state laws, the County may legally issue debt using only the debt instruments described below. Each financing option requires the formal approval of the County Commissioners through a resolution.

General Obligation Debt

General Obligation (GO) Debt is backed by the full faith and credit of the County and is secured by General Fund revenues and taxes collected by the County. Any financing of the County completed through the LOCAL Program (discussed below) will constitute general obligation debt.

Limited Tax General Obligation (LTGO) Debt is payable from regular tax levies and revenues, and includes all types of obligations whether lease-purchase, financing contracts, loans, bond or other payment obligations. Rental leases are not considered debt, but financing leases are.

LTGO debt will be used for general county purposes, when a specified repayment source has been identified within existing revenue sources, through new revenue sources, expenditure reductions, or in the event of an emergency.

LTGO debt is subject to a statutory limitation of 1.5% of the County's assessed value (RCW 39.36.020).

Unlimited Tax General Obligation (UTGO) Debt is payable from excess tax levies and is subject to voter approval.

UTGO debt will be used for county capital purposes, as determined by the County Commissioners, when the project has broad approval by the County's residents, or the use of an excess tax levy is necessary for debt service payments.

UTGO debt must be approved by 60% of the voters voting at an election held for that purpose, where the total number of voters casting ballots at the election is not less than 40% of the number of votes cast in the last county or state general election. Total GO debt (including limited and unlimited tax) is subject to a statutory limitation of 2.5% of the County's assessed value (RCW 39.36.020 and RCW 39.40).

Revenue Obligations

Revenue Obligations are used to finance construction of improvements to facilities of enterprise systems operated by the County, in accordance with a system and plan of improvements. The enterprise systems must be an established system legally authorized for operation by the County. There are no legal limits to the amount of revenue bonds the County can issue, but there are practical limits to the County's ability to repay obligations (RCW 36.67.570).

The County will not incur revenue obligations without first ensuring the ability of an enterprise system to consistently meet any pledges and covenants customarily required by investors in such obligations, during the term of the obligation.

Special Assessment Bonds

Special Assessment Bonds - The County is authorized to sell assessment-backed obligations based on the formation of special districts such as road improvement districts (RIDS) or local improvement districts (LIDS), the formation of which is detailed under Chapter 36.88 RCW, subject to the approval of the County Commissioners.

Special Assessments Bonds are used to finance projects that will provide special benefit to certain properties in a localized area. The benefiting properties are charged a special assessment based upon a formula developed to fairly reflect the benefit received by each property owner in the assessment district. There are detailed statutes for the formation of assessment districts and assessing property, which contain specific timeframes for notice and conducting public hearings.

Lease Purchase or other Financing Contracts

Lease purchase or other financing contracts are payment obligations that represent principal and interest components, for which the County receives the property after all payments are made. Other financing contracts include property acquired subject to real estate contract.

Lease purchase or other financing contracts represent general obligation debt and are subject to the same limitations unless they have been structured as revenue obligations. The County Commissioners will provide the County Treasurer with a copy of each proposed resolution for a lease purchase or other financing contract prior to its consideration at a public meeting. The County Treasurer shall be provided with detail regarding the purpose, cost and financing term for any proposed contract and provide the information to the Finance Committee. The Finance Committee will make recommendations for or against the resolution.

Local Option Capital Asset Lending (LOCAL) Program

The LOCAL Program is available for use by the County through the State Treasurer's Office (Chapter 39.94 RCW). It is a financing program that allows pooling of equipment financing and certain real estate project needs into larger offerings of securities, and allows local government agencies the ability to finance equipment needs and limited real estate projects through the State Treasurer's office, subject to existing debt limitations and financial consideration. Participants in the LOCAL Program benefit from lower borrowing costs due to efficiencies in costs of issuance and low rates of interest due to the program credit rating. The LOCAL Program should be given priority consideration because of the savings realized by utilizing the program.

