

 <p><i>Finance Department</i></p>	Policy & Procedure Manual	
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Debt Policy

Table of Contents

Section I. Introduction..... 3
Section II. Legal Governing Principles 3
Section III: Professional Services 8
Section IV. Transaction-Specific Policies 14
Section V. Communication Policies..... 16
Section VI. Compliance Polices 17
Section VII. Other Policies 18

Section I. Introduction

Purpose and Overview

The Debt Policy for the City of Oak Harbor 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 City of Oak Harbor. Adherence to the policy is essential to ensure that the City Council maintains a sound debt position and protects the credit quality of its obligations.

Section II. Legal Governing Principles

In the issuance and management of debt, the City of Oak Harbor shall comply with the state constitution and with all other legal requirements imposed by federal, state, and local rules and regulations, as applicable. The following section highlights the legal framework of the debt issuance and roles and responsibilities in debt issuance.

Governing Law

State Statutes - the City of Oak Harbor may contract indebtedness as provided for by chapter 35A RCW. Indebtedness is subject to the limitations on indebtedness provided for in RCW 35A and Article VIII of the Washington State Constitution. Bonds evidencing such indebtedness shall be issued and sold in accordance with chapter 39.46 RCW.

Federal Rules and Regulations - The City of Oak Harbor shall issue and manage debt in accordance with the limitations and constraints imposed by (a) federal rules and regulations, including Internal Revenue Code of 1986, as amended; the Treasury Department regulations thereunder; and (b) the Securities Acts of 1933 and 1934.

Local Rules and Regulations - The City of Oak Harbor shall issue and manage debt in accordance with the limitations and constraints imposed by the Oak Harbor Municipal Code, the City of Oak Harbor Financial Management Policies, resolutions, rules and regulations.

Permitted Debt by Type - The City of Oak Harbor may legally issue debt using only the debt instruments described below:

- **Unlimited Tax General Obligation Bonds** – The City of Oak Harbor is authorized to sell Unlimited Tax General Obligation Bonds under chapter 35A RCW, subject to the approval of the City Council.
- **Limited Tax General Obligation Bonds** – The City of Oak Harbor is authorized to sell Limited Tax General Obligation Bonds under chapter 35A RCW, subject to the approval of the City Council.

- **Revenue Bonds** - The City of Oak Harbor is authorized to sell Revenue Bonds under chapter 35A RCW, subject to the approval of the City Council.
- **Certificates of Participation** - The City of Oak Harbor is authorized to sell Certificates of Participation (COPs) under chapter 35A RCW, subject to the approval of the City Council.
- **Special Assessment Bonds** – The City of Oak Harbor is authorized to sell Local Improvement or Utility Local Improvement Bonds under chapter 35A RCW, subject to the approval of the City Council.
- **Short Term Debt** – The City of Oak Harbor is authorized to sell short term debt, including variable rate bonds under chapter 39.50 RCW, subject to the approval of the City Council.
- **Local Option Capital Asset Lending (LOCAL) Program Debt** – The City of Oak Harbor is authorized to enter into a financing contract with the Office of the State Treasurer under chapter 39.94 RCW, subject to the approval of the City Council.
- **Public Works Trust Fund Loans** - are loans from the Public Works Board, authorized by state statute, RCW 43.155 to loan money to repair, replace, or create domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste and recycling facilities, and bridges.
- **Other Debt Instruments** - The City of Oak Harbor 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.

Purpose for Borrowing

The City of Oak Harbor shall issue long-term debt solely for the purpose of financing the cost of design, acquisition and/or construction of capital projects defined in a Capital Facilities Plan.

- **Unlimited Tax General Obligation Bonds** – The City of Oak Harbor shall use Unlimited Tax General Obligation Bonds for the purpose of funding those projects of a public nature requiring or necessitating a vote of the public.
- **Limited Tax General Obligation Bonds** – The City of Oak Harbor shall use Limited Tax General Obligation Bonds for the purpose of funding those projects a) which require funding not available from other sources, b) which require matching fund monies where the application for which may be lost if not applied for in a timely manner, or c) emergency conditions exist.
- **Revenue Bonds** – The City of Oak Harbor shall use Revenue Bonds for the purpose of funding 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 are revenue bonds subject to voter approval.

