



CITY OF KIRKLAND
Department of Finance & Administration
123 Fifth Ave, Kirkland, WA 98033 · 425.587.3100
www.kirklandwa.gov

MEMORANDUM

To: Kurt Triplett, City Manager
From: Michael Olson, Director of Finance and Administration
Date: November 4, 2020
Subject: City of Kirkland Debt Management Policy updates

Recommendation

Council adopt the attached resolution revising the City of Kirkland Debt Management Policies. By adopting the resolution through approval of the consent agenda, the Council is authorizing this action.

Background

The Debt Management Policy is formatted according to the Government Finance Officers Association's (GFOA) recommended practices in the six following categories: 1) Uses of Debt; 2) Debt Limits; 3) Allowable Types of Debt; 4) Debt Structuring Practices; 5) Debt Issuance Practices and 6) Debt Management Practices. The Policy was last updated and approved by City Council in 2010.

The City submitted the Debt Policy for recertification to the Association of Public Treasurers of the United States and Canada (APT US&C) and the Washington Public Treasurers Association (WPTA) in 2017 and received Certification of Excellence in 2018 from both organizations. Following the refinancing of the 2010 Build America Bonds the City's Bond Council reviewed the Debt Management Policy and provided recommendations for updating the policy. The recommended changes, located in the following policy sections, are to clarify understanding or update to current best practices:

- 2.1.2 Clarified the limit on General Debt issuance
- 3.4 Added validation requirements to voted debt
- 3.6 Added language clarifying lease issuances
- 4.3.1 Recommend removing limitation on pursuing debt refunding allowing flexibility for purposes in refinancing existing debt
- 5.4 Added policies and procedures to "Compliance with Statutes and Regulations"
- 5.5.2 Added Disclosure Counsel to selection and use of professional service providers
- 6.2 Updated the City's continuing disclosure requirements under securities laws

The updated Debt Management Policy follows as Attachment A and a red-lined copy as Attachment B.

City of Kirkland

Debt Management Policy

November 17, 2020

The Debt Policy for the City of Kirkland (City) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability.

1.0 Uses of Debt

- 1.1 City of Kirkland uses debt as a mechanism to equalize the costs of needed capital improvements for the benefit of both present and future citizens;
- 1.2 City of Kirkland uses debt as a mechanism to reduce the immediate costs of substantial public improvements.
- 1.3 The City of Kirkland will not use long-term debt to support current operations.
- 1.4 Long-term borrowing will only be used for capital improvements that cannot be financed from current revenues.
- 1.5 Non-capital furnishings, supplies, and personnel will not be financed from bond proceeds.
- 1.6 Interest, operating, and/or maintenance expenses will be capitalized only for enterprise activities; and will be strictly limited to those expenses incurred prior to actual operation of the facilities.

2.0 Debt Limits

2.1 Legal Limits:

- 2.1.1 The general obligation debt of Kirkland will not exceed an aggregated total of 7.5% of the assessed valuation of the taxable property within the City. RCW 39.36.020
- 2.1.2 The following individual percentages shall not be exceeded in any specific debt category:

General Debt - 2.5% of assessed valuation with voter approval (unlimited tax general obligation (UTGO) bonds), however, within such amount, up to 1.5% of assessed valuation may be issued without voter approval (limited tax general obligation (LTGO) bonds)

Utility Debt - 2.5% of assessed valuation with voter approval

Open Space and Park Facilities - 2.5% of assessed valuation with voter approval

2.2 Public Policy Limits:

- 2.2.1 The City will establish and implement a comprehensive multi-year Capital Improvement Program (CIP).
- 2.2.2 Financial analysis of funding sources will be conducted for all proposed capital improvement projects.
- 2.2.3 Debt will be issued in accordance with the CIP as necessary.

City of Kirkland

Debt Management Policy

November 17, 2020

- 2.2.4 Where borrowing is recommended, the source of funds to cover debt service requirements must be identified.
- 2.2.5 The City, as determined by the City Council, may consider using long term debt toward public improvements, which have an identified public benefit to the City, associated with economic development to the extent that new revenues from the project, in excess of those identified by the City Council for other City purposes can be agreed upon to support the debt service.

2.3 Financial Limits:

- 2.3.1 The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.
- 2.3.2 The City will conduct a debt affordability analysis to evaluate the City's ability to support debt. The analysis will review available resources for the amount of debt the City can initiate each year, and project the effects of that financing through six years of the CIP.

