

**DISCOVERY CLEAN WATER ALLIANCE**

**RESOLUTION NO. 2013 – 13**

**A RESOLUTION OF DISCOVERY CLEAN WATER ALLIANCE, APPROVING THE DEBT POLICY FOR THE DISCOVERY CLEAN WATER ALLIANCE.**

**WHEREAS**, the Board of Directors has determined after the Finance Advisory Committee held various policy-development meetings, that it is in the best interest of the Alliance to approve the Debt Policy; now, therefore

**BE IT RESOLVED** by the Board of Directors of Discovery Clean Water Alliance that the Debt Policy attached to this resolution is approved and adopted.

**ADOPTED** by the Board of Directors of Discovery Clean Water Alliance at a regular meeting held on November 15, 2013.

**DISCOVERY CLEAN WATER ALLIANCE**



Vice-Chair, Board of Directors

**Debt Policy**  
**Adopted 11/15/13**



Discovery Clean  
Water Alliance

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## SECTION I. INTRODUCTION

### Purpose and Overview

The Debt Policy for Discovery Clean Water Alliance (Alliance) is established to help ensure that all new 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 Board of Directors (Board). Adherence to the policy is essential to ensure that the Board maintains a sound debt position and protects the credit quality of its obligations.

## SECTION II. LEGAL GOVERNING PRINCIPLES

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

### Governing Law

**State Statutes** - The Alliance may contract indebtedness as provided for by RCW 39.106. Indebtedness is subject to the limitations on indebtedness provided for in RCW 57.20.110 or RCW 39.36.020 and Article VIII of the Washington State Constitution. Bonds evidencing such indebtedness shall be issued and sold in accordance with RCW 39.46. Under RCW 39.106 and the Alliance's Interlocal Formation Agreement, borrowings for the Alliance may also be carried out by any Alliance Member, or by any Alliance Member on behalf of another Alliance Member.

**Federal Rules and Regulations** - The Alliance 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; the Securities Acts of 1933 and 1934 and the Municipal Securities Rulemaking Board.

**Local Rules and Regulations** - The Alliance shall issue and manage debt in accordance with the limitations and constraints imposed by local rules and regulations.

## **Permitted Debt by Type**

The Alliance may legally incur debt using any of the debt instruments described below:

**Revenue Bonds** - The Alliance is authorized to sell Revenue Bonds pursuant to RCW 57.20.110 or such other applicable statute as approved by the Board.

**Grant and Loan Programs for Wastewater Projects** - The Alliance may qualify for financing from federal or state grant and loan programs which support construction of public wastewater facilities.

**Short Term Debt** - The Alliance is authorized to sell short-term debt, including variable rate bonds under RCW 39.50, subject to the approval of the Board.

## **Purpose for Borrowing**

The Alliance shall incur long-term debt solely for the purpose of financing the cost of design, planning and permitting, acquisition and/or construction of capital projects relating to regional assets, as defined in a Capital Plan.

**Revenue Bonds** - The Alliance shall use Revenue Bonds for the purpose of financing construction or betterments to Regional Assets.

**Federal or State Grants and Loans** - Federal or State grants and loans shall be used for the purpose of financing construction or betterments to Regional Assets.

**Short Term Debt** - The Alliance shall use Short Term Debt for the purpose of covering operating expenses due to cash flow variation.

Consistent with Section VI.D. of the Interlocal Formation Agreement, borrowing for costs of Regional Assets, or for operating costs of the Alliance may be carried out by issuance of Bonds by the Alliance itself, or by or through any Member.

## **Limitations on Debt Issuance**

**Debt Coverage Ratio** - The Alliance's bond covenants for Revenue Bonds, including debt coverage ratios, should be determined so that they are consistent with the Interlocal Formation Agreement, Exhibit A, and so that they encourage favorable ratings and interest rates while taking into account the impact on the Members and their ratepayers.

**Short-Term Debt** - The Alliance's short-term debt, as a guideline, should not exceed 25% of its total debt capacity.

## **Roles and Responsibilities**

**Finance Advisory Committee** - The Committee shall review and advise the Board regarding:

- Manner of sale of debt;
- Structure and type of debt to issue;
- Refunding opportunities;
- Changes in disclosure requirements;
- Annual report on debt outstanding.