- **Special Assessment Bonds** – The City of Oak Harbor may use Special Assessment Bonds 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. LID's are formed by the City Council after a majority of property owners agree to the assessment.
- **Short Term Debt** – The City of Oak Harbor shall use Short Term Debt 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 interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund 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 fund's current operations. All interfund loans will be subject to Council approval, will bear interest based upon prevailing rates and have terms consistent with state guidelines for interfund loans.
- **Local Option Capital Asset Lending (LOCAL) Program Debt** – 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 and real estate needs through the State Treasurer's office, subject to existing debt limitations and financial consideration. LOCAL program Debt is authorized for use upon approval of City Council.
- **Other Debt Instruments** - The City of Oak Harbor shall use Other Debt Instruments as required with the approval of City Council.

Limitations on Debt Issuance

Legal Debt Limits – The general obligation debt of Oak Harbor will not exceed the following individual percentages of the assessed valuation of the taxable property within the City in any specific debt category (RCW 39.36.020):

- General Debt – Up to 2.5% of assessed valuation;
- Non-Voted – Up to 1.5% Limited Tax General Obligation (LTGO) Bonds;
- Voted – Up to 1.0% Unlimited Tax General Obligation (UTGO) Bonds;
- Utility Debt – Up to 2.5% of assessed valuation;
- Open Space and Park Facilities – Up to 2.5% of assessed valuation.

General obligations include:

- General Obligation Bonds (Voted and Non-voted), including bond anticipation notes which are to be paid off with the proceeds of the bonds. Interest is included only if it has matured and is due and payable.
- For deep discount debt (e.g., zero coupon bonds), the face amount of the bond less the unamortized portion of the discount.
- Warrants and registered warrants issued against the general (current expense) or other tax supported funds.
- Executory conditional sales or installment sales contracts pledging the full faith and credit of the taxing district. (RCW 39.30.010).
- Accounts payable, final judgements payable or combined obligations of the general or other tax supported funds.
- Compensated absences (e.g., vacation and sick leave), to the extent that they are certain obligations of determined amount, or employee vested.
- Other obligations of the general or other tax supported funds, except for loan agreements (statutory limit only) with agencies of the state of Washington or the U.S.A. dated on or after April 3, 1987. (RCW 39.36.060 and 39.69.020).
- Obligations of internal service funds that provide services to the general or other tax supported funds.
- Municipal leases (RCW 35.42.200).

Debt Limit Target -- The City of Oak Harbor shall not exceed 95% of the legal debt limits from above.

Short-Term Debt – The City of Oak Harbor short-term debt shall not exceed 15% of its total debt.

Public Policy Limits: - The City will establish and implement a comprehensive multi-year Capital Improvement Program (CIP).

- Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
- Debt will be issued in accordance with the CIP as necessary.
- Where borrowing is recommended, the source of funds to cover debt service requirements must be identified.

Financial Limits - 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. 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.

Roles and Responsibilities

City Council - The City Council shall:

- Approve indebtedness;
- Approve appointment of independent financial advisor and bond counsel;
- Approve the Debt Policy;
- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and
- In consultation with the City of Oak Harbor's General Counsel, financial advisor, and bond counsel shall determine the most appropriate instrument for a proposed bond sale.

Finance Director - The primary responsibility for debt management rests with the Finance Director. The Finance Director shall:

- Provide for the issuance of debt at the lowest possible cost and risk;
- Determine the available debt capacity;
- Provide for the issuance of debt at appropriate intervals and in reasonable amounts as required to fund approved capital expenditures;
- Recommend to the City Council the manner of sale of debt;
- Monitor opportunities to refund debt and recommend such refunding as appropriate;
- 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;
- Provide for and participate in the preparation and review of offering documents;
- Provide for and participate in the preparation and review of disclosure documents;
- Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
- Submit to the City Council all recommendations to issue debt;
- Distribute to 'Electronic Municipal Market Access' (EMMA) information regarding financial condition and affairs at such times and in the form required by law, regulation and general practice, including Rule 15c2-12 regarding continuing disclosure;
- Provide for the distribution of pertinent information to rating agencies;
- Maintain a current database with all outstanding debt; and
- Apply and promote prudent fiscal practices.

Ethical Standards Governing Conduct

The Members of the City of Oak Harbor and the City Council will adhere to standards of conduct as stipulated by the following:

- Public Disclosure Act, chapter 42.17 RCW; and
- Ethics in Public Service Act, chapter 42.52 RCW.