3.0 Allowable Types of Debt

- 3.1 Short Term Obligations: Short-term borrowing will only be used to meet the immediate financing needs of a project for which long-term financing has been secured but not yet received. The City may issue interfund loans rather than outside debt instruments to meet short-term cash flow needs. Interfund loans will be permitted only if an analysis of the affected fund indicates excess funds are available and the use of the funds will not impact the fund's current operations. All interfund loans will be subject to Council approval, will bear interest based upon prevailing rates and have terms consistent with state guidelines for interfund loans.
- 3.2 Assessment/ LID Bonds: Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the City. LID's are formed by the City Council after a majority of property owners agree to the assessment.
- 3.3 General Obligation Bonds Limited Tax: General Obligation debt is backed by the full faith and credit of the City and is payable from General Fund revenues and taxes collected by the City. Limited Tax General Obligation (LTGO) Bonds can be issued with the approval of the City Council and will only be issued if:
 - A project requires funding not available from alternative sources;
 - Matching fund monies are available which may be lost if not applied for in a timely manner;
 - or Emergency conditions exist.
- 3.4 General Obligation Bonds Unlimited Tax: Unlimited Tax General Obligation (UTGO) Bonds are payable from excess tax levies and is subject to voter approval by 60% of the voters, plus validation requirements.
- 3.5 Revenue Bonds: Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Program and are generally payable from the enterprise. No taxing power or general fund pledge is provided as security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required.

City of Kirkland
Debt Management Policy
November 17, 2020

- 3.6 Leases: Lease purchase or financing contracts are payment obligations that represent principal and interest components which are obligations of the City. Leases may be issued as general obligations or revenue obligations. If general obligations, the principal component plus any accrued interest may be counted against the City's voted or nonvoted debt capacity.
- 3.7 Other Loan Programs:
- 3.7.1 Public Works Trust Fund Loans are loans from the Public Works Board, authorized by state statute, RCW 43.155 to loan money to repair, replace, or create domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste and recycling facilities, and bridges.
- 3.7.2 The Local Option Capital Asset Lending (LOCAL) Program is a financing contract with the Office of the State Treasurer under RCW 39.94. It is an expanded version of the state agency lease/purchase program that allows pooling funding needs into larger offerings of securities. This program allows local government agencies the ability to finance equipment needs through the State Treasurer's office, subject to existing debt limitations and financial consideration.
- 3.7.3 Other state funded programs.
- 3.8 Alternative types of debt: No variable-rate debt or derivative products shall be utilized.
- 4.0 Debt Structuring Practices
- 4.1 Maximum term, Payback Period and Average maturity:
- 4.1.1 The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life with the average life of the bonds less than or equal to the average life of the assets being financed.
- 4.1.2 General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.
- 4.1.3 The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.
- 4.2 Debt Service Structure:
- 4.2.1 Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.
- 4.3 Criteria for issuance of advance refunding and current refunding bonds
- 4.3.1 The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt. A debt refunding is a refinance of debt typically done to take advantage of lower interest rates.
- 4.4 Other structuring practices:

City of Kirkland
Debt Management Policy
November 17, 2020

4.4.1 Bond amortization schedules will be structured to minimize interest expense with the constraints of revenues available for debt service. The bonds should include call features to maximize the City's ability to advance refund or retire the debt early. However, call features should be balanced with market conditions to ensure that the total cost of the financing is not adversely affected.

5.0 Debt Issuance Practices

5.1 Council Approval: City Council approval is required prior to the issuance of debt.

5.2 Analytical Review: An analytical review shall be conducted prior to the issuance of debt including, but not limited to, monitoring of market opportunities and structuring and pricing of the debt.

5.3 Use of credit ratings, minimum bond ratings, determination of the number of ratings and selection of rating services: The City will continually strive to maintain its bond rating by improving financial policies, budget, forecasts and the financial health of the City so its borrowing costs are minimized and its access to credit is preserved. The City will maintain good communication with bond rating agencies about its financial condition, coordinating meetings, and presentations in conjunction with a new issuance as necessary.

5.4 Compliance with Statutes and Regulations: The Finance Director, City Attorney and bond counsel shall coordinate their activities and review all debt issuance to ensure that all securities are issued in compliance with legal and regulatory requirements by the State of Washington and the Federal Government's laws, rules and regulations, and policies and procedures, including the City's Bond Procedure and Post Issuance Compliance Policy.

5.5 Selection and use of professional service providers:

5.5.1 The City's Finance and Administration Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.

5.5.2 Bond Counsel: All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all city and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt. [Disclosure Counsel, which may be Bond Counsel, may be retained by the City if determined to be necessary or advisable, for advice with respect to the City's disclosure obligations and requirements under the federal securities laws.]

