2016

CLARK COUNTY, WASHINGTON

CLARK COUNTY DEBT POLICY

Effective 5/9/2016

This document outlines the debt policy for Clark County.

Title: **CLARK COUNTY DEBT POLICY**

Contents

I. Policy

This policy establishes the County's requirements and procedures for ensuring compliance with federal laws relating to the issuance and post-issuance monitoring of tax-exempt bonds and taxable Direct Pay Bonds. It also establishes the debt management activity the County Treasurer (includes the "Treasurer" or designated employee(s) by the Treasurer) shall perform and the Treasurer's expectation of the other county partners' responsibilities. The Clark County Finance Committee is responsible for approving the County Debt Policy in accordance with RCW 36.48.070. It is composed of three elected officials: Clark County Treasurer as Chairman who shall provide administrative assistance; Clark County Auditor as Secretary; and, the current Chairman of the Clark County Board of Councilors.

II. Responsibilities

Clark County (the "County") is authorized to issue revenue bonds, general obligation bonds and notes pursuant to Revised Code of Washington Statutes ("RCW") 36.017 to 36.900, 39.04 to 39.104, Municipal revenue bond act 35.41, 84.52.043(1), 84.55, 84.52.050, 84.52.043(2}, 84.52.010, 84.52.052. Please see Exhibit A, which is a table showing our current debt limitations.

The County Manager is ultimately responsible for the administration of County financial policies. The Board of County Councilors (BOCC) is responsible for the approval of any form of County borrowing and, unless delegated to the Treasurer pursuant to RCW 39.46.040(2), the details associated therewith. The Treasurer coordinates the administration and issuance of debt and the associated payment of debt service on such debt. The Treasurer also is responsible for the attestation of disclosure and other bond related documents.

This policy statement presents the objectives of RCW 36.48.070 (County Finance Committee – approval of investment policy and debt policy) and management of Clark County. It will be adhered to by all employees and financial representatives affiliated with the County. The County shall comply with all federal tax laws related to tax-exempt bonds, Direct Pay bonds and bond financed facilities prior to and after issuance. The County shall have procedures in place to ensure compliance with this policy, including the retention of relevant documents. The Treasurer is assigned the primary responsibility of monitoring compliance with federal tax requirements for the County's bond programs. The Treasurer may assign staff responsibility for certain components of this policy.

All borrowing requests are communicated to the Clark County Budget Office during the annual budget process. Requests for projects which may require a new bond issue or have an effect on the County's Debt Capacity must be identified as a part of a Capital Improvement Program request. Justification and requested size of the bond issue must be presented as well as the proposed timing of the project.

The Budget Office, in conjunction with the County's Finance Group (which currently consists of the County Manager, Budget Office Director, County Finance Director, Deputy Treasurer and Chief Civil Deputy Prosecutor), will evaluate each proposal in the Capital Improvement Plan and compare it with other competing interests in the County. All requests will be considered in accordance with the County's overall adopted priorities. If it is determined that proposals are a countywide priority and require bond financing, the Treasurer's Office will coordinate the issuance of debt, including size of issuance, debt structuring, repayment sources, determination of mix (e.g., debt financing versus pay-as-you-go), method of sale and presentation to the BOCC. Presentation to rating agencies shall be made by members of the County Finance Group and project related staff having technical knowledge of the project being financed.

The County desires to maintain the rating of Aa1 for Unlimited Tax General Obligation Debt (voted) and Aa2 for Limited Tax General Obligation Debt (nonvoted). The Board of County Councilors, along with the County Finance Group, will strive to keep the General Fund's fund balance at a level which will help preserve the current rating of Aa1 and Aa2, respectively. The desired General Fund unassigned balance is to be greater than 15% of General Fund revenues. To manage to this benchmark, the BOCC-approved "General Fund - Fund Balance Policy" will be utilized. Exhibit C provides the rating agency's guidelines for 'General Fund' fund balance at various rating levels.

