

BIRCH BAY WATER & SEWER DISTRICT



DEBT POLICY

ADOPTED 9/21/2016

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Section I. Introduction

Purpose and Overview

The Debt Policy for Birch Bay Water & Sewer District 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 District. The Debt Policy is separate yet integrated through reference with the District Financial Management Policy and the District Budget Policy. Adherence to the Debt policy is essential to ensure that the District:

- maintains a sound debt position;
- protects the credit quality of its obligations and achieves the highest practical credit rating;
- minimizes borrowing cost and maintains access to cost effective borrowing;
- maintains complete financial disclosure reporting;
- ensures compliance with applicable local, state and federal law;
- employs the use of debt to compliment, but not fully replace, significant commitments for capital purposes.

Section II. Legal Governing Principles

In the issuance and management of debt, the BBWSD 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 - BBWSD may contract indebtedness as provided for by chapter RCW 57.20. Indebtedness is subject to the limitations on indebtedness provided for in RCW 57.20 and Article VIII of the Washington State Constitution. Bonds evidencing such indebtedness shall be issued and sold in accordance with RCW 39.46.

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

Local Rules and Regulations - The BBWSD shall issue and manage debt in accordance with the limitations and constraints imposed by the District Code, the District Financial Management Policies, resolutions, rules and regulations.

Permitted Debt by Type

The BBWSD may legally issue debt using only the debt instruments described below:

Revenue Bonds - The BBWSD is authorized to sell Revenue Bonds under RCW 57.20, subject to the approval of the District Commissioners.

Special Assessment Bonds - The BBWSD is authorized to sell Special Assessment Bonds under RCW 57.20, subject to the approval of the District Commissioners.

Short Term Debt - The BBWSD is authorized to sell short term debt RCW 39.50.020, including variable rate bonds under chapter 39.50 RCW, subject to the approval of the District Commissioners.

Unlimited Tax General Obligation Bonds - The BBWSD is authorized to sell Unlimited Tax General Obligation Bonds under chapter RCW 57.20, subject to the approval of the District Commissioners and with approval by a vote of the electors within the District.

Other Debt Instruments - The BBWSD is authorized to enter into capital leases and conditional sales contracts under RCW 57.20, subject to the approval of the District Commissioners.

Public Works Board Loans - The BBWSD is authorized to enter into loans under RCW 57.20, subject to the approval of the District Commissioners.

Purpose for Borrowing

The District 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 Improvement Plan (CIP).

Revenue Bonds - The BBWSD shall use Revenue Bonds for the purpose of funding construction or improvements to the enterprise operated by the District in accordance with the Capital Improvement Program and are 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 statutory debt limitation nor are revenue bonds subject to voter approval.

Special Assessment Bonds - The BBWSD 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 District. LID's are formed by the Commissioners after a majority of property owners agree to the assessment.

Unlimited Tax General Obligation Bonds - The BBWSD shall use Unlimited Tax General Obligation Bonds for the purpose of funding those projects of public nature requiring or necessitating revenue from an excess tax levy, with a vote of the public.

Short Term Debt - The District can use short term debt for the purpose of funding construction or improvements to the enterprise operated by the District in accordance with the Capital Improvement Plan and are payable from the enterprise.

Other Debt Instruments -- The BBWSD shall use Other Debt Instruments for the purpose of leasing capital items.

Public Works Board Loans -- The BBWSD shall use Public Works Board Loans RCW 43.155 for the purpose of funding public infrastructure construction and rehabilitation to the enterprise operated by the District in accordance with the Capital Improvement Program and are payable from the enterprise. No taxing power is provided as security. Public Works Board Loans are not subject to statutory debt limitation nor are they subject to voter approval.

Limitations on Debt Issuance

Legal Debt Limits - The general obligation debt of the District will not exceed the following individual percentages of the assessed valuation of the taxable property in the District in any specific debt category (39.46):

Revenue Debt - No statutory limitation; or

Total General Obligation Debt - Up to 2.50% of assessed valuation; or

Non-voted General Obligation Debt - Up to 0.50% 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.
- ✓ Checks issued against the enterprise fund.
- ✓ 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 enterprise fund.
- ✓ Compensated absences (e.g., vacation and sick leave), to the extent that they are certain obligations of a 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).

Roles and Responsibilities

Board of Commissioners - The Board of Commissioners shall:

- ✓ Approve indebtedness;
- ✓ Approve the selection/appointment of independent financial advisor, bond underwriter and bond counsel;
- ✓ Approve the Debt Policy;
- ✓ Approve budgets, following the District budget policy, sufficient to provide for the timely payment of principal and interest on all debt; and

- ✓ In consultation with the District's General Counsel, financial advisor (if any), bond underwriter, 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 administrative management for the District. The Finance Director shall use the District's Financial Management Policy, Budget Policy and Debt Policy and 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 Board of Commissioners 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 & disclosure documents;
- ✓ Comply with all terms, conditions and disclosure required by the legal documents governing the debt issued;
- ✓ Submit to the Board of Commissioners all recommendations to issue debt;
- ✓ Provide to the MSRB annual disclosure reports and notices regarding the occurrence of certain events specified by the SEC; 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 BBWSD and the District 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 BBWSD may 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, Bond Underwriter) and Service Providers (Trustee, Verification Agent, Printer, and Letter of Credit Provider).