The County Treasurer will provide the County Commissioners with each proposed resolution authorizing the acquisition of equipment and a financing contract prior to its consideration at a public meeting. The County Treasurer shall be provided with detail regarding the equipment, cost and financing term for any proposed contract and will provide the information to the Finance Committee. When deemed by the Finance Committee to be cost effective, lease purchase financing will be completed through the LOCAL Program.

LOCAL Program debt represents general obligation debt and are subject to the same limitations.

Short Term Obligations

Short-term obligations are authorized under Chapter 39.50 and will be used for cash flow financing or to provide interim financing in conjunction with the development of a long-term financing plan.

In no case will notes or other obligations be entered into for the purpose of funding deficits without prior development and review of a long-term deficit financing plan by the Finance Committee upon recommendation by the County Treasurer. All short-term financing shall be evaluated and compared with the cost of internal financing or interfund loans by the County Treasurer, Finance Committee and Chief Accountant.

Interfund loans - The County shall use interfund loans when possible to keep interest income from the debt in the county funds. All interfund loan resolutions will be reviewed by the County Treasurer to ensure that the appropriate reimbursable language is included, the correct fund numbers are used, and to develop the appropriate debt repayment schedule.

Ethical Standards Governing Conduct

The County's officers and elected officials will adhere to standards of conduct as stipulated by the Code of Ethics for Municipal Officers Act, chapter 42.23 RCW.

SECTION III. ROLES AND RESPONSIBILITIES

In accordance with RCW 36.48.070, the County Finance Committee, consisting of the County Treasurer as Chairperson, the County Auditor as Secretary, and the Chair of the County Legislative Authority, referred to herein as the "Finance Committee" or "Committee" has been established. Roles and responsibilities are listed below and/or within the Debt Policy. Included in these roles and responsibilities are the Chief Accountant and Prosecuting Attorney.

Finance Committee - The County Finance Committee shall:

- Approve the Debt Policy (RCW 36.48.070)
- Review the Debt Policy every four years and update as needed
- Make appropriate rules and regulations for the carrying out the provisions of RCW 36.48.010 through 36.48.060 not inconsistent with the law
- Review debt requests and make recommendations to the County Commissioners

Lincoln County Board of Commissioners - The Board of County Commissioners shall:

- Approve and issue indebtedness by resolution (Chapter 39.46 RCW)
- Approve budgets sufficient to provide for timely payment of principal and interest on all county debt
- Approve appointment of independent financial advisor and bond counsel

- Approve the method of sale after consultation with the Finance Committee
- In consultation with the County's Prosecuting Attorney, financial advisor, and bond counsel, determine the most appropriate instrument for proposed bond sale
- Coordinate the review and update of the County's Capital Facilities Plan (CFP)

County Commissioners/County Treasurer - The County Commissioners and County Treasurer shall:

- Provide for and participate in the preparation and review of offering documents
- Comply with all Internal Revenue Service (IRS) and Securities and Exchange Commission (SEC) rules and regulations governing the issuance of debt

County Treasurer - The County Treasurer shall:

- Be notified at least 30 days in advance of authorization of issuance of bonds or the incurrence of other certificates of indebtedness (RCW 39.46.110)
- Receive all bond proceeds on behalf of the County
- Provide for the timely payment of principal and interest on all debt; work in conjunction with the County Commissioners office and other departments for adequate cash flow to make bond payments, ensure that the fiscal agent receives funds for payment of debt service on or before the payment date
- Distribute to appropriate repositories information regarding financial condition and affairs at such times and in the form required by law, regulation and general practice, including continuing disclosure undertakings made pursuant to SEC Rule 15c2-12
- Maintain a current database with all outstanding debt, maintain debt service schedules, and provide the amounts needed for budgetary purposes to the County Commissioners and/or County Auditor during the budget call
- Prepare for the County Auditor's office information regarding debt for annual report purposes
- Make bond payments for all debt, county or district, and advise any district if there are not adequate funds to make bond payments
- Provide any necessary information required and requested by Bond Counsel, review and comment on draft versions of the County's "official statement," and be provided with a copy of the closing documents and amortization schedules
- Monitor opportunities to refund debt