III. Guidelines

A. Tax-Exempt Bond Issuances

The County Treasurer will monitor and control the receipt, investment, expenditure and use of all bond proceeds, and will take actions necessary for interest on tax-exempt bonds to remain excludable from the gross income of bondholders. (United States Internal Revenue Code (the "Code"), §103 and 141 through 150).

B. Private Activity Limitation

Section 141 of the Code sets forth private activity tests for the purpose of limiting the volume of tax-exempt bonds that finance activities of persons other than state and local governmental entities. These tests serve to identify arrangements that actually or reasonably expect to transfer the benefits of tax- exempt financing to non-governmental persons, including the federal government. Following the issuance of bonds for the financing of property, the Treasurer shall provide to the users of the property a copy of this Compliance Policy and other appropriate written guidance advising:

1) "Private business use" means use by any person other than the County, including business corporations, partnerships, limited liability companies, associations, non-profit corporations, natural persons engaged in trade or business activity, and the United States of America and any federal agency~~,~~ as a result of ownership of the property or use of the property under a lease, management or service contract (except for certain "qualified" management or service contracts), "naming rights" contract, "public-private partnership" arrangement, or any similar use arrangement that provides special legal entitlements for the use of the bond finance property;

2) No more than 10% of proceeds of any tax-exempt bond issue (including property financed with bonds) may be used for private business use, of which no more than 5% of proceeds of the tax-exempt bond issue (including the property financed with the bonds) may be used for any "unrelated" private business use – that is, generally, a private business use that is not functionally related to the government's purposes of the bonds (No more than the lesser of $5,000,000 or 5% of the proceeds of a tax-exempt bond issue) may be used to make or finance a loan to any person other than a state or local government unit;

3) Before entering into a special use arrangement that involves the use of bond financed property with a non-governmental person, the user must consult with the Treasurer, provide the Treasurer with a description of the proposed non-governmental use arrangement, and determine whether that use arrangement, if put into effect, will be consistent with the restrictions on private business use of the bond financed property;

4) In connection with the evaluation of a proposed non-governmental use arrangement, the Treasurer will consult with bond counsel to obtain federal tax advice to determine whether the use arrangement, if put into effect, will be consistent with the restrictions on private business use of the bond financed property, and, if not, whether "remedial action" permitted under §141 of the Code may be taken to enable that use arrangement without adversely affecting the tax-exempt status of the bonds.

IV. Refunding

A refunding is generally the process of paying off maturing or outstanding debt with proceeds of a new bond issue.

The Treasurer will continually monitor issued debt to determine whether present value savings can be achieved through refunding such debt. Prior to beginning a refunding bond issue, the County will review an estimate of the savings achievable from the refunding. The County also may review a pro forma schedule to estimate the savings, assuming the refunding is done at various points in the future.

The County generally will consider refunding outstanding bonds if one or more of the following conditions exist:

1) Present value savings is at a minimum of three percent (3%) of the par amount of the refunding bonds.
2) The bonds to be refunded have restrictive or outdated covenants.
3) Restructuring the debt is deemed to be desirable.

The County may pursue a refunding that does not meet the above criteria if:

1) Present value savings exceed the costs of issuing the bonds.
2) Current savings are acceptable when compared with savings that could be achieved by waiting for more favorable interest rates and/or call premiums.

Key definitions follow:

C. Advance Refunding

A method of providing for payment of debt service on a prior bond issue until the first permitted call date associated with the refunded bonds, where that call date is more than 90 days after the issue date of the refunding bonds. An advance refunding is accomplished by issuing a new bond or using available monies and investing the proceeds in an escrow account in a portfolio of U.S. government securities structured to provide enough cash flow to pay debt service on the refunded bonds until the call date.

D. Current Refunding

When refunding bonds are issued within 90 days of the call date.

E. Gross Savings

Difference between the debt service on refunding bonds and refunded bonds.