**The Board of Directors** - The Board shall:

- Approve indebtedness;
- Approve appointment of independent financial advisor and bond counsel;
- Approve the Debt Policy;
- Approve budgets sufficient to provide for the timely payment of principal and interest on all debt; and
- In consultation with the Alliance's financial advisor, Treasurer and bond counsel shall approve the most appropriate financing structure for a proposed bond sale.

**Treasurer** - The primary responsibility for debt management rests with the Treasurer. The Treasurer 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 and make recommendations to the Board ;
- Recommend to the Board the manner of sale and structure 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;
- Develop a post-issuance compliance policy with respect to tax-exempt obligations;
- Provide for the timely payment of principal of and interest on all debt; ensure that the fiscal agent receives funds for payment of debt service on or before the payment date;
- Provide for and participate in the preparation and review of offering documents;

- Provide for and participate in the preparation and review of disclosure documents;
- Comply with all terms, conditions and disclosures required by the legal documents governing the debt issuance(s);
- Submit to the Board all recommendations to issue debt;
- Distribute to appropriate repositories information regarding financial condition and affairs at such times and in the form required by law, regulation and general practice, including Rule 15c2-12 regarding continuing disclosure;
- Provide for the distribution of pertinent information to rating agencies and participate in all rating calls and visits;
- Maintain a current database with all outstanding debt;
- Apply and promote prudent fiscal practices;
- Compute, or oversee a third party vendors computation of arbitrage rebate on each issuance; and
- Invest bond fund proceeds until needed, generally based upon a cash flow projection associated with expenditure needs of the project(s)

### **Ethical Standards Governing Conduct**

The Members of the Alliance and the Board will adhere to standards of conduct as stipulated by the following:

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

## **SECTION III. PROFESSIONAL SERVICES**

### **Professional Services**

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

**Selection Process** - The selection of financial and legal professionals to assist the Alliance in carrying out financing programs should be made through a competitive process.

**Appointment of Financial Advisor** - The Alliance will select a financial advisor (or advisors) to assist in the issuance and administration of all debt. The firm(s) selected as financial advisor will provide a full range of advisory services in connection with the Alliance's financing programs.

The recommendation of financial advisor selection will be made by the Treasurer in consultation with the Finance Advisory Committee (FAC), or by a selection committee, which includes a representative of the FAC.

A financial advisor will provide the Alliance with objective advice and analysis, maintain the confidentiality of Alliance's financial plans, and be free from any conflict of interest as defined by:

- Ethics in Public Service Act, RCW 42.52; and,
- Any other appropriate federal statute or regulation governing financial advisors.

A financial advisor under contract with the Alliance will not purchase or sell any Alliance debt until underwriting accounts are closed or debt is freed from underwriter pricing restrictions, whichever occurs first.

The fees paid to financial advisors shall be on an hourly or retainer basis. Unless otherwise justified, no fees shall be contingent on the sale of bonds or dependent upon the amounts of bonds sold.

The Treasurer shall submit to the Board a recommendation for the appointment of Financial Advisor(s). The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action. The Treasurer shall monitor the services rendered by the Financial Advisor(s).

**Appointment of Bond Counsel** - All debt issued by the Alliance shall include a written opinion by legal counsel affirming that the Alliance is authorized to issue the proposed debt, that the Alliance has met all federal, state, and local legal requirements necessary for issuance and a determination of the proposed debt's federal income tax status. This approving opinion and other documents relating to the issuance of debt shall be prepared by a nationally recognized legal firm with extensive experience in public finance and tax issues.

Unless otherwise justified, the appointment will be made from among nationally recognized law firms with significant operations in Washington State.

The firm selected as bond counsel will be expected to provide the full range of legal services required in connection with a) the successful issuance and delivery of the bond



issues ("Bonds") and b) on-going legal services for the Alliance ("Issuer") financing programs.

The recommendation of bond counsel selection will be made by the Treasurer in consultation with the FAC, or by a selection committee, which includes a representative of the FAC.

