Yakima County

Washington

Debt Policy

July 18, 2007

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I. Roles and Responsibilities

The Board of County Commissioners in accordance with the County's Capital Improvement Plan shall initiate all debt issuance.

The County Treasurer shall provide the services required for the issuance of debt, in consultation with required professionals and other service providers. The Treasurer shall inform the County's Finance Committee of all debt issuance plans and the status of financings in process.

The County Treasurer shall be responsible for the payment of the County's debt service pursuant to RCW 36.29.010, as well as compliance with requirements of any continuing disclosure undertaking and with arbitrage requirements of the IRS (see Section VIII herein).

In accordance with RCW 36.48.070, the *County Finance Committee* shall adopt a Debt Policy, which shall be reviewed and updated at least every four years. The Finance Committee shall make a recommendation to the Board of Commissioners on all requests for action on financing, as recommended by the County Treasurer.

The *Board of County Commissioners* shall be responsible for coordinating the annual update of the Capital Improvement Plan using the Finance Committee as a resource to make recommendations on debt financing.

II. Debt and Capital Planning

The County shall develop a Capital Improvement Plan ("CIP") that lists the capital projects and needs of the County for a multi-year period, preferably six years, consistent with the period of the County's Road Plan. The plan shall include a description of each project or need identified, projected cost and timing of capital expenditures over a multi-year period, and primary and secondary sources of funds identified for repayment.

Priorities shall be established based upon (1) the need for the project, as determined in the adopted CIP, 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.

The plan shall be updated and priorities reviewed annually in light of changes in needs, available funding or available staffing. Any costs of operating and maintaining the projects listed in the plan should be identified separately, to ensure that adequate funds will be available for ongoing costs relating to the projects. 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). The CIP shall be submitted to the Board of Commissioners for adoption and the adopted CIP shall be provided to the Finance Committee by the end of each calendar year.

Based upon the projects and priorities listed in the CIP, the County Treasurer will develop a plan of finance and calendar of debt issuance to address the financing needs identified in each year for presentation to the Finance Committee, and further recommendation to the Board of Commissioners.

III. Credit Objectives

Credit Ratings

As of April 30, 2007 the County has a general obligation bond rating from Moody's Investors Service of A2 for voted (unlimited tax) debt, and A3 for non-voted (limited tax) debt. The most recent short term rating by Moody's was MIG-1, as of October 1997. The County additional obtained a bond rating of "A" from Fitch, relating only to the County's 2002 Bonds. The County's 1997 UTGO, 1999 LTGO and 2001 A&B LTGO bonds are insured by MBIA, and the County's 2002 LTGO bonds are insured by AMBAC, therefore the County has an insured rating of Aaa from Moody's.

In determining a credit rating for long term bonds, the rating agency will consider: (a) the County's management, including decision-making, responsiveness to challenges and opportunities, policies, and qualifications and longevity of commissioners and other elected officials; (b) the financial condition of the County, including the amount of debt outstanding, payback period for debt, direct and overlapping debt burdens, General Fund reserve and other reserve fund balances, and debt management; and (c) economic conditions in the County.

The County will seek to maintain the highest possible credit ratings for general obligation debt, without compromising delivery of basic County services and achievement of the County's policy objectives. It shall be the County's goal to maintain a long-term bond rating in the "A" category. Consistent with maintenance of a rating in the "A" category or better, and the County's General Fund Reserve Policy adopted January 17, 2006, the County shall maintain a total General Fund reserve balance, equal to 12 to 15% of its budgeted general fund revenues. The County may adjust the level of reserve balance by Resolution in the future, but currently requires a 12% reserve balance.

Additional policies intended to support the maintenance of the County's current ratings 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

Credit Enhancement

For all bond issues, the County will seek multiple bids for municipal bond insurance, which will indicate the insurer's willingness to insure the timely payment of principal and interest and the proposed cost for such insurance. Application is to be made to bond insurers with known trading differentials in the bond market, to allow for a spectrum of insurance options. *The County's financial advisor or underwriter* will be required to provide detailed information on the bond insurance bids, proposed cost and estimated benefits of each.

Credit enhancement will only be used when the projected present value benefit is greater than the cost. The projected present value benefit will be determined by comparing the expected interest cost for the financing both with and without insurance, when discounted by the expected interest rate on the bonds. Unless specifically justified, the County will not purchase more than one bond rating for insured debt.

For competitive sales of *general obligation* bonds, the County will make insurance available at the option and expense of bidding underwriters. Bidders may choose to purchase additional insured bond ratings at their own expense. For competitive sale of *revenue* bonds, the County may directly purchase bond insurance, and offer the bonds with insurance at the County's cost.

For negotiated sales of bonds, the County will pay the bond insurance premium from bond proceeds when a benefit is demonstrated following analysis, as discussed above. This analysis is to take into account trading differentials among insurers, to assist in selecting the most cost effective bond insurance proposal.

IV. Purpose, Type and Use of Debt

General Obligation Debt

General Obligation Debt is backed by the full faith and credit of the County and is secured by General Fund revenues, and other legally available revenue sources, and taxes collected by the County.