F. Net Present Value Savings

Net present value of gross savings discounted at the refunding bond yield to the closing date, plus refunding funds on hand and less any cash contribution toward the refunding from a reserve or debt service fund.

V. Debt Structuring

A. *Maturity Structures*

The term of County debt issues should not exceed the useful life of the facilities or equipment financed. The repayment of principal on tax supported debt should generally not extend beyond twenty years unless there are compelling factors which make it necessary to extend the term.

Debt issued by the County should be structured to provide either level principal or level debt service. Deferring the repayment of principal should be avoided except in select instances where it will take a period of time before project revenues are sufficient to pay debt service. Ascending debt service requirements should be avoided.

Additional detail information on Bond Insurance, Reserve Fund and Coverage Policy, Method of Sale - competitive or negotiated sale - County Debt Service and Reserve Funds can be found in the Clark County Treasurer's Debt and Compliance Policy.

B. *Debt Planning*

The Treasurer's Office shall coordinate the timing, process, and sale of County debt. The Treasurer's Office shall make recommendations to the BOCC to accomplish County financing objectives.

C. *Debt Authorization*

County debt issued for financing capital projects shall be included in the Capital Improvement Plan (CIP). The BOCC may modify the CIP to include new projects. Modification shall occur only after the BOCC has received a report of the impact of the contemplated borrowing on the existing Debt Plan and recommendations for the financing arrangements from the Treasurer's Office and County Finance Group.

VI. Limitation on County Indebtedness

A. *Target Limitations on Non-Self-Supporting Unlimited Tax General Obligation Indebtedness*

The County shall manage its finances so the amount of direct, non-self-supporting unlimited tax general obligation (UTGO) debt outstanding at any time is subject to approval by the voters (excluding long-term, non-self-supporting leases) does not exceed 2.5% of the County's taxable assessed market value (the total of 2.5% includes LTGO debt).
See Exhibit A.

B. *Target Limitations on Non-Self-Supporting Limited Tax General Obligation Indebtedness*

The County shall manage its finances so the amount of direct, non-self-supporting, limited tax general obligation (LTGO) indebtedness and full faith and credit lease purchase obligations outstanding at any time and not subject to approval by the voters does not exceed 1.5% of the County's taxable assessed market value.

The County shall strive to limit the annual debt service requirements on these obligations to an amount not greater than 10% of the operating revenues of the General Fund and issuing fund combined.

Debt per capita and debt per capita per personal income is included in Exhibit B and shall be reviewed annually for appropriate adjustments.

These limitations apply to debt obligations issued/secured with a specific pledge of the County's General Fund and which are not self-supporting, or which are paid for from General Fund monies. Also included within this limitation are any other loan agreements entered into directly by the County or secured indirectly by a pledge of the County's General Fund.

C. *Target Limitations on Self-Supporting Limited Tax Indebtedness*

The County shall manage its finances so the amount of direct, self-supporting, LTGO tax indebtedness outstanding at any time that is not subject to approval by the voters does not exceed 1.5% of the County's taxable assessed market value.

This limitation applies to debt obligations issued with a specific pledge of the County's General Fund, obligations secured by a pledge of the County's full faith and credit, and obligations secured by available general funds. The Treasurer's Finance Manager and the County Finance Group shall determine whether such General Fund-secured obligations are classified as self-supporting. The determination shall be based on factors including, but not limited to, length of history of the payment revenue source, debt service coverage, revenue volatility and classification of such debt by bond rating agencies.

D. *Target Limitations on Lease-Purchase Financing of Equipment and Furnishings*

The County may enter into short-term lease-purchase obligations to finance the acquisition of capital equipment and furnishings with estimated useful lives of generally less than ten years. Outstanding lease-purchase obligations issued to finance capital equipment and furnishings shall not exceed 0.125% of the County's taxable assessed market value. The repayment period of these lease- purchase obligations shall not exceed the useful life of the underlying asset or be longer than 10 years from the issue date of such obligations, whichever is less. The Treasurer's Office shall develop procedures for use by County departments interested in participating in the lease-purchase program, and shall set repayment terms and amortization schedules in consultation with participating departments and the provider of such lease.