Section III: Professional Services

Professional Services

The City of Oak Harbor shall procure professional services as required to execute financing transactions and to advise on non-transaction related work. Professional services may include Consultants (Financial Advisor, Legal Counsel -- Bond, Disclosure and Tax Counsel) and Service Providers (Trustee, Verification Agent, Printer, and Letter of Credit Provider).

Selection Process - The selection of financial and legal professionals, including those listed above, to assist the City of Oak Harbor in carrying out financing programs should be made through a competitive bid process involving a Request for Proposals (RFP), or similar document, as designated in the City's Purchasing Policy. Respondents shall be required to disclose the following general information in their proposals, in addition to specific questions relating to the professionals' field (as outlined below):

- Names of any persons or firms, including but not limited to, attorneys, lobbyists, and public relations firms that they engaged to promote their selection by the City of Oak Harbor;
- Names of any persons or firms from whom they received or may receive, directly or indirectly, any remuneration arising out of or relating in any way to their relationship with the City of Oak Harbor, including but not limited to remuneration for promoting such persons or firms for selection by the City of Oak Harbor;
- The existence and nature of any agreements by and between themselves and any other professionals that relate to a particular the City of Oak Harbor financing or to the City of Oak Harbor's financing programs in general.

Appointment of Financial Advisor - The City of Oak Harbor may select a financial advisor (or advisors) to assist in the issuance and administration of all debt. The firm(s) selected as financial advisor will provide a full range of advisory services in connection with the City of Oak Harbor's financing programs. Specifically, the scope of services provided by the financial advisor(s) may include, but are not limited to, the following transaction-specific and ongoing advisory services:

- Recommend specific covenants, financing structure, indentures, and terms, including call provisions in relation to current market conditions and complexity of financing.
- Prepare and review preliminary and final official statements, including the official notice of sale, for accuracy and adequacy of disclosure.
- Review contracts, as necessary, if any, including: a) bond purchase contracts, b) liquidity facility agreements, c) remarketing agreements, and d) investment and trust agreements, relating to financial issues affecting the financing.
- Review Ordinances concerning the authorization and award of the financing.
- Prepare and review advertisements of sales in published and electronic media.
- Assist the City of Oak Harbor in developing and presenting information to rating agencies, investors and other municipal market participants, including credit enhancement providers.

- Attend meetings of the City of Oak Harbor relating to financial issues affecting the financing.
- Provide assistance in determining whether the financing should be sold competitively or negotiated.
- For competitive sales, attend bid openings to assist the City of Oak Harbor with verification of bids, ensuring compliance with financing terms and conditions, and to recommend acceptance or rejection of bids.
- For negotiated sales, provide advice during the sale process to assure that the proposed coupon interest rates and yields reflect current market conditions and comparable sales and that underwriting compensation is reasonable.
- Provide assistance with the preparation and evaluation of RFPs for financial services including underwriting, trustee services, credit enhancement, escrow verification, liquidity facility, and derivative products.
- Provide assistance with the closing and delivery of securities.
- Provide post sale analysis, including an issue summary and Final Report for the financing.
- Provide calendars for upcoming issues and distribution lists that specify the names and addresses for parties working on a particular transaction.
- Assist the City of Oak Harbor with any other financing matters relating to issuance that may be identified during a transaction, including preparing and reviewing set-up with electronic bid providers, investment of proceeds and reserves, bidding out escrow and escrow verification services, and CUSIP subscriptions.
- Provide advice regarding the administration of the City of Oak Harbor's program and recommendations for legislative and other operational modifications, as requested.
- Monitor the City of Oak Harbor's outstanding obligations, and identify refunding opportunities.
- Assist in the review and analysis of state and federal legislation pertaining to the City of Oak Harbor's financing programs.
- Evaluate proposals on new products and other financing ideas received from underwriters, or other municipal market participants.
- Assist the City of Oak Harbor in special projects relating to debt issuance and debt management, as assigned.
- Provide other services as are requested by the City of Oak Harbor. The following criteria, not listed in order of significance, will be used to evaluate proposals:
 - Compliance with RFP requirements;
 - Firm's qualifications and experience in providing required services;
 - Qualifications and relevant experience of personnel assigned;
 - References; and
 - Cost of services.
- These criteria, combined with information obtained from interviews, and other sources, if any, will be used to determine the successful financial advisor(s). A financial advisor will provide the City of Oak Harbor with objective advice and analysis, maintain the confidentiality of the City of Oak Harbor's financial plans, and be free from any conflict of interest as defined by:

- Ethics in Public Service Act
 - Chapter 42.52 RCW and
 - Any other appropriate federal statute or regulation governing financial advisors.
- A financial advisor under contract with the City of Oak Harbor will not purchase or sell any City of Oak Harbor debt until underwriting accounts are closed or debt is freed from underwriter pricing restrictions, whichever occurs first.
 - The fees paid to financial advisors shall be on an hourly or retainer basis. Unless otherwise justified, no fees shall be contingent on the sale of bonds or dependent upon the amounts of bonds sold.
 - The Finance Director shall submit to the City Council a recommendation for the appointment of Financial Advisor(s). The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action.
 - The Finance Director shall monitor the services rendered by the Financial Advisor(s).

Appointment of Bond Counsel - All debt issued by the City of Oak Harbor shall include a written opinion by legal counsel affirming that the City of Oak Harbor is authorized to issue the proposed debt, that the City of Oak Harbor has met all federal, state, and local legal requirements necessary for issuance and 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.

Unless otherwise justified, the appointment will be made from among nationally recognized law firms with significant operations in Washington State. The firm selected as bond counsel will be expected to provide the full range of legal services required in connection with a) the successful issuance and delivery of the bond issues ("Bonds") and b) on-going legal services for the City of Oak Harbor ("Issuer") financing programs. The scope of services may include, but not be limited to, the following:

A) Services for Issuance and Delivery of Bonds:

- **Render Legal Opinion(s).** The bond counsel will render the bond counsel opinion regarding the validity and binding effect of the bonds, the source of payment and security for the bonds, and the excludability of interest on the bonds from gross income for federal income tax purposes.
- **Prepare and Review Documents.** The bond counsel will prepare and review the documents necessary or appropriate to the authorization, issuance, sale, and delivery of the bonds, coordination of the authorization and execution of these documents -- including authorizing and awarding Ordinances.
- **Review Legal Structure of the Bonds.** The bond counsel will review all legal issues relating to the structure of the bonds.

- **Prepare or Review Offering Document(s).** The bond counsel will prepare/review those sections of the offering document(s) to be disseminated in connection with the sale of the bonds that relate to the bonds, financing documents, bond counsel opinion, tax exemption, and the continuing disclosure undertaking of the Issuer.
- **Assist with Presentations.** The bond counsel will assist, as necessary, the Issuer in presenting information to a) bond rating organizations, b) investors, and, where appropriate, c) other municipal market participants, including credit enhancement providers, relating to legal issues affecting the issuance of the bonds.
- **Participate in Meetings.** The bond counsel will participate in meetings, as requested, relating to legal issues affecting the issuance of the bonds, including, but not limited to a) City Council meetings, b) due diligence meetings, and c) sale of bonds.
- **Review or Prepare Contracts.** The bond counsel will review or prepare contracts, as necessary, if any, including: a) bond purchase contracts, b) liquidity facility agreements, c) remarketing agreements, and d) investment and trust agreements, relating to legal issues affecting the issuance of the bonds. The bond counsel will review, as necessary, other documents, relating to legal issues affecting the issuance of the bonds.
- **Prepare Official Transcript.** The Bond Counsel will prepare bound official transcripts of the proceedings of the financing, including all documentation relating to the authorization, offering, sale and delivery of the issue.
- **Assist in Other Legal Matters.** The Bond Counsel will assist the Issuer with other legal matters relating to issuance of the bonds that may be identified during a transaction, including investment of proceeds and reserves and compliance with federal arbitrage regulations.

B) On-Going Legal Services, as needed.

- **Tax Advice.** The bond counsel will provide continuing advice regarding any actions necessary to ensure that interest will continue to be tax-exempt.
- **Regulatory Efforts.** The bond counsel will track and inform the Issuer of proposed efforts and rulings issued by federal regulatory agencies, including, but not limited to, IRS, SEC, and MSRB, that may impact the issuance of bonds
- **Continuing Disclosure.** The bond counsel will advise the Issuer in planning for the continuing disclosure efforts and in preparing continuing disclosure documents.
- **Request for Proposals.** The bond counsel will assist with the preparation and evaluation of RFPs for financial services, relating to legal issues affecting the issuance of bonds.

