

Debt Administration



The City's debt management policy is to equalize the use of debt so debt service payments will be a predictable and manageable part of the Operating Budget. The City will raise capital at the lowest possible cost through maintenance of a high credit rating and reputation in the credit markets.

Bonds ... Debt Services ...

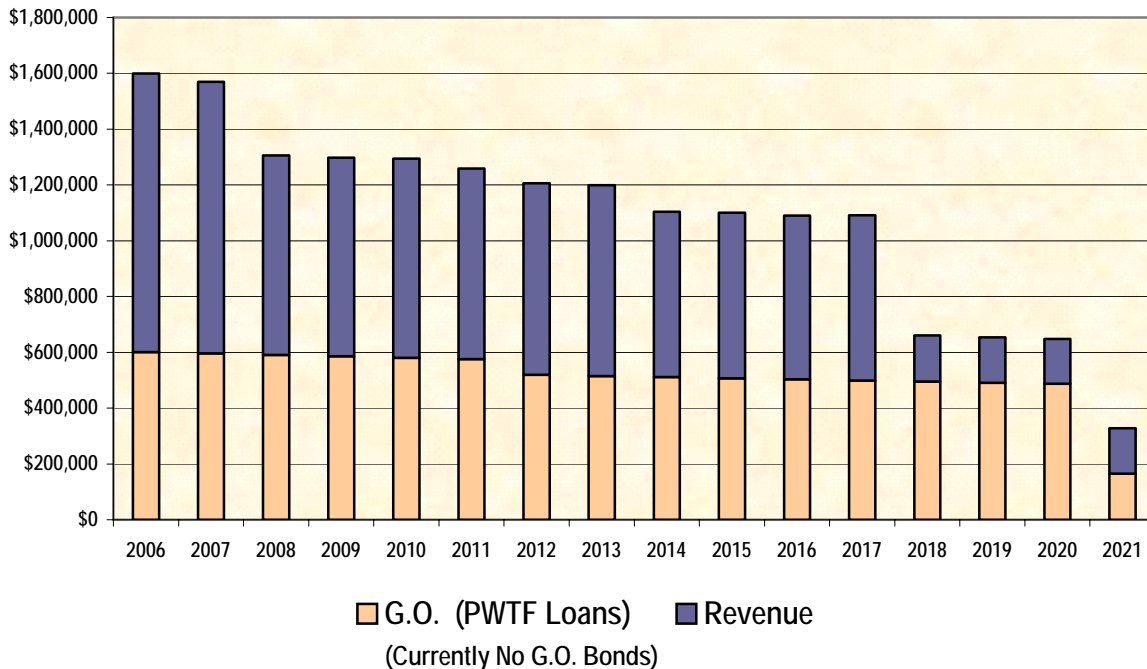
DEBT ADMINISTRATION

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 and revenue debt from both Moody's and Standard and Poors rating agencies.

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 Bonds
Debt Service to Maturity
(Includes PWTF Loans)



The table above presents a summary of City debt. It distinguishes between General Obligation debt and debt payable from City operated utilities (Revenue).

FUTURE DEBT PLANNING

There is currently \$10,960,250 budgeted for parks and recreational walking facilities projects to be funded from bonds. An additional \$13,250,000 for similar facilities is included in the 2006-2011 CFP, to be funded from bonds. The debt will be repaid with the September 2004 voter approved 3% increase in utility tax.

The City is evaluating constructing 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.

The CFP calls for rate increases for water and stormwater to implement the comprehensive plans. There is currently \$14,098,200 budgeted for water and sewer projects to be funded from bonds. Rates have been implemented to pay for these bonds. An additional \$4,300,000 for similar facilities is included in the 2006 CFP, to be funded from bonds. 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 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, 2006 debt limits for Olympia are:

Taxable Assessed Value \$4,249,515,188

General Indebtedness <u>without</u> a vote of the people -	
Legal Limit, 1½% of property value:	\$63,742,728
G.O. Liabilities (excluding 2006 principal payments)	<u>-7,904,329</u>
Remaining non-voted debt capacity	<u>\$55,838,399</u>
General Indebtedness <u>with</u> a vote of the people -	
Legal Limit, 2½% of property value:	\$106,237,880
Outstanding voted debt	-0-
Outstanding non-voted debt (excluding 2006 principal payments)	<u>-7,904,329</u>
Remaining voted debt capacity	<u>\$98,333,551</u>

Note: This chart includes General Obligation bonds and Public Works Trust Fund loans.