E. *Limitations on General Fund Loan Guarantees and Credit Support*

General Fund resources may be used to provide credit support or loan guarantees for public or private projects that meet high priority County needs and/or developments.

[Note regarding "credit support or loan guarantees for "private developments:" The Washington State Constitution in Article VIII, section 7, prohibits the County from lending its credit in aid of any individual, association, company or corporation, except for the necessary support of the poor and infirm.] Before such General Fund commitments are made, the county shall develop specific policy goals and objectives that determine the nature and type of projects qualifying for the support and specific limitations on the maximum amount of General Fund resources pledged to such projects. The Finance

Group shall coordinate the development of policies and goals, which shall not take effect until approved by the BOCC. General Fund loan guarantees shall be subject to the overall debt limitations set forth above.

Recognizing the limited capacity of the County's General Fund to support both ongoing operating programs and secure long-term debt obligations, use of the General Fund to secure such obligations must first be approved by the BOCC. Key factors to consider in determining whether or not the General Fund should be used to secure a debt obligation include:

i. Demonstration of underlying self-support, thus limiting potential General Fund financial exposure.

ii. Use of General Fund support as a transition to a stand-alone credit structure, where interim use of General Fund credit support reduces borrowing costs and provides a credit history for new or hard-to-establish credit.

F. *Target Limitations on the Issuance of Revenue-Secured Debt Obligations*

The County shall finance the capital needs of its revenue producing enterprise activities through issuance of revenue-secured debt obligations. Before issuing revenue-secured debt obligations, County departments, in consultation with the Treasurer's Office, will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing and impact of the planned financing on ratepayers, property owners, County departments and other affected parties. The amount of revenue-secured debt obligations issued by a County department will be limited by the feasibility of the overall financing plan as determined by the County Treasurer and County Finance Group.

i. Revenue-secured debt obligations must first be reviewed by the Finance Group and approved by the BOCC before issuance.

VII. Structure and Term of County Indebtedness

A. *Rapidity of Debt Repayment*

Generally, the duration of borrowings should not exceed the economic life of the improvement it finances and, where feasible, should be shorter than the projected economic life. The County should design the repayment of debt to recapture rapidly its credit capacity for future use. The County shall strive to repay the principal amount of its long-term general obligation debt (both voter and non-voter approved) by at least 5% per year.

B. *Use of Variable-Rate Securities*

The County may choose to issue securities paying a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of the securities. The decision to issue such securities must be reviewed and approved by the Treasurer's Office and the County Finance Group before the BOCC is asked to approve such issuance. Before proposing use of variable rate debt, departments shall develop a plan to address interest rate risk associated with these instruments.

C. *Pledge of Restricted Funds to Secure Debt*

The County may make an irrevocable pledge of a security interest in an account created exclusively for the security of holders of County obligations. Before such funds are used to secure prospective financing, policies regarding the use of such restricted funds shall be developed by the affected department and the Treasurer's Office, subject to approval by the County Finance Group. The policies shall ensure the use of such funds to secure bonds does not violate restrictions on such funds and that underlying program commitments can be maintained, in addition to meeting debt service obligations. These policies shall be presented as recommendations to the BOCC prior to issuance of the secured debt for authorization. The County Treasurer will consult with bond counsel on compliance with federal arbitrage rules in connection with any such pledged fund.

D. *Use of Subordinate Lien Obligations*

Creation of a subordinate lien financing structure shall be based on the overall financing needs of a particular Department, expected credit ratings, relative cost of a subordinate lien structure, and impacts on the County as determined by the County Treasurer and the County Finance Group, in consultation with the involved Department. The results of this review shall be presented in the form of recommendations to BOCC for consideration prior to or at the time such bonds are authorized.

