

Debt Administration

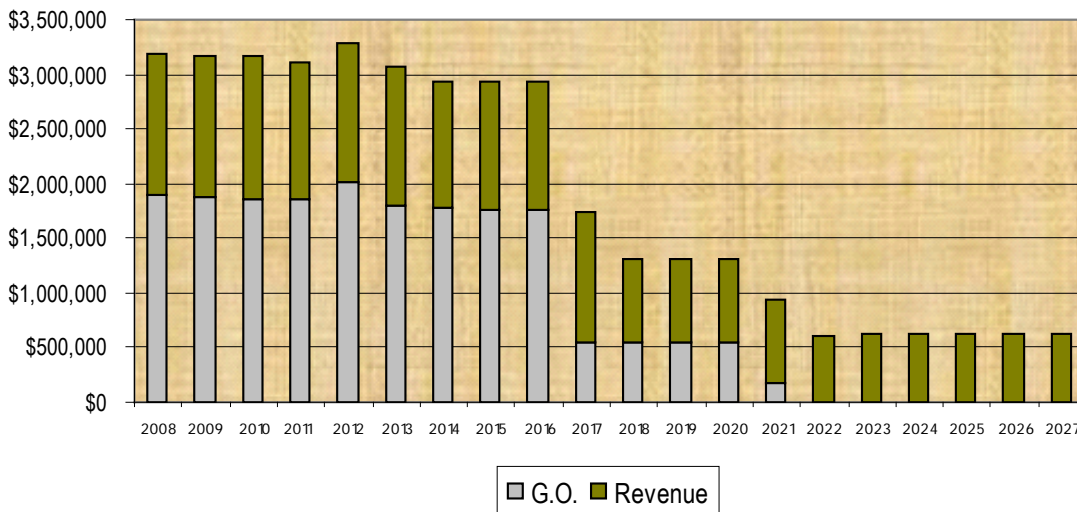
As the demand for public sector investment and infrastructure continues to grow, the issuance of debt has become an increasingly important component of state and local government capital programs. While the issuance of debt is frequently an appropriate method of financing capital projects at the local level, it also entails careful monitoring of such issuances to ensure that an erosion of the government’s credit quality does not result. The City of Olympia currently has an “A+” rating for its general obligation debt from Moody’s and AA from Standard & Poor’s (increase from A+, November 2008) rating agencies. In 2007, the City sold \$8,000,000 of revenue bonds for water purposes. The bonds were rated A2 by Moody’s and AA by Standard & Poor’s (increase from A+, November 2008).

The City’s bond rating reflects the investment community’s faith in Olympia’s financial management and its ability to repay outstanding debt. Higher rated bonds indicate less risk to prospective buyers, translating to lower interest costs to the City. Standard & Poor’s upgraded the City’s revenue debt for the 2007 water issuance. The rating agency stated, “the rating change reflects the City’s sustained strong debt service coverage and good liquidity levels, coupled with enhancements to its rate policies.”

Two basic types of municipal debt are short-term and long-term debt. Short-term debt is generally used by municipalities to even out cash flows. Two basic forms of long-term debt are general obligation and revenue bonds. The basic difference between these two types of bonds is that general obligation issues are backed by the full faith and credit, i.e., taxes, of a municipality, and for revenue bonds, the income of a specific utility or activity is pledged for repayment. Olympia has utilized both short and long-term types of debt in its operations, as well as general obligation and revenue debt.

In addition to issuing debt, the City has several general obligation and revenue Public Works Trust Fund (PWTF) loans. The loans are low interest (1%-3%) financing available from the State of Washington.

General Obligation & Revenue Debt



Debt Service to Maturity (includes PWTF Loans)

The table above presents a summary of City debt, both principal and interest. It distinguishes

between General Obligation debt and debt payable from City-operated utilities (revenue).

Future Debt Planning

There is currently \$600,000 budgeted for parks and recreational walking facilities projects to be financed with interfund loans. The debt will be repaid with the 2004 voter-approved 3% increase in utility tax.

The City is preparing to construct a building to consolidate administrative functions. Currently, the City leases office space in four buildings, plus owns two buildings. A new building would consolidate the leased and owned buildings. Construction of a new facility will require some amount of long-term borrowing.

In August 2008, voters approved an excess levy to fund \$16 million in fire service improvements: a fire station, training facility and vehicles. The project will be primarily financed with bonds. Construction of the fire station is expected to be completed in 2011. The timing of construction for the training facility has not been determined.