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

	<u>FUND</u>	<u>TYPE</u>	<u>DATE ISSUED</u>	<u>FINAL PAYMENT</u>
<i>General Obligations</i>				
Bridge/Corridor Improvements	Debt Service Fund 216	PWTF	2000	2020
Technology Equipment	General Fund	Lease	2002	2006
Street Improvements (repaid from Capital Improvement Fund)	(1) Capital Improvement Fund	PWTF	1993	2011
<i>Total General Obligation Bonds</i>				
<i>Utility Obligations</i>				
Water & Sewer Refunding and Construction	Water & Sewer Utilities	Revenue	2001	2021
Stormwater Log Cabin	(2) Storm & Surface Water Utility	PWTF	1997	2015
Stormwater North Percival		PWTF	1996	2013
Sewer Madison Avenue	Sewer Utility			
		PWTF	1993	2007
Water Watershed Park Well	Water Utility			
		PWTF	1993	2010
Waste Management Residential implementation of service improvements	Waste Management Utility	Interfund Loan	2003	2008
Commercial implementation of service improvements	Waste Management Utility	Interfund Loan	2003	2006

Total Revenue Bonds and PWTF Loans***Total General Obligation & Revenue External Indebtedness***

Revenue = Revenue Bonds

PWTF = State of Washington, Public Works Trust Fund Loan

(1) Capital Improvement Fund is not included in this document.

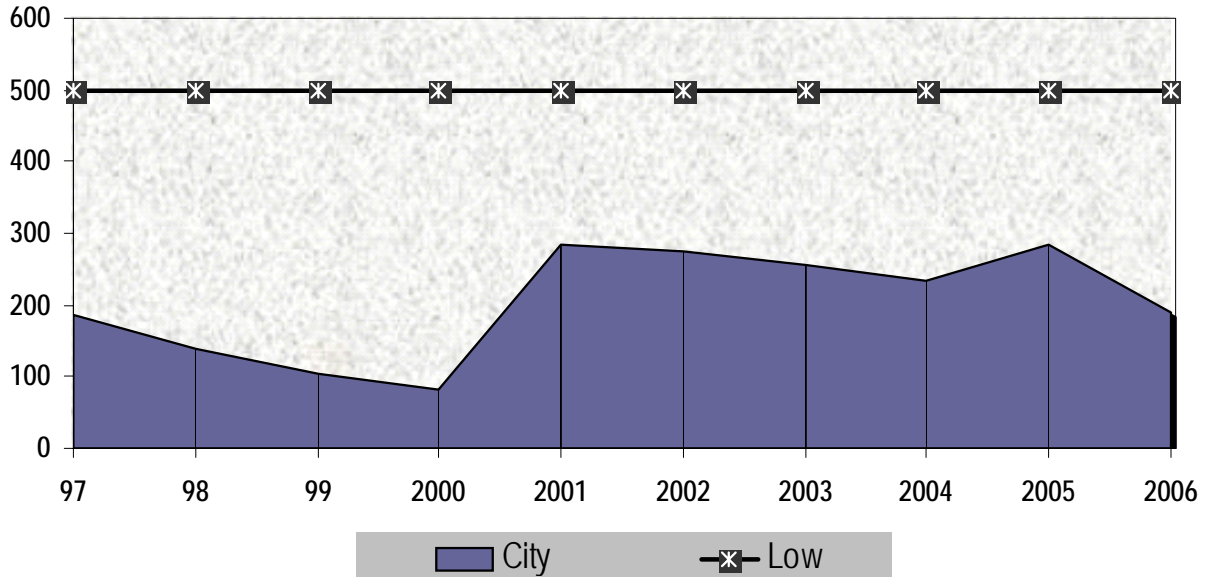
(2) The Debt Service for the storm & surface water utility includes \$121,150 as a reserve for Debt to be issued.