5.5.3 Financial Advisor: A Financial Advisor(s) may be used to assist in the issuance of the City's debt. The Financial Advisor will provide the City with the objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring of market opportunities, structuring and pricing of debt, and preparing official statements of disclosure.

5.5.4 Underwriters: An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

5.5.5 Fiscal Agent: A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.

City of Kirkland
Debt Management Policy
November 17, 2020

5.6 Criteria for determining sales method and investment of proceeds:

5.6.1 The Director of Finance and Administration shall determine the method of sale best suited for each issue of debt.

5.6.2 The City will generally issue its debt through a competitive process. For any competitive sale of debt, the City 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).

5.6.3 The City will provide for the sale of debt by negotiating the terms and conditions of sale when necessary to minimize the cost and risks of borrowing under the following conditions:

- i. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
- ii. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
- iii. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
- iv. The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

5.7 Bond Insurance: For each issue, the City will evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City shall be competitively procured.

6.0 Debt Management Practices

6.1 Investment of Bond Proceeds

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds, including City of Kirkland Investment Policy.

6.2 Continuing Disclosure

The City shall provide annual financial information and operating data and notice of certain listed events in compliance with its ongoing disclosure undertakings.

6.3 Arbitrage Rebate monitoring and filing

The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations, and will perform (internally or by contract consultants) arbitrage rebate calculations for each issue subject to rebate. All necessary rebates will be filed and paid when due in order to preserve the tax-exempt status of the outstanding debt.

6.4 Federal and state law compliance practices

Discussed in Debt Issuance Practices sections 5.3 and 5.4 and Debt Management Practices sections 6.1 and 6.3.

6.5 Market and investor relations efforts

The City shall endeavor to maintain a positive relationship with the investment community. The City shall communicate through its published Biennial Budget, Capital Improvement Program and

City of Kirkland
Debt Management Policy
November 17, 2020

Comprehensive Annual Financial Statements the City's indebtedness as well as its future financial plans.

6.6 Periodic review

The City's debt policy shall be adopted by City Council. The policy shall be reviewed every four years by the Council Finance Committee and modifications shall be submitted to and approved by City Council.

City of Kirkland Debt Management Policy

~~September 1, 2010~~

November 4, 2020

The Debt Policy for the City of Kirkland (City) is established to help ensure that all debt is issued both prudently and cost effectively. The Debt Policy sets forth guidelines for the issuance and management of all financings of the City. Adherence to the policy is essential to ensure that the City maintains a sound debt position and protects the credit quality of its obligations while providing flexibility and preserving financial stability.

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_____	Non-Voted	_____	1.5%	Limited Tax General Obligation (LTGO) Bonds
_____	Voted	_____	1.0%	Unlimited Tax General Obligation (UTGO) Bonds

Utility Debt - 2.5% of assessed valuation with voter approval

Open Space and Park Facilities - 2.5% of assessed valuation with voter approval

2.2 Public Policy Limits:

- 2.2.1 The City will establish and implement a comprehensive multi-year Capital Improvement Program (CIP).
- 2.2.2 Financial analysis of funding sources will be conducted for all proposed capital improvement projects.

City of Kirkland Debt Management Policy

~~September 1, 2010~~

November 4, 2020

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2.3.1 The City's policy is to plan and direct the use of debt so that debt service payments will be a predictable and manageable part of the Operating Budget.

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3.2 Assessment/ LID Bonds: Assessment bonds will be considered in place of general obligation bonds, where possible, to assure the greatest degree of public equity. Local Improvement District (LID) Bonds represent debt that is repaid by the property owners who benefited from the capital improvement through annual assessments paid to the City. LID's are formed by the City Council after a majority of property owners agree to the assessment.

3.3 General Obligation Bonds Limited Tax: General Obligation debt is backed by the full faith and credit of the City and is payable from General Fund revenues and taxes collected by the City. Limited Tax General Obligation (LTGO) Bonds can be issued with the approval of the City Council and will only be issued if:

- A project requires funding not available from alternative sources;
- Matching fund monies are available which may be lost if not applied for in a timely manner;
- or Emergency conditions exist.

3.4 General Obligation Bonds Unlimited Tax: Unlimited Tax General Obligation (UTGO) Bonds are payable from excess tax levies and is subject to voter approval by 60% of the voters, [plus validation requirements](#).