County Auditor - The County Auditor shall:

- Submit the County's annual report to the State Auditor
- Shall assist in the preparation and review of necessary financial information for official statements and continuing disclosure
- Monitor the budget process to assure sufficient funds are budgeted for debt payment

County Prosecuting Attorney - The County Prosecuting Attorney shall:

- Appoint Bond Counsel (RCW 36.27.020 and RCW 36.27.040)

County Approved Bond Counsel/County Prosecuting Attorney - The County's chosen Bond Counsel shall:

- Determine the available debt capacity prior to debt issuance
- Determine what legal types of financing are available
- Develop the arbitrage certificate prior to each debt issuance that is intended to be tax-exempt (RCW 36.27.040).

SECTION IV. PROFESSIONAL SERVICES

If it is determined to be in the best interest of the County, in the issuance of debt, the following professionals and other servicer may be used. The selection of financial and legal professionals to assist the County to carry out financing programs will be through contracts approved by the Board of County Commissioners.

Bond Counsel - This section applies to circumstances that require the use of Bond Counsel by the County. We recognize there may also be times when the use of Bond Counsel is not necessary, for instance when financing debt through the Local Option Capital Asset Lending Program at the Office of State Treasurer.

All debt issued by the County shall include a written opinion by legal counsel affirming that the County is authorized to issue the debt, that all statutory requirements have been met, and include the determination of the proposed debt's federal income tax status. Bond counsel will be appointed by the County Prosecuting Attorney to serve as special prosecutor (Chapter 36.27.040 RCW).

Financial Advisor - If determined by the County Finance Committee that it is in the best interest of the County to retain a financial advisor, the Finance Committee will select, with the County Commissioners having final approval, a financial advisor consistent with the County's general authority to contract. The financial advisor shall have comprehensive financial debt experience, including debt structuring and pricing of financial securities. The financial advisor shall not serve as underwriter for the County's bonds without first submitting written resignation as financial advisor, which clearly sets forth the firm's role relating to the bonds to be issued.

Underwriter - For negotiated sales, an underwriter will be selected by the County Commissioners, in consultation with the Finance Committee, consistent with the County's general authority to contract, taking into account the type of issue, experience offered and other relevant criteria. The selection of underwriter may be for an individual bond issue, series of financings or a specified time period, as determined by the County Commissioners. The underwriter shall have sufficient capitalization and experience to serve as underwriter for the County's bonds.

Fiscal Agent - The County Treasurer shall use the State Fiscal Agent appointed by the State Treasurer for the County and its junior taxing districts for which the County Treasurer serves as treasurer. The Treasurer may also serve as registrar for very small issues or those directly placed

with investors at his/her sole discretion. Without prior written approval of the County Treasurer, the County or special purpose districts cannot obligate the County Treasurer to serve as registrar as provided in RCW 39.46.030.

Other Service Providers - Professional services such as verification agent, escrow agent or rebate analyst may be appointed by the County Treasurer, and are considered incidental to the County Treasurer's role in the issuance of debt.

SECTION V. TRANSACTION-SPECIFIC POLICIES

Method of Sale

The County Commissioners, in coordination with the Finance Committee, shall determine the method of sale best suited for each issue of debt as described below.

Competitive Sale - County debt issued by competitive bid will be awarded to the bidder offering to buy the bonds at a price and interest rates that provides the lowest True Interest Cost (TIC) to the County, provided the bid meets all other requirements

Direct Placement - When deemed appropriate to minimize the costs and risks of the County's debt issue, the County may deem it appropriate to sell the County's debt obligations through a direct placement or limited public offering.

Negotiated Sale - When necessary to minimize the costs and risks of borrowing, the County may provide for the sale of debt by negotiating the terms and conditions of sale, including prices, interest rates, underwriting fees and other compensation.