Additional Legal Services

The City Administration will submit to the City Council a recommendation for the appointment or when deemed appropriate a reappointment of Bond Counsel(s). The recommendation shall be

accompanied by an evaluation of options and a justification for the recommended course of action. The General Counsel shall monitor the services rendered by the Bond Counsel.

A Bond Counsel under contract with the City of Oak Harbor will not simultaneously represent any other party involving a the City of Oak Harbor's financing, unless written dual representation conflict waiver is expressly obtained from the City of Oak Harbor.

Appointment of Letter of Credit or Liquidity Facility Provider

In order to comply with the requirements of the bond documents and to ensure the liquidity and marketability of the City of Oak Harbor's publicly remarketed variable rate debt, the Finance Director shall procure a letter of credit or line of credit in support of such variable rate debt. The selection of a letter of credit/liquidity bank shall be based on a competitive evaluation of proposals submitted in response to a Request for Proposals. Criteria to be used in the appointment of a bank to provide a liquidity facility shall include, but not be limited to:

- The short and long-term credit ratings of the bank;
- Experience providing liquidity facilities to municipal bond issuers;
- Competitiveness of facility fees, interest charged on liquidity draws, maximum legal and administrative fees;
- Ability to agree to the City of Oak Harbor's legal terms and conditions; and
- Trading value of the bank in the current market.

The Finance Director shall submit to the City Council a recommendation for the appointment of a Letter of Credit/Liquidity Facility provider. The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action. The Finance Director shall monitor the trading value and credit ratings of the provider.

Appointment of Verification Agent

In conjunction with the sale of advanced refunding bonds, the Finance Director shall procure the services of a verification agent. The purpose of the verification agent is to confirm that sufficient proceeds are escrowed to ensure the timely repayment of principal and interest on the bonds being refunded. The verification agent must be a nationally recognized provider of verification services. The selection of a verification agent shall be based upon a competitive evaluation of proposals submitted in response to a Request for Proposals. Selection criteria shall include, but not be limited to:

- Demonstrated ability to provide accurate verification of escrow funding accuracy;
- Demonstrated ability to provide timely reports; and
- Competitiveness of fees.

Appointment of Underwriters

If a negotiated sale is approved under Section IV below, the Finance Director shall select an underwriter(s). The selection of underwriters shall 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.

Respondents shall present in their proposal a complete and detailed list of all proposed fees and expenses, including, but not limited to takedown, management fees, underwriting risk, and itemized not-to-exceed underwriting expenses to be paid by the issuer. The underwriting expense component must be finalized and approved by the Finance Director 72 hours prior to the day of pricing. The underwriting risk component will not be considered until after the order period closes.

The Finance Director with assistance from the independent financial advisor shall monitor the services rendered by the underwriter.

Appointment of Escrow Agent

The Finance Director shall, when deemed necessary or when required, procure the services of an escrow agent. The purpose of the escrow agent is to hold securities and/or funds that are to be delivered upon compliance with the conditions contained in an escrow agreement. The selection of an escrow agent calculation firm shall be based upon a competitive evaluation of proposals.

Appointment of Arbitrage Rebate Calculation Firm – The Finance Director shall, when deemed necessary or when required, 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 Internal Revenue Code of 1986, as amended (“Code”). The selection of an arbitrage rebate calculation firm shall be based upon a competitive evaluation of proposals submitted in response to a Request for Proposals. The scope of services may include, but not be limited to, the following:

- Determine if the requirements of the spending exception applicable to a debt issue have been met;
- Prepare initial rebate calculations if the spending requirements are not met;
- Prepare annual computations to update the initial calculations as needed to determine the rebate amount as described in the Code;
- Prepare computations if proceeds remain following the temporary period as described in the Code to determine if any yield reduction payments are required; and
- Consult with the Finance Director as requested concerning arbitrage regulations and related issues including control procedures and industry practices.

Criteria used in the appointment of 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.

Section IV. Transaction-Specific Policies

Method of Sale

Presumption of Competitive Sale – When deemed appropriate by the City of Oak Harbor to minimize the costs and risks of the City of Oak Harbor’s debt issue, the issuance and sale of all fixed rate the City of Oak Harbor debt shall be achieved by competitive bid.