Selection Process - The selection of financial and legal professionals to assist the BBWSD in carrying out financing programs may be made following the District's Purchasing Policy and may be through a RFP or RFQ process.

Respondents may 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 BBWSD;
- ✓ 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 BBWSD, including but not limited to remuneration for promoting such persons or firms for selection by the BBWSD; and
- ✓ The existence and nature of any agreements by and between themselves and any other professionals that relate to a particular District financing or to the District's financing programs in general.

Selection/Appointment of Financial Advisor - BBWSD may select a financial advisor(s) to assist in the issuance and administration of all debt. The firm(s) selected as financial advisor (if any) may provide a full range of advisory services in connection with the District'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 or review preliminary and final official statements, including the official notice of sale, if any, 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 Resolutions concerning the authorization and award of the financing.
- ✓ Prepare and review advertisements of sales in published and electronic media, if any.
- ✓ Assist the BBWSD in developing and presenting information to rating agencies, investors and other municipal market participants.
- ✓ Attend meetings of the BBWSD 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 BBWSD 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 (if any) 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 BBWSD 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 subscription.
- ✓ Provide advice regarding the administration of the BBWSD's program and recommendations for legislative and other operational modifications, as requested.
- ✓ Monitor the BBWSD's outstanding obligations, and identify refunding opportunities.
- ✓ Assist in the review and analysis of state and federal legislation pertaining to the BBWSD's financing programs.
- ✓ Evaluate proposals on new products and other financing ideas received from underwriters, or other municipal market participants.
- ✓ Assist the BBWSD in special projects relating to debt issuance and debt management, as assigned.
- ✓ Provide other services as are requested by the BBWSD.

A financial advisor will provide the District with objective advice and analysis, maintain the confidentiality of BBWSD'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 District will not purchase or sell any BBWSD debt until underwriting accounts are closed or debt is freed from underwriter pricing restrictions, whichever occurs first.

A financial advisor under contract with the BBWSD shall be registered as municipal advisor with the SEC and MSRB.

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.

BBWSD shall submit to the District's Commissioners a recommendation for the appointment/selection 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 and General Manager shall monitor the services rendered by the Financial Advisor(s).

Selection/Appointment of Bond Counsel. - All debt issued by the BBWSD shall include a written opinion by legal counsel affirming that the BBWSD is authorized to issue the proposed debt, that the BBWSD 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/selection 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 BBWSD ("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 Resolutions.
- ✓ **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 or 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, 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) Commissioners 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:

- ✓ **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 General Counsel or General Manager shall submit to the Commissioners a recommendation for the appointment/selection or when deemed appropriate 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(s).

A Bond Counsel under contract with the BBWSD will not simultaneously represent any other party involving a District's financing, unless written dual representation conflict waiver is expressively obtained from the BBWSD.

Selection/Appointment of Verification Agent - In conjunction with the sale of refunding bonds, the BBWSD shall procure the services of a verification agent when deemed prudent or when required. 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.

Selection/Appointment of Underwriters - If a negotiated sale is approved under Section IV below, the BBWSD shall select an underwriter(s). The selection of underwriters may be based upon a competitive evaluation of proposals submitted in response to a Request for Proposals.

Criteria used in the appointment of qualified underwriters may 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 General Manager and Finance Director 48 hours prior to the day of pricing.

The Finance Director and General Manager, with assistance from the independent financial advisor, shall monitor the services rendered by the underwriter(s).

Selection/Appointment of Escrow Agent - The BBWSD 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 shall be based upon a competitive evaluation of proposals.

Selection/Appointment of Arbitrage Rebate Calculation Firm - The BBWSD 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 may 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

Competitive Bid Method - Any competitive sale of BBWSD debt will require approval of the Commissioners. BBWSD debt issued on a competitive bid basis will be sold to the bidder proposing the lowest true interest cost to the BBWSD. 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 BBWSD's debt issue, the BBWSD will submit to the Commissioners a request to sell the debt issue on a negotiated basis.

Private Placement or Direct Placement -When deemed appropriate to minimize the costs and risks of BBWSD's debt issue, the BBWSD will submit to the Commissioners a request to sell the debt issue through private placement or direct placement.

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

The Finance Director, with the assistance of its Financial Advisor, if any, shall evaluate the terms offered by the underwriting team. Evaluations of prices, interest rates, yields, 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 BBWSD shall establish appropriate levels of liability, participation and priority of orders.

The BBWSD (with the assistance of its Financial Advisor, if any), 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 BBWSD a complete and timely account of all orders, allocations and underwriting activities.

The BBWSD shall require a post-sale analysis and reporting for each negotiated bond sale. The independent Financial Advisor (if any) may perform such analysis and provide a final pricing book by the day of the closing. A post-sale analysis may 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 BBWSD'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.