Debt Structural Elements

Term of Financing - In no case will the term of any financing exceed the life of the asset being financed. The term of financing will take into account the repayment source when one is specifically identified, in order to maximize the benefit to the County. The County will attempt to balance the overall cost of financing with the annual payment burden.

It is the goal of the County to establish a term of finance that ensures that the residents benefiting from the project are the ones who are paying over the life of the debt. Unless otherwise stated in law, the final maturity of the debt shall be no longer than 40 years (RCW 39.46.110).

Payback Period - To the extent possible, the County will strive to repay its long-term debt within the shortest bonding period consistent with revenue stream. The County's intent is to minimize debt while securing safe measures against financial crisis.

SECTION VI. COMPLIANCE POLICIES

Issuance and Post-Issuance Tax Compliance Policies and Procedures

The County, in consultation with its bond counsel and other members of the Financing Team, as appropriate, has adopted comprehensive compliance policies and procedures to ensure that the County complies with requirements of the Internal Revenue Code of 1986, as amended, both at the time of issuance and post-issuance, as necessary to maintain the tax exemption for tax-exempt debt. The Post Issuance Tax Compliance Procedures for Tax-Exempt Bonds provides for procedures to monitor compliance periodically while the debt is outstanding 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.

Ongoing Disclosure

Unless the County is exempt from compliance with SEC Rule 15c2-12 (the "Rule") as a result of certain permitted exemptions, the transcript for each issue will include an undertaking by the County to comply with the Rule. For some types of "material events", the State's fiscal agent has undertaken the responsibility of filing notice of the applicable material event. Until otherwise designated by the Municipal Securities Rulemaking Board (MSRB), any reports and notices required by the Rule will be submitted to MSRB through its Electronic Municipal Market Access (EMMA) website.

Other Notice Requirements

In some instances, the proceedings authorizing the issuance of bonds will require the County to file information periodically with other parties, e.g., bond insurers, banks. The types of information required to be filed may include budgets, annual financial report, issuance of additional debt obligations and amendment to financing documents. The County Treasurer will monitor compliance by the County. The County also agrees to provide or cause to be provided, in a timely manner, to each person upon request a copy of its latest publicly available annual financial statement prepared in accordance with the Budget Accounting and Reporting System prescribed by the Washington State Auditor pursuant to RCW 43.09.200 (or any successor statute). Such annual statements shall be available upon request to the office of the Treasurer.

Investment of Bond Proceeds

Each bond resolution will provide for establishment of funds and accounts, which will be designated in advance by the County Treasurer. The County will comply with all federal, state and contractual restrictions regarding the investment of bond proceeds, including the County's Investment Policy and procedures established by the County Treasurer. Bond proceeds will not be invested in any derivative products.

Arbitrage and Tax Compliance

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

Prior to any debt issuance, the County Treasurer shall be provided with a schedule that shows the expected timing and amount of expenditures to be made from the project fund. This schedule will be provided to Bond Counsel for use in developing an Arbitrage Certificate.

The County Treasurer will keep records of investment of bond proceeds and bond funds sufficient to develop calculations required for compliance with arbitrage and other tax law requirements. The County Treasurer may retain the services of a qualified professional to provide computations relating to potential rebate liability of the County.

The County Treasurer is not responsible for arbitrage and other tax law requirements for junior taxing or benefit assessment districts for which the County Treasurer serves as *ex officio* treasurer. No such district is authorized to obligate the County Treasurer in any way, relating to these requirements.

Disclosure Practices

The County, in consultation with its bond counsel and other members of the Financing Team, as appropriate, shall adopt comprehensive policies and procedures relating to the County'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 County; (ii) compliance with continuing disclosure obligations entered into by the County pursuant SEC Rule 15c2-12 that require the County to provide certain annual financial information and event notices to the public; and (iii) ensuring that if and when the County provides information that can reasonably be expected to be relied on by the financial market, that such information is not inaccurate or misleading.