Competitive Bid Method - Any competitive sale of the City of Oak Harbor debt will require approval of the City Council. The City of Oak Harbor debt issued on a competitive bid basis will be sold to the bidder proposing the lowest true interest cost to the City of Oak Harbor. Such bid may take the form of hand-delivered or electronically transmitted offers to purchase the bonds.

Negotiated Bid Method – When deemed appropriate to minimize the costs and risks of City of Oak Harbor's debt issue, the Finance Director will submit to the City Council a request to sell the debt issue on a negotiated basis. If debt is sold on a negotiated basis, the negotiations of terms and conditions shall include, but not be limited to, prices, interest rates, underwriting or remarketing fees and commissions.

The City of Oak Harbor, with the assistance of its Financial Advisor, shall evaluate the terms offered by the underwriting team. Evaluations of prices, interest rates, fees and commissions shall include prevailing terms and conditions in the marketplace for comparable issuers. If more than one underwriter is included in the negotiated sale of debt, the City of Oak Harbor shall establish appropriate levels of liability, participation and priority of orders. The City of Oak Harbor shall, with the assistance of its Financial Advisor, oversee the bond allocation process.

The bond allocation process shall be managed by the lead underwriter, with the following requirements:

- The bonds are allocated fairly among members of the underwriting team, consistent with the previously negotiated terms and conditions;
- The allocation process complies with all Municipal Securities Rulemaking Board regulations governing order priorities and allocations; and
- The lead underwriter shall submit to the Finance Director a complete and timely account of all orders, allocations and underwriting activities.

The Finance Director shall require a post-sale analysis and reporting for each negotiated bond sale. The independent Financial Advisor 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 of Oak Harbor’s pricing;
- Detailed information on a) orders and allocation of bonds, by underwriting firm, b) detailed information on final designations earned by each underwriter, and c) a summary of total compensation received by each underwriter; and

- Historic comparisons to Municipal Market Data indexes -- day of sale basis.

No debt issue will be sold on a negotiated basis without an independent financial advisor.

Private Placement – When deemed appropriate to minimize the costs and risks of the City of Oak Harbor's debt issue, the Finance Director will submit to the City Council a request to sell the debt issue through private placement.

Structural Elements

Maturity – The City of Oak Harbor shall issue debt with an average life less than or equal to the average life of the assets being financed. Unless otherwise stated in law, the final maturity of the debt shall be no longer than 30 years without the approval of City Council (RCW 39.46.110). The maximum maturity on assessment debt shall not exceed statutory limitations (RCW 36.83.50).

Debt Service Structure - Unless otherwise justified and deemed necessary, debt service should be structured on a level basis. Refunding bonds should be structured to produce equal savings by fiscal year. Unless otherwise justified and deemed necessary, debt shall not have capitalized interest. If appropriate, debt service reserve funds may be used for revenue bonds.

Maturity Structure – The City of Oak Harbor's long-term debt may include serial and term bonds. Unless otherwise justified, term bonds should be sold with mandatory sinking fund requirements.

Price Structure– The City of Oak Harbor's long-term debt may include par, discount, and premium bonds. Discount and premium bonds must be demonstrated to be advantageous relative to par bond structures, given applicable market conditions.

Coupon Type– Unless otherwise justified and deemed necessary, long-term debt will be sold using current interest coupons. If justified and deemed necessary, capital appreciation bonds (zero coupon bonds) may be issued.

Redemption Features - For each transaction, the City of Oak Harbor shall evaluate the costs and benefits of call provisions.

Bond Insurance – For each transaction, the City of Oak Harbor shall evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City of Oak Harbor shall be competitively procured.

Tax-exemption – Unless otherwise justified and deemed necessary, the City of Oak Harbor shall issue its debt on a tax-exempt basis.