3.5 Revenue Bonds: Revenue bonds are used to finance construction or improvements to facilities of enterprise systems operated by the City in accordance with the Capital Improvement Program and are generally payable from the enterprise. No taxing power or general fund pledge is provided as

City of Kirkland Debt Management Policy

~~September 1, 2010~~

~~November 4, 2020~~

security. Unlike general obligation bonds, revenue bonds are not subject to the City's statutory debt limitation nor is voter approval required.

3.6 Leases: Lease purchase or financing contracts are payment obligations that represent principal and interest components which are ~~general obligations~~ obligations of the City. Leases may be issued as general obligations or revenue obligations. If general obligations, the principal component plus any accrued interest may be counted against the City's voted or nonvoted debt capacity.

3.7 Other Loan Programs:

3.7.1 Public Works Trust Fund Loans are loans from the Public Works Board, authorized by state statute, RCW 43.155 to loan money to repair, replace, or create domestic water systems, sanitary sewer systems, storm sewer systems, roads, streets, solid waste and recycling facilities, and bridges.

3.7.2 The Local Option Capital Asset Lending (LOCAL) Program is a financing contract with the Office of the State Treasurer under RCW 39.94. It is an expanded version of the state agency lease/purchase program that allows pooling funding needs into larger offerings of securities. This program allows local government agencies the ability to finance equipment needs through the State Treasurer's office, subject to existing debt limitations and financial consideration.

3.7.3 Other state funded programs.

3.8 Alternative types of debt: No variable-rate debt or derivative products shall be utilized.

4.0 Debt Structuring Practices

4.1 Maximum term, Payback Period and Average maturity:

4.1.1 The issuance of bonds shall be financed for a period not to exceed a conservative estimate of the asset's useful life with the average life of the bonds less than or equal to the average life of the assets being financed.

4.1.2 General Obligation bonds will be issued with maturities of 30 years or less unless otherwise approved by Council.

4.1.3 The maturity of all assessment bonds shall not exceed statutory limitations. RCW 36.83.050.

4.2 Debt Service Structure:

4.2.1 Unless otherwise justified and deemed necessary, debt service should be structured on a level or declining repayment basis.

4.3 Criteria for issuance of advance refunding and current refunding bonds

4.3.1 The City will use refunding bonds, where appropriate, when restructuring its current outstanding debt. A debt refunding is a refinance of debt typically done to take advantage of lower interest rates. Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will not be pursued without a sufficient net present value benefit

City of Kirkland Debt Management Policy

~~September 1, 2010~~

~~November 4, 2020~~

after expenses. [[recommend removing this limitation to allow flexibility for change in covenants that may have financial benefits but not necessarily debt service savings]]

4.4 Other structuring practices:

4.4.1 Bond amortization schedules will be structured to minimize interest expense with the constraints of revenues available for debt service. The bonds should include call features to maximize the City's ability to advance refund or retire the debt early. However, call features should be balanced with market conditions to ensure that the total cost of the financing is not adversely affected.

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5.4 Compliance with Statutes and Regulations: The Finance Director, City Attorney and bond counsel shall coordinate their activities and review all debt issuance to ensure that all securities are issued in compliance with legal and regulatory requirements by the State of Washington and the Federal Government's laws, rules and regulations, and policies and procedures, including the City's Bond Procedure and Post Issuance Compliance Policy.

5.5 Selection and use of professional service providers:

5.5.1 The City's Finance and Administration Department shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program.

5.5.2 Bond Counsel: All debt issued by the City will include a written opinion by bond counsel affirming that the City is authorized to issue the proposed debt. The opinion shall include confirmation that the City has met all city and state constitutional and statutory requirements necessary for issuance, a determination of the proposed debt's federal income tax status and any other components necessary for the proposed debt. [Disclosure Counsel, which may be Bond Counsel, may be retained by the City if determined to be necessary or advisable, for advice with respect to the City's disclosure obligations and requirements under the federal securities laws.]

5.5.3 Financial Advisor: A Financial Advisor(s) may be used to assist in the issuance of the City's debt. The Financial Advisor will provide the City with the objective advice and analysis on debt issuance. This includes, but is not limited to, monitoring of market opportunities, structuring and pricing of debt, and preparing official statements of disclosure.

5.5.4 Underwriters: An Underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The Underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

City of Kirkland Debt Management Policy

~~September 1, 2010~~

November 4, 2020

5.5.5 Fiscal Agent: A Fiscal Agent will be used to provide accurate and timely securities processing and timely payment to bondholders. In accordance with RCW 43.80, the City will use the Fiscal Agent that is appointed by the State.