Structural Elements

Maturity - The BBWSD 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 40 years (RCW 39.46.110).

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. 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 BBWSD's long-term debt may include serial and term bonds. Unless otherwise justified, term bonds should be sold with mandatory redemption requirements.

Price Structure- The BBWSD's long-term debt may include par, discount, and premium bonds.

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 BBWSD shall evaluate the costs and benefits of call provisions.

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

Tax-exemption - Unless otherwise justified and deemed necessary, the BBWSD shall issue its debt on a tax-exempt basis.

Pledge of revenues or taxes - The BBWSD's pledge of revenues or taxes shall be determined for each debt issue depending upon the debt instrument:

- ✓ **Revenue Bonds:** Revenue Bonds of the BBWSD shall be repaid from specified revenues, as defined in the authorizing Resolution.

- ✓ **Special Assessment Bonds:** Special Assessment Bonds of the BBWSD shall be repaid from assessments collected from within a special assessment district formed by the District pursuant to applicable law.
- ✓ **Unlimited Tax General Obligation Bonds:** Unlimited Tax General Obligation Bonds of the BBWSD shall be repaid from excess property taxes on property within the jurisdiction of the District.
- ✓ **Public Works Board Loans:** Public Works Board Loans of the BBWSD shall be repaid from specified revenues as defined in the Construction Loan Agreement.
- ✓ **Senior/subordinate lien** - The BBWSD may utilize a senior/subordinate lien structure. Subordinate lien debt may include State Revolving Fund or Public Works Trust Fund loans.

Section V. Communication Policies

Rating Agencies

The Finance Director of BBWSD shall manage relationships with the rating analysts assigned to the District's credit, using both informal and formal methods to disseminate information. The Finance Director shall work proactively to protect and enhance the District's credit rating whenever possible. Communication with the rating agencies shall include:

- ✓ Full disclosure, on a periodic basis, of the financial condition of the BBWSD
- ✓ A formal presentation, at the time of any bond issuance, to the rating agencies, covering economic, financial, operational and other issues that impact the BBWSD's credit;
- ✓ Timely disclosure of any financial events that may impact BBWSD'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 - BBWSD may apply for one or more bond ratings, if advisable, in order to gain broader market access for the District's bonds.

Bond Insurers and Other Market Participants

The Finance Director shall manage relationships with the analysts at the bond insurers assigned to the District's credit, using both informal and formal methods to disseminate information. The Finance Director may manage relationships with other market participants using both informal and formal methods to disseminate information.

Section VI. Compliance Policies

Investment of Proceeds

General - The BBWSD shall comply with all applicable Federal, State, and contractual restrictions regarding the investment of bond proceeds, including BBWSD'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 BBWSD 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 BBWSD 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 BBWSD shall solicit the advice of bond counsel and other qualified experts about arbitrage rebate calculations. The BBWSD shall, when deemed necessary or when required, contract with a qualified third-party for preparation of the arbitrage rebate calculation.

The BBWSD 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 BBWSD shall adhere to IRS rules on accounting allocations.

Continuing Disclosure

The BBWSD shall comply with SEC 15c2-12 regulations, which require municipal debt issuers to provide certain annual financial information and material event notices to the public. The Finance Director shall be the Compliance Officers for disclosure requirements.

Bond Users Clearinghouse

The BBWSD 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 include but are not limited to:

- ✓ the par value of the bond issue;
- ✓ the effective interest rates;
- ✓ a schedule of maturities;
- ✓ the purposes of the bond issue;
- ✓ cost of issuance information; and
- ✓ the type of bonds that are issued.

Legal Covenants

The BBWSD 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, BBWSD 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 four percent or greater 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% |
| 3-6 years | 2% |
| 7-8 years | 3% |
| 9+ years | 4% |

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

Evaluating Capital Improvement Program Spending

The BBWSD shall integrate its debt issuance with its Capital Improvement Program spending. Included in each annual budget meeting to discuss the need for debt financing, the General Manager and Finance Director shall prepare a written report on the status of spending of the Capital Improvement Program and the need for debt. The report will be the revenue model and shall include:

- ✓ Projected capital funding requirements,
- ✓ Projected near term financing needs;
- ✓ Projected near term available resources, including cash, and bond proceeds; and
- ✓ An analysis showing the impact of the proposed financing on revenues.

Modeling the Impact of Capital Program Needs

The BBWSD 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 and General Manager 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 BBWSD 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 and 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 & Sinking Provisions by Maturity
- ✓ Credit Enhancement, if any, by Maturity

The BBWSD shall use the debt database for the following purposes:

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

Accounting for the Issuance of Debt

The BBWSD shall account for the issuance of debt on a cash basis, as allowed by the Washington State Auditor's Office under the authority of RCW 43.09.200. Cost of issuance shall be reported as expenditure rather than netted against proceeds.

Debt Policy Review

The BBWSD shall review and update its debt policy at least every four years.