The General Counsel shall submit to the Board a recommendation for the appointment or when deemed reasonable, reappointment of Bond Counsel(s). The recommendation shall be accompanied by an evaluation of options and a justification for the recommended course of action.

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

**Appointment of Verification Agent** - In conjunction with the sale of refunding bonds, the Treasurer shall procure the services of a verification agent. The purpose of the verification agent is to confirm that sufficient proceeds are escrowed to ensure the timely repayment of principal and interest on the bonds being refunded. The verification agent must be a nationally recognized provider of verification services. The selection of a verification agent shall be based upon a competitive process.

Selection criteria shall include, but not be limited to:

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

**Appointment of Underwriters** - If a negotiated sale is approved under Section IV below, the Treasurer shall select an underwriter(s). The selection of underwriters shall be based upon a competitive process. Criteria used in the appointment of qualified underwriters shall include, but not be limited to:

- Demonstrated ability serving on financial transactions with similar complexity to the transaction being planned;
- Demonstrated ability to structure a debt issue efficiently and effectively;
- Demonstrated ability to sell debt to institutional and retail investors;
- Demonstrated ability to put capital at risk;
- Experience and reputation of assigned personnel; and
- Fees and expenses.

Respondents shall present in their proposal a complete and detailed list of all proposed fees and expenses, including, but not limited to takedown, management fees, underwriting risk, and itemized not-to-exceed underwriting expenses to be paid by the issuer. The underwriting expense component must be finalized and approved by the Treasurer 48 hours prior to the day of pricing. The underwriting risk component will not be considered until after the order period closes.

The Treasurer with assistance from the independent financial advisor shall monitor the services rendered by the underwriter(s).

**Appointment of Escrow Agent** - The Treasurer shall, when deemed necessary or when required, e.g., in connection with bond refundings, 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 process.

**Appointment of Arbitrage Rebate Calculation Firm** - The Treasurer 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 process. 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 Treasurer as requested concerning arbitrage regulations and related issues including control procedures and industry practices.

Criteria used in the appointment of qualified arbitrage rebate calculation firm shall include, but not be limited to:

- Firm's qualifications and experience in providing arbitrage rebate calculation services;

- Staff qualifications, tax expertise, and experience;
- Demonstrated ability to provide timely reports; and
- Cost of services.

## SECTION IV. TRANSACTION-SPECIFIC POLICIES

### **Method of Sale**

**Presumption of Competitive Sale** - When deemed appropriate by the Alliance to minimize the costs and risks of the Alliance's debt issue, the issuance and sale of fixed rate Alliance debt shall be achieved by competitive bid.

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

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

The Alliance, with the assistance of its Financial Advisor, shall evaluate the terms offered by the underwriting team. Evaluations of prices, interest rates, fees and commissions shall include prevailing terms and conditions in the marketplace for comparable issuers.

If more than one underwriter is included in the negotiated sale of debt, the Alliance shall establish appropriate levels of liability, participation and priority of orders.

The Treasurer shall, with the assistance of its Financial Advisor, oversee the bond allocation process. The bond allocation process shall be managed by the lead underwriter, with the following requirements:

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

The Treasurer shall require a post-sale analysis and reporting for each negotiated bond sale. The independent Financial Advisor shall perform such analysis and provide a final pricing analysis by the day of the closing. A post-sale analysis will include, but not be limited to:

- Summary of the pricing, including copies of the actual pricing wires;
- Results of comparable bond sales in the market at the time of the Alliance's pricing;
- Detailed information on a) orders and allocation of bonds, by underwriting firm, b) detailed information on final designations earned by each underwriter, and c) a summary of total compensation received by each underwriter; and
- Historic comparisons to Municipal Market Data indexes -- day of sale basis.

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

**Private Placement** - When deemed appropriate to minimize the costs and risks of Alliance's debt issue, the Treasurer will submit to the Board a request to sell the debt issue through private placement.

### **Structural Elements**

**Maturity** - The Alliance 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 not longer than 40 years.

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

**Maturity Structure** - The Alliance's long-term debt may include serial and term bonds. Unless otherwise justified, term bonds should be sold with mandatory sinking fund or annual redemption requirements.