VIII. Short-Term Debt and Interim Financing

A. *Lines and Letters of Credit*

The County may enter into agreements with commercial banks or other financial entities to acquire lines or letters of credit that provide the County with access to credit under terms and conditions as specified in such agreements. Before entering into any agreement, takeout financing or intended amortization for lines or letters of credit must be planned for and determined feasible by the County Treasurer. Unless delegated to the Treasurer pursuant to RCW 39.46.040(2), agreements with financial institutions for the acquisition of lines or letters of credit shall be approved by the BOCC. Lines and letters of credit entered into by the County shall be in support of general operating expenditures and/or capital projects contained in the approved CIP.

B. *Bond Anticipation Notes*

Where their use is judged by the County Treasurer to be prudent and advantageous to the County, the County may choose to issue Bond Anticipation Notes as a source of interim construction financing. Before issuing such notes, takeout financing for such notes must be planned for and determined to be feasible by the County Treasurer. Bond Anticipation Notes may be sold in either a competitive or negotiated sale, subject to authorization and approval by the BOCC.

C. *Tax and Revenue Anticipation Notes*

The County may issue Tax and Revenue Anticipation Notes to fund internal working capital cash flow needs. Before issuing such notes, cash flow projections will be prepared by the appropriate County Departments and reviewed by the County Treasurer. Tax and

Revenue Anticipation Notes may be sold in either a competitive or negotiated sale, subject to authorization and approval by the BOCC.

D. Commercial Paper

The County may issue tax-exempt or taxable commercial paper as a source of interim construction financing for projects contained in the County's approved CIP only after the County Treasurer determines such a financing represents the least cost interim financing option for the County. Commercial paper shall not be issued for County capital programs unless it is of sufficient economic size as determined by the County Treasurer. A report recommending issuance of commercial paper must first be approved by the County Finance Group before recommendations are made to BOCC authorizing the use of commercial paper as a financing mechanism.

IX. Derivatives

A. Introduction

County management is committed to sound financial and risk management policies regarding derivatives and debt management.

Clark County may use interest rate swaps or similar products (Swap Products) and related transactions to meet the financial and management objectives as outlined in this policy.

B. Scope

The County recognizes Swap Products can be appropriate financial management tools for the County's financial and management objectives. The County shall integrate Swap Products into its overall debt management programs in a prudent manner in accordance with the parameters set forth in this Policy.

This Policy applies to any interest rate swap, swap option or related transaction the County may undertake.

For more information on derivative products, please review the Clark County Treasurer's Debt and Compliance Policy. It contains additional information on: Authorizations and Approvals; Compliance with Bond Documents and Covenants, General Objectives, Prohibited Uses of Interest Rate Swaps and Related Instruments, Permitted Financial Instruments, Identification and Evaluation of Financial and Other Risks, Risk Limitations, Procurement Process, Termination Provisions and County Liquidity, Reporting Requirements, Swaps Accounting Treatment and Periodic Review of Interest Rate Swap Policy.

X. Miscellaneous

A. Bond Closings

All bond closings shall be held in Clark County unless circumstances dictate otherwise.

B. Gift Policy

Employees will not directly or indirectly solicit, accept or receive any gift whether in the form of money, services, loan, travel, entertainment, hospitality, promise or any other form. Unsolicited gifts must be returned, shared with other employees or given to charity. Gifts, which may influence a reasonable employee in the performance of his/her duties will be refused.

XI. Exhibits

Exhibits will be modified each year as specific information changes. New exhibits will be placed on a separate sheet annually.