The Capital Facilities Plan (CFP) calls for rate increases for sewer and stormwater to implement the comprehensive plans. There is currently \$21 million budgeted for water and sewer projects to be funded from bonds or loans. Rates have been implemented to pay for these bonds. An additional \$8.9 million for similar facilities is included in the 2009 CFP, much of which will be funded from debt. Rate increases will pay the necessary debt service for additional bond issues. The Comprehensive Plan calls for a shift to more cash financing, rather than the issuance of debt, therefore, the City is building higher cash reserves in anticipation of greater reliance on cash financing.

Conclusions

Council and management have set policies to be sure the City meets its debt payments in a timely manner. The policies also state that new debt will be issued only after careful consideration. Council incorporates these policies into the Financial and Management Policies. Briefly summarized, the policies include:

- Conservative revenue projections.
- Rate increases based on related cost of services provided and the impact of inflation on those services.
- Lease purchase of equipment and real property when practical and prudent.
- Accumulation of adequate reserves to protect the City from uncontrollable expenditures or unforeseen reductions in revenues.
- Issuance of debt only after rigorous review.

The City tries to communicate with other governmental entities to be sure that their debt issues, as well as the City's, remain at conservative levels. This will help control the resulting overlapping debt that may become a burden on taxpayers.

The City's overall financial health is positive. Sales and use tax revenue collections that secure most of the general government debt continue to meet needed revenue goals. The Council and management, through the financial and management policies, emphasize continued effort toward maintaining and improving the City's financial performance.

Debt Limitation

State law limits bonded debt to 2.5% of assessed value of taxable property. Of this limit, up to 1.5% of

DEBT ADMINISTRATION

assessed value of taxable property may be non-voter approved debt (Councilmanic bonds). However, the amount of non-voted plus voter approved may not exceed the 2.5% of assessed value limit.

The January 1, 2009 debt limits for Olympia are:

Taxable Assessed Value	\$5,953,401,058
General Indebtedness <i>without</i> a vote of the people:	
Legal Limit, 1 1/2% of property value:	\$89,641,172
G.O. Bond Liabilities (excluding 2009 principal payments)	-13,133,062
Remaining non-voted debt capacity	\$76,508,110
General indebtedness <i>with</i> a vote of the people:	
Legal Limit, 2 1/2% of property value:	\$149,401,951
Outstanding voted debt	-0-
Outstanding non-voted debt (excluding 2009 principal payments)	-13,133,062
Remaining voted debt capacity	\$136,268,889

In addition to the above limits, the City has debt authority with a vote of the people of 2.5% each for parks and utility purposes. Olympia has not accessed this authority.

The goal of Olympia's debt policy is to maintain the ability to provide high quality, essential City services in a cost effective manner. Council members weigh this goal against maintaining the ability to borrow at the lowest possible rates. The City uses the following guidelines before financing projects with long-term debt:

- Management staff and elected officials conservatively project the revenue sources to pay off the debt.
- The financing of the improvement will not exceed its useful life.
- The benefits of the improvement must outweigh its costs, including the interest costs of financing.

Olympia uses debt only to provide financing for essential and necessary capital projects. Through debt planning and the Capital Facilities Plan, the City integrates its capital projects. The services that the City determines necessary to its residents and visitors form the basis for all capital projects.

Schedule of Debt Obligations

Payment From	Type	Date Issued	Final Payment	Interest Rate	Total Issued	Out-standing 1-1-2009	2009 Principal Payments	2009 Interest Payments
General Obligations								
Bridge/Corridor Improvements	PWTF	2000	2020	0.5-1.00%	\$9,996,144	\$6,578,498	\$533,759	\$65,785
Park Acquisition & Improvement	LTGO	2006	2016	5.0%	\$9,385,000	\$7,820,000	\$835,000	\$391,000
Street Improvements (repaid from Capital Improvement Fund)	PWTF	1993	2011	2%	\$1,028,980	\$154,989	\$51,663	\$3,100
Total General Obligation Bonds						\$14,553,487	\$1,420,422	\$459,885
Utility Obligations								
Water & Sewer Refunding (and Construction)	Revenue	2001	2021	3.55 - 5.20%	\$7,525,000	\$4,520,000	\$355,000	\$219,871
Drinking Water	Revenue	2007	2027	4.00 - 4.125%	\$8,000,000	\$7,760,000	\$255,000	\$313,244
Storm and Surface Water								
Log Cabin	PWTF	1997	2015	1%	\$169,740	\$59,779	\$11,956	\$598
North Percival	PWTF	1996	2013	3%	\$1,492,830	\$437,615	\$87,523	\$13,128
Wastewater								
Madison Avenue	PWTF	1993	2007					
Drinking Water								
Watershed Park Well	PWTF	1993	2010	2%	\$320,779	\$49,121	\$24,560	\$982
Total Revenue Bonds & PWTF Loans						\$12,853,899	\$747,731	\$548,645
Total General Obligation & Revenue External Indebtedness						\$27,407,386	\$2,168,153	\$1,008,530