Limited Tax General Obligation Debt (LTGO) is secured by the General Fund, and may be payable from regular tax levies and revenues of the General Fund or other funds legally available to be pledged (i.e. REET Fund), 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 is subject to a statutory limitation of 1.5% of the County's assessed value.

Limited tax debt will be used for capital purposes, when a specified repayment source has been identified through new or existing revenue sources, expenditure reductions or increased revenue base, or in the event of an emergency. The amount of limited tax debt outstanding will not exceed 35% of the statutory debt limitation, unless required to meet an emergency need caused by natural disaster, legal judgment or similar unplanned events.

Unlimited Tax General Obligation Debt (UTGO) is secured by a UTGO Bond Fund, which is restricted to payment of bond debt service. UTGO debt is payable from excess tax levies, subject to voter approval. Any proposition for UTGO debt must be approved by 60% of the voters casting a vote, and the total number of ballots cast must be at least equal to 40% of the total number of voters voting in the last general county or state election (this is a 60% approval *and* 40% validation requirement). Total GO debt (including limited and unlimited tax) is subject to a statutory limitation of 2.5% of the County's assessed value.

Unlimited tax debt will be used for county capital purposes, 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.

Revenue Obligations

Revenue Obligations are used to finance construction or 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. Revenue bonds are generally subject to certain tests and requirements, including (1) establishment and maintenance of a debt service reserve fund (generally equal to maximum annual debt service), (2) rates and charges must provide net revenue after payment of operating expenses equal to a multiple between 1.1 and 1.5 times the debt service requirement, depending on the type and purpose of the enterprise and debt. Additional covenants and pledges must be made for the benefit of bondholders.

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.

Assessment-backed Obligations

Assessment-backed obligations are used to finance projects that will provide special benefit to certain property owners. The benefiting property owners are charged an 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.

The County will form road improvement districts (RIDs) or local improvement districts (LIDs) upon petition of benefiting property owner, unless the County Commissioners determine to establish the districts by resolution. The County Commissioners will provide the County Treasurer with each proposed resolution forming an assessment district prior to its consideration at a public meeting.

The Treasurer shall be provided with enough detail to determine the size, timing and characteristics of the project and any contribution the County is providing to the cost of the improvements. The Treasurer will review the preliminary cost estimates relating to financing costs, including interim financing.

Lease Purchase or other Financing Contracts

Lease purchase or financing contracts are payment obligations that represent principal and interest components, and the County receives the property for a nominal or no fee after all payments are made. These represent general obligations of the County, therefore fall under the County's statutory debt limit.

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 will compare any proposal for lease-purchase or vendor financing with the terms available through the LOCAL Program (described below), and if determined to be in the best interest of the County, may recommend use of the Program. The Treasurer shall be provided with detail regarding the purpose, cost, timing and financing term for any proposed contract, and if determined to be in the County's interest will provide the State Treasurer with a Notice of Intent and a Credit Form (if required) to initiate use of the LOCAL Program.

The LOCAL Program is offered by the State Treasurer's Office. It is a lease/purchase program that allows pooling of funding needs for state agencies and local governments into larger offerings of securities. This program allows local government agencies the ability to finance personal property or real property needs through the State Treasurer's Office, subject to existing debt limitations and financial consideration, and benefit from the combination with state agency funding. The LOCAL Program currently has a Moody's bond rating of "Aa2." LOCAL Program forms and information on current or recent interest rates are available online at http://www.tre.wa.gov/LOCAL/local.htm.

Short Term Obligations

Short-term obligations will be used for the purpose of 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 short-term obligations be entered into for the purpose of funding deficits without prior development and review of a longer-term deficit financing plan by the Finance Committee and upon recommendation by the County Treasurer.

The use of short term financing shall be evaluated by the County Treasurer and compared with the cost of internal financing or interfund loans. All interfund loan resolutions will be reviewed by the County Treasurer to ensure that the appropriate reimbursement language is included, the correct fund numbers are used, and to develop the appropriate debt repayment schedule.

V. Structure of Debt

Term of Financing

In no case will the term of any financing exceed the life of the asset being financed, or 125% of the average useful life, whichever is shorter. In setting the term of debt, 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. The term will be structured consistent with a fair allocation of costs to current and future beneficiaries.

Payback Period

To the extent possible, the County will strive to repay at least 20% of its long-term debt within five years and 40% within ten years. This is consistent with the County's desire to structure debt with level payments of principal and interest over the life of the debt. Backloading of principal will be considered only when the benefits from the debt issuance can clearly be demonstrated to be greater in the future than in the present, when such structuring is beneficial to the County's overall amortization schedule, or when the structure will more closely match debt service to the anticipated repayment source.

VI. Refunding Obligations

The County Treasurer will continually review the County's outstanding debt and recommend issues for refunding as market opportunities arise. Debt shall be refinanced only for the purpose of achieving 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 rating.