CLARK COUNTY FINANCE COMMITTEE

By: Doug Lasher 5/9/16

Doug Lasher, Chairman
Clark County Treasurer

By: Greg Kimsey 5/9/16

Greg Kimsey, Secretary
Clark County Auditor

By: Marc Boldt 5/9/16

Marc Boldt, Board of Councilors Representative
Chair - Clark County Board of Councilors

Exhibit A: Debt Limitation/Capacity

Debt Limitations

Under Washington State law, a county may issue general obligation bonds for general county purposes in an amount not to exceed 2.5 percent of the assessed value of all taxable property. The Board may by resolution and without a vote of the people authorize the issuance of limited tax general obligation (councilmatic) bonds in an amount up to 1.5 percent of the assessed valuation within the County. Unlimited tax general obligation (voter-approved) bonds require the affirmative vote of at least 60 % of the votes in an election with a voter turnout equal to at least 40 % of that of the last state general election. The total amount of outstanding limited tax and voter-approved general obligation bonds may not exceed 2.5 % of the County's assessed valuation.

Debt Capacity

The following table provides the calculation of the County's general obligation debt capacity as of Dec. 31, 2015.

Limited Tax Debt Limitation		
2015 Collection Year Assessed Value		$46,637,770,833
Limited tax general obligation debt capacity (nonvoted) 1.5% of assessed valuation		$699,566,562
Less: Outstanding LTGO Bonds and Other Obligations	$119,473,789	
Remaining capacity (nonvoted)		$580,092,773
Percent of nonvoted capacity issued		17.08%
Unlimited Tax and Limited Tax Debt Limitation		
2015 Collection Year Assessed Value		$46,637,770,833
Total general obligation debt capacity (voted and nonvoted) 2.5% of assessed valuation		$1,165,944,271
Less: Outstanding unlimited tax general obligation bonds	$0	
Less: Outstanding LTGO Bonds and Other Obligations	$119,473,789	
Remaining capacity (voted and nonvoted)		$1,046,470,482
Percent of voted and nonvoted capacity issued		10.25%

Exhibit B: Direct debt, personal income per capita in Clark County, Wash.

	2013 and 2014 data	Not to Exceed
Estimated Population (2014)	451,008	
Per Capita Direct Debt (2014)	$265	$2,585
Per Capita Personal Income (2013)	$40,567	
Debt to Personal Income (2013)	0.65%	6.4%

Exhibit C: Rating agency guidelines for General Fund fund balances

Available General Fund Balance	The annual dollar amount of available reserves a municipality has in its operating and reserve funds at fiscal year-end
Low	Below 0%
Adequate	1% - 4%
Good	4% - 8%
Strong	8% - 15%
Very strong	Above 15%

Exhibit D: Other Rating Agency Guidelines

Analytical Characterization of Ratios

Debt Service As % Of Expenditures	**The portion of operating expenditures consumed by debt service costs.**
Low	Below 8%
Moderate	8% - 15%
Elevated	15% - 20%
High	Above 25%

Overall Net Debt Per Capita	**A ratio of net debt to the population of the tax base**
Low	Below $1,000
Moderate	$1,000 - $2,000
Elevated	$2,000 - $5,000
High	Above $5,000

Overall Net Debt As % Of Market Value	**A ratio of net debt to the taxable market value of the tax base**
Low	Below 3%
Moderate	3% - 6%
Elevated	6% - 10%
High	Above 10%

Exhibit E: Revised Code of Washington Statutes Authorizing Debt

RCW 36.48.070 – County Finance Committee—Approval of investment policy and debt policy—Rules

RCW 39.46.040(2) – Bonds – Issuer to determine amount, terms, conditions, interest, etc. – Designated representative

RCW 36.017 to 36.900 – Counties

RCW 39.04 to 39.104 – Public contracts and indebtedness

RCW 35.41 – Municipal Revenue Bond Act

RCW 84.52.043 – Limitations upon regular property tax levies

RCW 84.55 – Limitations upon regular property taxes

RCW 84.52.050 – Limitations of levies

RCW 84.52.010 – Taxes levied or voted in specific amounts – Effect of constitutional and statutory limitations

RCW 84.52.052 – Excess levies authorized – When - Procedure