Pledge of revenues – The City of Oak Harbor's pledge of revenues shall be determined for each debt issue depending upon the debt instrument:

- **Unlimited Tax General Obligation Bonds:** Unlimited Tax General Obligation Bonds of the City of Oak Harbor shall be repaid from excess property taxes on property within the jurisdiction of the City of Oak Harbor.
- **Limited Tax General Obligation Bonds:** Limited Tax General Obligation Bonds of the City of Oak Harbor shall be repaid from regular property taxes on property within the jurisdiction of the City of Oak Harbor, together with other legally available sources.
- **Revenue Bonds:** Revenue Bonds of the City of Oak Harbor shall be repaid from specified revenues, as defined in the authorizing Ordinance.
- **Certificates of Participation (“COPs”):** COPs of the City of Oak Harbor shall be repaid from taxes or revenues, as defined in the authorizing Ordinance.
- **Special Assessment Bonds:** Special Assessment Bonds of the City of Oak Harbor shall be repaid from assessments collected from within a special assessment district formed by the City of Oak Harbor pursuant to applicable law.
- **Local Option Capital Asset Lending (LOCAL) Program Debt:** (LOCAL) Program Debt of the City of Oak Harbor shall be repaid from property taxes on property within the jurisdiction of the City of Oak Harbor, together with other legally available sources.
- **Other Debt Instruments:** Other Debt Instruments of the City of Oak Harbor shall be repaid from revenues, as defined in the authorizing Resolution/Ordinance.
- **Senior/subordinate lien** – The City of Oak Harbor shall not utilize a senior/subordinate lien structure.

Section V. Communication Policies

Rating Agencies

The Finance Director shall manage relationships with the rating analysts assigned to the City of Oak Harbor’s credit, using both informal and formal methods to disseminate information. Communication with the rating agencies shall include:

- Full disclosure, on an annual basis, of the financial condition of the City of Oak Harbor;
- A formal presentation, on a regular basis, to the rating agencies, covering economic, financial, operational and other issues that impact the City of Oak Harbor’s credit;
- Timely disclosure of any financial events that may impact the City of Oak Harbor’s credit;
- Timely dissemination of the Annual Financial Report, following its adoption;
- Complete and timely distribution of any documents pertaining to the sale of bonds.

Credit Objective - The City of Oak Harbor shall seek to maintain and improve its current rating of AA₂ from Standard & Poors rating agency.

Bond Insurers

The Finance Director shall manage relationships with the analysts at the bond insurers assigned to the City of Oak Harbor’s credit, using both informal and formal methods to disseminate information.

Section VI. Compliance Polices

Investment of Proceeds

General - The City of Oak Harbor shall comply with all applicable Federal, State, and contractual restrictions regarding the investment of bond proceeds, including the City of Oak Harbor'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.

Refunding Escrow - Unless otherwise justified and deemed necessary the City of Oak Harbor shall utilize State and Local Government Series (SLGS) for the refunding escrow. SLGS are special series of U.S. Treasury securities. If open markets securities are deemed appropriate the City of Oak Harbor shall in consultation with bond counsel comply with each of the following:

- a) Make a bona fide solicitation for securities and, of the bids received, at least three are bona fide bids from sellers that have no involvement in the pricing of the issue; and
- b) Purchase securities from the bidder which made the highest yielding bid and such securities have a yield at least as high as such bid.

Arbitrage Liability Management

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

The City of Oak Harbor shall maintain an internal system for tracking expenditure of bond proceeds and investment earnings. The expenditure of bond proceeds shall be tracked in the financial accounting system by issue. Investments may be pooled for financial accounting purposes and for investment purposes. When investment of bond proceeds are co-mingled with other investments, the City of Oak Harbor shall adhere to IRS rules on accounting allocations.

Continuing Disclosure

The City of Oak Harbor shall comply with SEC 15c2-12 regulations, which require municipal debt issuers to provide specified financial and operating information for fiscal years beginning on January 1, 1996. The Finance Director shall be the Compliance Officer for disclosure requirements.

Bond Users Clearinghouse

The City of Oak Harbor shall ensure that the Bond Users Clearinghouse receives municipal bond information for all debt sold as provided by chapters 39.44.200 through 39.44.240 RCW and Chapter 365-130 WAC. The information requested by RCW 39.44.210 includes but is not limited to:

1. The par value of the bond issue;
2. The effective interest rates;

3. A schedule of maturities;
4. The purposes of the bond issue;
5. Cost of issuance information;
6. The type of bonds that are issued.