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

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

**Redemption Features** - For each transaction, the Alliance shall evaluate the costs and benefits of call provisions.

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

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

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

**Revenue Bonds:** Revenue Bonds of the Alliance shall be repaid from specified revenues, as defined in the authorizing Agreement.

## **SECTION V. COMMUNICATION POLICIES**

### **Rating Agencies**

The Treasurer shall manage relationships with the rating analysts assigned to the Alliance's credit, using both informal and formal methods to disseminate information. Communication with the rating agencies shall include:

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

### **Credit Objective**

The Alliance shall seek to maintain an investment grade credit rating of AA for revenue bonds.

### **Bond Insurers**

The Treasurer shall manage relationships with the analysts at the bond insurers assigned to the Alliance's credit, using both informal and formal methods to disseminate information.

## **SECTION VI. COMPLIANCE POLICES**

### **Investment of Proceeds**

**General** - The Alliance shall comply with all applicable Federal, State, and contractual restrictions regarding the investment of bond proceeds, including the Alliance's Investment

Policy. This includes compliance with restrictions on the types of investment securities allowed, restrictions on the allowable yield of some invested funds as well as restrictions on the time period over which some bond proceeds may be invested.

**Refunding Escrow** - Unless otherwise justified and deemed necessary the Alliance shall utilize State and Local Government Series (SLGS) for the refunding escrow. SLGS are special series of U.S. Treasury securities.

If open market securities are deemed appropriate the Alliance shall in consultation with bond counsel comply with each of the following:

- a) Securities purchased in the open market shall contain at least three bona fide bids from sellers that have no involvement in the pricing of the issue; and
- b) Utilize the verification agent to make certain that the escrow remains intact.

### **Arbitrage Liability Management**

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

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

The Treasurer shall develop a post-issuance compliance policy detailing the Alliance's procedures for complying with applicable regulations relating to tax-exempt obligations.

### **Continuing Disclosure**

The Alliance shall comply with SEC 15c2-12 regulations, which require municipal debt issuers to provide specified financial and operating information for fiscal years beginning on or after January 1, 1996. The Treasurer shall be the Compliance Officer for disclosure requirements.

### **Bond Users Clearinghouse**

The Alliance shall ensure that the Bond Users Clearinghouse receives municipal bond information for all debt sold as provided by RCW 39.44.200 39.44.240 and WAC 365-130. The information requested by RCW 39.44.210.

## **Legal Covenants**

The Alliance 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**

Refundings will be conducted in accordance with the Refunding Bond Act, RCW 39.53. Unless otherwise justified, the Alliance will refinance debt to achieve true interest cost savings as market opportunities arise. Net present value savings should be 3% or greater. Refundings may also be conducted in order to better align debt service payments with future Alliance cash flow needs.

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

### **Derivative Products**

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

### **Alternative Financings Schemes**

The Alliance shall not utilize alternative financing schemes to avoid restrictions imposed by law or to utilize tax loop-holes. Specifically, the "On Behalf Of" or 63-20 financings alternative financing schemes shall not be utilized by the Alliance.

### **Evaluating Capital Plan and Capital Budget Spending**

The Alliance shall integrate its debt issuance with its Capital Plan and Capital Budget spending. Annually the Finance Advisory Committee shall discuss the need for debt financing and the Treasurer shall, as needed, prepare a written report on the status of spending of the Capital Plan and Capital Budget and the need for debt. The report should include:

- Projected Capital Budget requirements, collected from the Capital Plan;
- 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 Plan Needs**

The Alliance shall develop and maintain an Operations Budget and Capital Budget financial model to evaluate the impact of Capital Plan spending, operations and maintenance costs, and debt service on its financial condition. To that end, the Treasurer 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.

### **Accounting for the Issuance of Debt**

The Alliance shall account for the issuance of debt using generally accepted accounting principles ("GAAP") as established by the Governmental Accounting Standards Board ("GASB"), consistent with state law and procedures adopted by the State Auditor. Cost of issuance shall be reported as an expenditure rather than netted against proceeds.

### **Debt Policy Review**

The Alliance shall review and update its debt policy every two to four years.