Primary Market Disclosure

The County Treasurer will serve as the focal point for information requests relating to official statements to be used in the initial offering of the County's bonds or notes. The County Treasurer will request from relevant departments and offices, information required for disclosure to investors and rating agencies. Each department or office bears responsibility for the information provided for use in the County's official statements.

The County Commissioners will be provided with a copy of the official statement for each issue of debt, and the Chair of the Board of County Commissioner will sign a statement attesting to the accuracy and completeness of the information therein.

Secondary Market Disclosure

The County Treasurer shall review any proposed undertaking to provide secondary market disclosure, and advise the County Commissioners of any suggested changes in information or deadlines contained therein. The County Treasurer will provide secondary market disclosure annually, if the County has contracted to provide any.

Bond Users Clearinghouse – The County Treasurer shall ensure that the Bond Users Clearinghouse receives municipal bond information for debt sold as provide by RCW 39.44.20 through 39.44.240 and WAC 365-130.

Legal Covenants

The County shall comply with all covenants and conditions contained in governing law and any legal documents entered into at the time of a bond offering.

SECTION VII. OTHER POLICIES

Rating Agencies

The Finance Committee, in consultation with its financial advisor, shall manage relationships with the rating analysts assigned to the County’s credit, using both informal and formal methods to disseminate information.

Debt and Capital Planning

Per the Growth Management Act, the County is required to develop a Capital Facilities Plan that lists the capital projects and needs of the County for a multi-year period, generally six years, to be reviewed and updated annually. The plan shall include a description of each project or need identified, projected cost and timing of capital expenditures, and preliminary sources of funds identified for repayment.

Priorities shall be established based upon (1) the need for the project, in order to provide required County services, (2) availability of funding or debt repayment source, and (3) availability of staff to carry out the project in the time frames specified. In addition, when considering the priority and funding of each capital project, the County shall consider the operating impacts (i.e. increased staff, facilities maintenance and outside rentals).

Credit Objectives

Policies intended to support the maintenance of the County's credit are contained throughout this Debt Policy and include:

- 1) Length of debt and payback goals;
- 2) Purpose, type and use of debt; and
- 3) Capital planning.

Refunding Savings Thresholds

The County Treasurer will monitor the County's outstanding debt and recommend issues for refunding as market opportunities arise. Refundings will be conducted in accordance with the Refunding Bond Act, chapter 39.53 RCW. The County will consider refinancing debt to achieve debt service savings, unless required to achieve specific debt management goals of the County. The County will not refinance debt for the purpose of deferring scheduled debt service, unless unique circumstances are present. The County is aware that refinancing for the purpose of deferring debt service may have an impact on its credit.

Advance refunding - Unless otherwise justified, an advance refunding will require a present value savings of 5% of the principal amount of the refunded debt. Advance refunding transactions are those undertaken in advance of the first date the refunded debt can be called for optional redemption and will require the establishment of an escrow account for the defeasance of the refunded debt. All costs incurred in completing the refunding shall be considered when determining the net present value savings.

Current refunding - Current refunding transactions are those undertaken at or after the call date on outstanding debt, and provide for immediate redemption and replacement of refunded debt. Unless otherwise justified, a current refunding will require graduated present value savings as follows:

<u>Years Between Call and Final Maturity</u>	<u>Present Value Savings Target</u>
1 - 2 years	1%
3 - 4 years	2%
5 - 6 years	3%
7 - 8 years	4%
9 plus years	5%

The County may purchase its bonds in the open market for the purpose of retiring the obligations, when cost effective.

Derivative Products

No derivative products will be utilized unless permitted by law, and after adoption of a swap or derivative policy by the Board. No derivative products shall be utilized without an analysis by an independent municipal advisor. No derivative products shall be used for the purpose of speculation. {If the policy allows for the use of derivatives, a separate and comprehensive derivatives policy should be developed (see GFOA's Advisory, Developing a Derivatives Policy and Derivatives Checklist).}

Evaluating the Impact of Capital Program Spending

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

Debt Policy Review

The County shall review and update its debt policy, as necessary -- but not than less than once every four years.