The reserve is not shown on this schedule.

<u>INTEREST RATE</u>	<u>TOTAL ISSUED</u>	<u>OUTSTANDING 1-1-2006</u>	<u>2006 PRINCIPAL PAYMENTS</u>	<u>2006 INTEREST PAYMENTS</u>
0.5-1.00%	\$9,996,144	\$8,179,775	\$533,759	\$81,798
6.43%	\$154,683	\$2,261	\$2,261	\$12
2%	\$1,028,980	<u>\$309,976</u>	<u>\$51,663</u>	<u>\$6,200</u>
		<i>\$8,492,012</i>	<i>\$587,683</i>	<i>\$88,010</i>
3.55 - 5.20%	\$7,525,000	\$5,965,000	\$545,000	\$280,254
1%	\$169,740	\$95,647	\$11,956	\$956
3%	\$1,492,830	\$700,185	\$87,523	\$21,005
3%	\$232,762	\$68,459	\$13,692	\$1,083
2%	\$320,779	\$122,803	\$24,560	\$2,456
3.65%	\$808,000	\$502,595	\$161,119	\$18,345
2.80%	\$669,000	<u>\$169,000</u>	<u>\$169,000</u>	<u>\$4,732</u>
		<i>\$7,623,689</i>	<i>\$1,012,850</i>	<i>\$328,831</i>
		<i>\$16,115,701</i>	<i>\$1,600,533</i>	<i>\$416,841</i>