5.6 Criteria for determining sales method and investment of proceeds:

5.6.1 The Director of Finance and Administration shall determine the method of sale best suited for each issue of debt.

5.6.2 The City will generally issue its debt through a competitive process. For any competitive sale of debt, the City 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).

5.6.3 The City will provide for the sale of debt by negotiating the terms and conditions of sale when necessary to minimize the cost and risks of borrowing under the following conditions:

- i. The bond issue is, or contains, a refinancing that is dependent on market/interest rate timing.
- ii. At the time of issuance, the interest rate environment or economic factors that affect the bond issue are volatile.
- iii. The nature of the debt is unique and requires particular skills from the underwriter(s) involved.
- iv. The debt issued is bound by a compressed time line due to extenuating circumstances such that time is of the essence and a competitive process cannot be accomplished.

5.7 Bond Insurance: For each issue, the City will evaluate the costs and benefits of bond insurance or other credit enhancements. Any credit enhancement purchases by the City shall be competitively procured.

6.0 Debt Management Practices

6.1 Investment of Bond Proceeds

The City shall comply with all applicable Federal, State and contractual restrictions regarding the investment of bond proceeds, including City of Kirkland Investment Policy.

6.2 Continuing Disclosure

The City shall provide ~~annual disclosure information to established national information repositories and maintain compliance with disclosure statements as required by state and national regulatory bodies~~ annual financial information and operating data and notice of certain listed events in compliance with its ongoing disclosure undertakings. ~~Disclosure shall take the form of the Comprehensive Annual Financial Report (CAFR) unless information is required by a particular bond issue that is not necessarily contained within the CAFR.~~

6.3 Arbitrage Rebate monitoring and filing

The City will, unless otherwise justified, use bond proceeds within the established time frame pursuant to the bond ordinance, contract or other documents to avoid arbitrage. Arbitrage is the interest earned on the investment of the bond proceeds above the interest paid on the debt. If arbitrage occurs, the City will follow a policy of full compliance with all arbitrage rebate requirements of the federal tax code and Internal Revenue Service regulations, and will perform (internally or by contract consultants) arbitrage rebate calculations for each issue subject to rebate.

City of Kirkland Debt Management Policy

~~September 1, 2010~~

~~November 4, 2020~~

All necessary rebates will be filed and paid when due in order to preserve the tax-exempt status of the outstanding debt.

6.4 Federal and state law compliance practices

Discussed in Debt Issuance Practices sections 5.3 and 5.4 and Debt Management Practices sections 6.1 and 6.3.

6.5 Market and investor relations efforts

The City shall endeavor to maintain a positive relationship with the investment community. The City shall communicate through its published Biennial Budget, Capital Improvement Program and Comprehensive Annual Financial Statements the City's indebtedness as well as its future financial plans.

6.6 Periodic review

The City's debt policy shall be adopted by City Council. The policy shall be reviewed every four years by the Council Finance Committee and modifications shall be submitted to and approved by City Council.

RESOLUTION R-5458

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF KIRKLAND ADOPTING A REVISED POLICY FOR THE MANAGEMENT OF THE CITY'S DEBT.

1 WHEREAS, the City Council of the City of Kirkland deems
2 to ensure that all debt is issued prudently and cost effectively; and
3

4 WHEREAS, the City Council of the City of Kirkland desires
5 to set forth guidelines for the issuance and management of all
6 financings of the City; and
7

8 WHEREAS, the Kirkland City Treasurer (Director of Finance
9 and Administration) has recommended revisions to the debt
10 management policies; and
11

12 WHEREAS, the City of Kirkland debt management policy
13 has been written in accordance with the Association of Public
14 Treasurers of the United States & Canada (APT US&C) guidelines.
15

16 NOW, THEREFORE, be it resolved by the City Council of the
17 City of Kirkland as follows:
18

19 Section 1. The policy for the management of the City's
20 debt set forth in the document entitled "City of Kirkland Debt
21 Management Policy November 17, 2020" which is attached hereto
22 and incorporated herein by this reference as if set forth in full is
23 hereby adopted as official policy for the management of the City's
24 debt.
25

26 Section 2. That the document entitled City of Kirkland Debt
27 Management Policy _____, replaces all previous City of
28 Kirkland Debt Management Policies.
29

30 Passed by majority vote of the Kirkland City Council in open
31 meeting this ____ day of _____, 2020.
32

33 Signed in authentication thereof this ____ day of
34 _____, 2020.
35

36 _____
37 Penny Sweet, Mayor
38

39 Attest:
40

41 _____
42 Kathi Anderson, City Clerk