Legal Covenants

The City of Oak Harbor 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**Refunding Savings Thresholds**

Refundings will be conducted in accordance with the Refunding Bond Act, chapter 39.53 RCW. Unless otherwise justified, the City of Oak Harbor will refinance debt to achieve true savings as market opportunities arise. Unless otherwise justified, an “advance refunding” transaction will require a present value savings of five percent of the principal amount of the refunding debt being issued. Unless otherwise justified, a “current refunding” transaction will require graduated present value savings as follows:

Years Between Call and Final Redemption Present Value Standard

- 1-2 years 1%
- 3-4 years 2%
- 5-6 years 3%
- 7-8 years 4%
- 9+ years 5%

Selection of maturities to be refunded - unless otherwise justified, all callable maturities of an issue will be included in a refunding.

Derivative Products

No derivative products will be utilized unless permitted by law, and not without prior City Council approval. No derivative products shall be utilized without an analysis by an independent financial advisor. No derivative products shall be used for the purpose of interest rate speculation.

Alternative Financings Schemes

The City of Oak Harbor shall not utilize alternative financing schemes to avoid restrictions imposed by law or to utilize tax loop-holes. Specifically, the “On Behalf Of” or 63-20 financings alternative financing schemes shall not be utilized by the City of Oak Harbor.

Conduit Financings

Unless expressly authorized by law, the City of Oak Harbor shall not utilize conduit financing structures. Any conduit financing shall contain a no-recourse provision to the City of Oak

Harbor. Any conduit financing structures established must implement formal underwriting standards requiring, but not limited to the following:

- Exemption from securities registration [depends on the type of conduit financing] – to ensure that only “sophisticated” investors can buy the non-recourse bonds;
- Projects that have a) acceptance by the local community and b) public purpose and public benefits;
- Nonprofit borrowers with a demonstrated ability to provide debt service;
- Private for-profit borrowers that have a) a history of growth and strong prospects of continued growth in the future b) a substantial participation of funds from other sources, c) location in the State of Washington, and c) participants of integrity;
- An independent financial advisor; and
- Compliance with all pertinent laws and regulations.

Evaluating Capital Improvement Program Spending

The City of Oak Harbor shall integrate its debt issuance with its Capital Improvement Program spending. Prior to any meeting of the City Council to discuss the need for debt financing, the Finance Director shall cause to be prepared a written report on the status of spending of the Capital Improvement Program and the need for debt. The report shall include:

- Projected capital funding requirements, collected from the primary capital improvement program project managers;
- Projected near term financing needs;
- Projected near term available resources, including cash, and bond proceeds;
- An analysis showing the impact of the proposed financing on revenues.

Modeling the Impact of Capital Program Needs

The City of Oak Harbor shall develop and maintain a capital finance model to evaluate the impact of capital program spending, operations and maintenance costs, and debt service on its financial condition. To that end, the Finance Director shall oversee the ongoing maintenance of quantitative modeling that includes, but is not limited to, the following:

- Historic and projected cash flows for capital and operating expenditures;
- Historic and projected fund balances;
- Historic and projected debt service coverage; and
- Projected revenue requirements.

Debt Database Management

The City of Oak Harbor shall maintain complete information on its outstanding debt portfolio, in a database format. The information in the database shall include, but not be limited to, the following:

- Issue Name
- Initial Par Amount of the Issue
- Dated Date and Sale Date of the Issue
- Purpose of the Issue
- Security Type (Fixed or Variable) of the Issue
- Issue Type (New Money or Refunding) of the Issue
- Sale type (Competitive or Negotiated) of the Issue

- TIC, Arbitrage Yield, Avg. Life, and Underwriters Discount of the Issue
- Underwriter(s) of the Issue
- Principal Amounts by Maturity
- Principal Amounts Outstanding by Maturity
- Coupon Rate and Coupon Type (Current Interest or Zeros) by Maturity
- Original Yield and Original Price by Maturity
- Interest Payment Frequency by Maturity
- First Interest Payment Date by Maturity
- Call Provisions by Maturity
- Sinking Provisions by Maturity
- Credit Enhancement, if any, by Maturity

The City of Oak Harbor shall use the debt database for the following purposes:

- Generate reports;
- Refunding Analyses; and
- Output to Fund Accounting System.

Accounting for the Issuance of Debt

The City of Oak Harbor shall account for the issuance of debt using general accepted accounting principles ("GAAP") as established by the Governmental Accounting Standards Board ("GASB"). Cost of issuance shall be reported as an expenditure rather than netted against proceeds.

Debt Policy Review

The City of Oak Harbor shall review and update its debt policy every four years.