Advance refunding transactions may be completed when net present value savings equal 3.5 to 5% of the amount of par amount of refunding debt. Advance refunding transactions are those undertaken in advance of the first date on which 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 taken into account when determining the net present value savings. Current refunding transactions shall be considered whenever possible. 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. The savings level required for a current refunding should take into account the number of years remaining on the bonds, within the following general guidelines.

Years Between Refunding and Final Redemption	Present Value Savings Target
1 – 2 years	1%
3 – 4 years	2%
5 – 6 years	3%
7 – 9 years	4%

(1) Net Present Value Savings as a percentage of the par amount of refunding debt.

In addition to considering the present value savings target, the County will consider the dollar amount of savings, in total and annually, to determine if it is beneficial to refinance. The County may purchase its bonds in the open market for the purpose of retiring the obligations, when cost effective.

VII. Debt Issuance

Method of Sale

All fixed rate debt of the County shall be sold by sealed competitive bid unless otherwise justified to minimize the costs and risks of borrowing. For any competitive sale of debt, the County will award the issue to the underwriter offering to buy the bonds at a price and interest rates that provides the lowest True Interest Cost (TIC), based on bids submitted at a specified date and time.

The County Treasurer shall determine the method of sale best suited for each issue of debt, with notification to the finance committee. When necessary to minimize the risks of borrowing or when the expertise of an underwriter is necessary, the County may provide for the sale of debt by negotiating the terms and conditions of sale, including prices, interest rates, redemption provisions, underwriting fees and other compensation.

When negotiating the sale of bonds, the County Treasurer shall request the underwriter to provide detailed information on market conditions, other bonds of similar quality and structure sold within the prior two weeks and known to be scheduled for sale within the following week, and written comparisons with other bonds on the market including justification for the proposed interest rates, redemption provisions, and underwriting compensation.

Use of Professionals and Other Service Providers

Bond Counsel - All debt issued by the County shall include a written opinion by legal counsel affirming that the County is authorized to issue the debt, and that all statutory requirements have been met. The legal opinion and other documents relating to the issuance of debt will be prepared by nationally recognized private legal counsel with extensive experience in public finance and tax issues. Bond counsel will be appointed by the prosecuting attorney to serve as special prosecutor.

Financial Advisor - The County Treasurer shall select a financial advisor to assist with any competitive sale of bonds, and may hire a financial advisor to assist with a negotiated sale of bonds if the County Treasurer determines it to be in the best interest of the County. The financial advisor may be appointed consistent with the County's general authority to contract, and shall have comprehensive municipal debt experience, including debt structuring and pricing of municipal securities. In no case shall the financial advisor serve as underwriter for the County's bonds, and the financial advisor shall not purchase or sell any of the County's bonds until the underwriting accounts are closed or debt is freed from underwriter pricing restrictions, whichever occurs first. The County Treasurer shall provide the financial advisor with a copy of the County's Debt Policy and the financial advisor shall be responsible for following the policy as it relates to its duties.

Underwriter - For competitive sales of bonds, the County Treasurer, with assistance of a financial advisor, will provide notice of the sale customary to the national municipal bond market, and will widely disseminate the official statement, notice of sale and bid form to encourage the broadest market participation in the sale. The Underwriter at competitive sale will be determined based solely on the lowest cost proposal submitted based on a bid basis, at a specified date and time, as customary in the municipal market.

For negotiated sales of bonds, the County Treasurer will select an underwriter, 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 Treasurer. The underwriter shall have sufficient capitalization and experience to serve as underwriter for the County's bonds. The County Treasurer shall provide the underwriter with a copy of the County's Debt Policy and the underwriter shall be responsible for following the policy as it relates to its role and duties.

Fiscal Agent - The County Treasurer shall use the State Fiscal Agent appointed by the State Treasurer. At her sole discretion, the Treasurer may serve as registrar for very small issues or those privately placed with investors. Neither the County or special purpose districts can obligate the County Treasurer to serve as registrar without prior written approval of the Treasurer as provided in RCW 39.46.030.

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

VIII. Other Duties and Obligations

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, by separate resolution, will identify the investing officer for the bond related funds held by the County Treasurer. Any investments will be made only in accordance with the County's Investment Policy and procedures established by the County Treasurer. Any investment officer shall be responsible for requesting a copy of such policies and procedures from the County Treasurer, if required.

Arbitrage and Tax Law Requirements

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 by the County Treasurer to Bond Counsel for use in developing an Arbitrage Certificate and in meeting IRS spend-down requirements for tax-exempt bond proceeds.

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. At her sole discretion, the County Treasurer may retain the services of a qualified professional firm to provide computations relating to potential rebate liability of the County. In this case, the County Treasurer may seek proposals from qualified firms, with a selection to be based on qualifications, cost and services to be provided.

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 Documents

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 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.

IX. Approval and Adoption

Approved and adopted this 18th day of July, 2007, by the Yakima County Finance Committee.

Ilene Thomson

Ilene Thomson, County Treasurer
Chairman, County Finance Committee

Mike Leita, Chairman of Board
Member, County Finance Committee

Corky Mattingly

Corky Mattingly, County Auditor
Secretary, County Finance Committee