GENERAL DEBT PER CAPITA

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

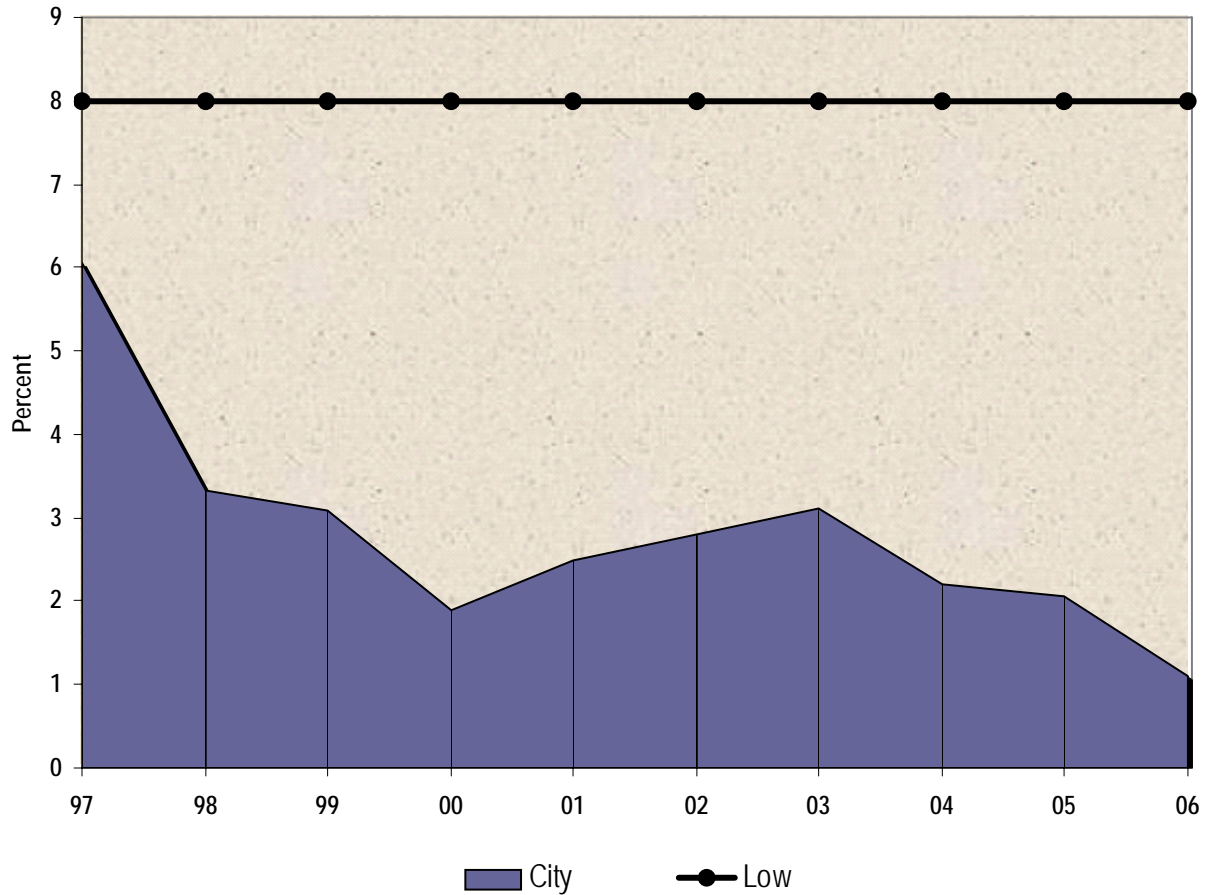


Use of Ratios to Assess Credit Quality
 Source: Standard and Poors Corp.

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

RATIO OF GENERAL DEBT SERVICE TO GENERAL EXPENDITURES

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



Debt Service as % of Budget Guide

Source: Standard and Poors Corp.

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



PROGRAM: 1995 LTGO Bonds 215-1505
 DEPARTMENT: General Government
 FUND: 1995 LTGO Bonds

	2004 ACTUAL	2005 BUDGET	2006 BUDGET	VARIANCE	% CHANGE
Program Revenue	(\$479,661)	(\$477,939)	\$0	\$477,939	-100%
Debt Service	479,955	478,205	0	(478,205)	-100%
Total Expenditures	479,955	478,205	0	(478,205)	-100%
Net Expenditures	\$294	\$266	\$0	(\$266)	-100%

BUDGET HIGHLIGHTS

This program is for payment of principal and interest on bonds issued to provide funding for improvements at Heritage Park, the Neighborhood Park acquisition, Farmer's Market construction, and purchase of Fire vehicles. Final payment of these bonds was in 2005.

PROGRAM: 2000 PWTF Loans 216-1506
 DEPARTMENT: General Government
 FUND: 2000 PWTF Loans

	2004 ACTUAL	2005 BUDGET	2006 BUDGET	VARIANCE	% CHANGE
Program Revenue	(\$531,008)	(\$536,160)	(\$591,687)	(\$55,527)	10%
Debt Service	550,980	606,160	615,558	9,398	2%
Total Expenditures	550,980	606,160	615,558	9,398	2%
Net Expenditures	\$19,972	\$70,000	\$23,871	(\$46,129)	-66%

BUDGET HIGHLIGHTS

This program is for payment of principal and interest on loans from the State of Washington Public Works Trust Fund. The loans are for the 4th/5th Avenue Bridge and Corridor Improvements. Final payment will be in 2021.

PROGRAM: 2001 Water/Sewer Bonds 417-1410
DEPARTMENT: General Government
FUND: Water/Sewer Bond Redemption

	2004 ACTUAL	2005 BUDGET	2006 BUDGET	VARIANCE	% CHANGE
Program Revenue	(\$814,860)	(\$820,814)	(\$825,254)	(\$4,440)	1%
Debt Service	761,543	817,370	821,575	4,205	1%
Total Expenditures	761,543	817,370	821,575	4,205	1%
Net Expenditures	(\$53,317)	(\$3,444)	(\$3,679)	(\$235)	7%

BUDGET HIGHLIGHTS

This program is for payment of principal and interest on the 2001 Bonds. The 2001 Bonds were issued to pay for refunding a portion of the 1993 Bond, and \$2 million of the additional funds were used to finance a portion of the Water and Sewer Capital Facilities Programs. Final payment on these Bonds will be in 2021.



City of
OLYMPIA