Revenue = Revenue Bonds

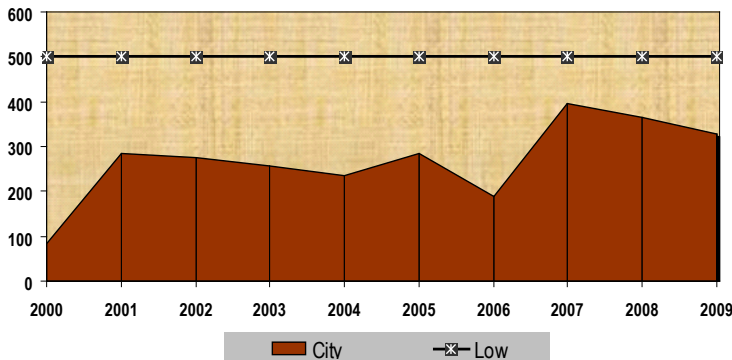
PWTF = State of Washington, Public Works Trust Fund Loan

LTGO = Limited Tax General Obligation Bonds (non-voter approved)

¹ Capital Improvement Fund is not included in this document.

General Debt Per Capita

Includes G.O. Bonds and Bridge Corridor Public Works Trust Fund Loans



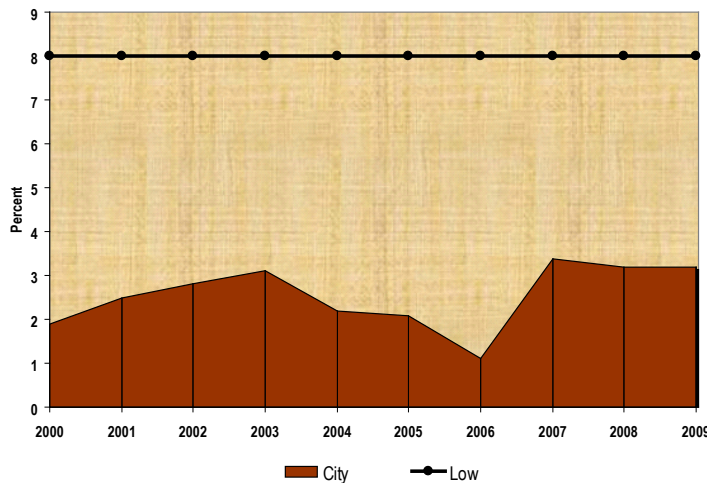
Use of Ratios to Assess Credit Quality

Source: Standard & Poor's Corporation

Measurement per Capita for Cities	Low	Medium	Above Average	High
	<500	500-800	800-1,200	>1,200

Ratio of General Debt Service to Fund General Expenditures

Includes G.O. Bonds and Bridge Corridor Public Works Trust Fund Loans



Debt Service as % of Budget Guideline

Source: Standard & Poor's Corporation

Measurement	Low	Medium	High
State	0-2	2-6	>6
County	0-7	7-12	>12
Schools	0-10	10-20	>15
Cities	0-8	8-15	>15

Debt Service Funds

	2007 Actual	2008 Budget	2009 Budget	Variance
Bridge/Corridor PWTf Loans ¹	\$597,215	\$604,882	\$599,545	(\$5,337)
2006 Park Bonds ²	1,234,250	1,231,000	1,226,000	(5,000)
Water/Sewer Bonds ³	941,605	1,133,441	1,138,754	5,313
Total	\$2,773,070	\$2,969,323	\$2,964,299	(\$5,024)

Note: All other debt paid directly from various other funds and is included in the budget of those funds.

1 State of Washington Public Works Trust Fund loans to fund the 4th/5th Avenue Bridge and Corridor improvements. Final payment will be in 2020. These bonds are paid with general levy property tax.

2 These bonds were issued to pay for park acquisition and improvements. Final payment will be in 2016. These bonds are paid with voter-approved utility taxes.

3 Includes 2001 bonds issued to pay for refunding a portion of the 1993 bond and \$2 million for drinking water and wastewater improvements. Final payment will be in 2021. 2007 bonds issued to fund water improvements; bonds will be fully paid in 2027. These bonds are paid from drinking water and wastewater utility revenues.