

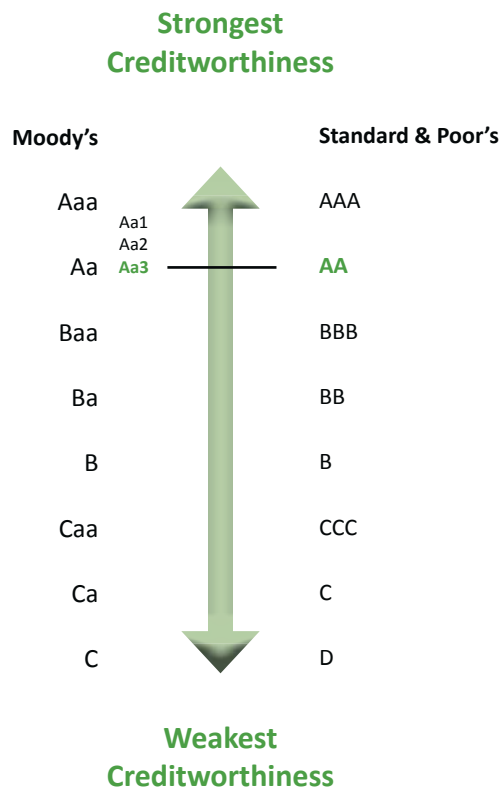
DEBT ADMINISTRATION

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 “Aa3” rating for its general obligation debt from Moody’s and AA from Standard & Poor’s rating agencies.

The City’s bond ratings reflect 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. The ratings are from 2013 Bond issues. The rating agency stated that the ratings reflect the City’s sustained strong debt service coverage and good liquidity levels, coupled with good financial policies and practices.

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.

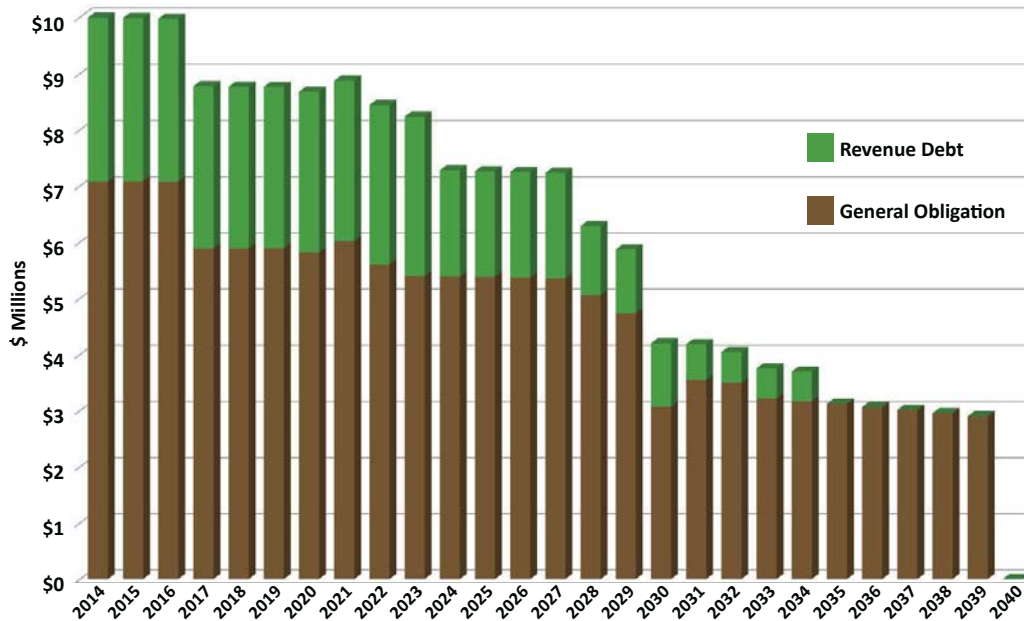
In addition to issuing bonds, the City has several general obligation and revenue loans through various State of Washington programs. The loans carry an interest rate lower than issuance of revenue bonds.



GENERAL OBLIGATION DEBT AND REVENUE DEBT

The table below presents a summary of City debt, both principal and interest. It distinguishes between General Obligation debt and debt payable from City-operated utilities (revenue debt).

General Obligation and Revenue Debt*
Debt Service to Maturity (includes State Loans)



* Excludes the 2013 Water/Sewer Revenue Bond, to be issued in September 2013.

Future Debt Planning

The 2014-2019 Capital Facilities Plan (CFP) does not anticipate additional general obligation debt.

There are currently \$7.7 million in projects approved prior to 2014 in the Drinking Water utility and \$3.4 million in the Wastewater (sewer) utility which are anticipated to be funded by future debt. The City expects to issue new debt in late 2014 or in 2015. Prior to issuing bonds, the City will apply for low interest loans from various State of Washington lending programs. The 2014-2019 CFP for the Drinking Water and Wastewater utilities is projected at \$28.2 million. The 2014 amount is anticipated to be funded without the issuance of debt.

The CFP calls for rate increases for Drinking Water, Wastewater, and Storm and Surface Water to implement the comprehensive plans. 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. 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.**

Taxable Assessed Value \$5,313,691,495

General Indebtedness without a vote of the people:

Legal Limit, 1.5% of property value:	\$79,705,372
G.O. Bond Liabilities (excluding 2014 principal payments)	<u>-56,224,441</u>
Remaining non-voted debt capacity	<u>\$23,480,931</u>

General Indebtedness with a vote of the people:

Legal Limit, 2.5% of property value:	\$132,842,287
Outstanding voted debt	- 13,195,000
Outstanding non-voted debt (excluding 2014 principal payments)	<u>- 56,224,441</u>
Remaining voted debt capacity	<u>\$ 63,422,846</u>

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

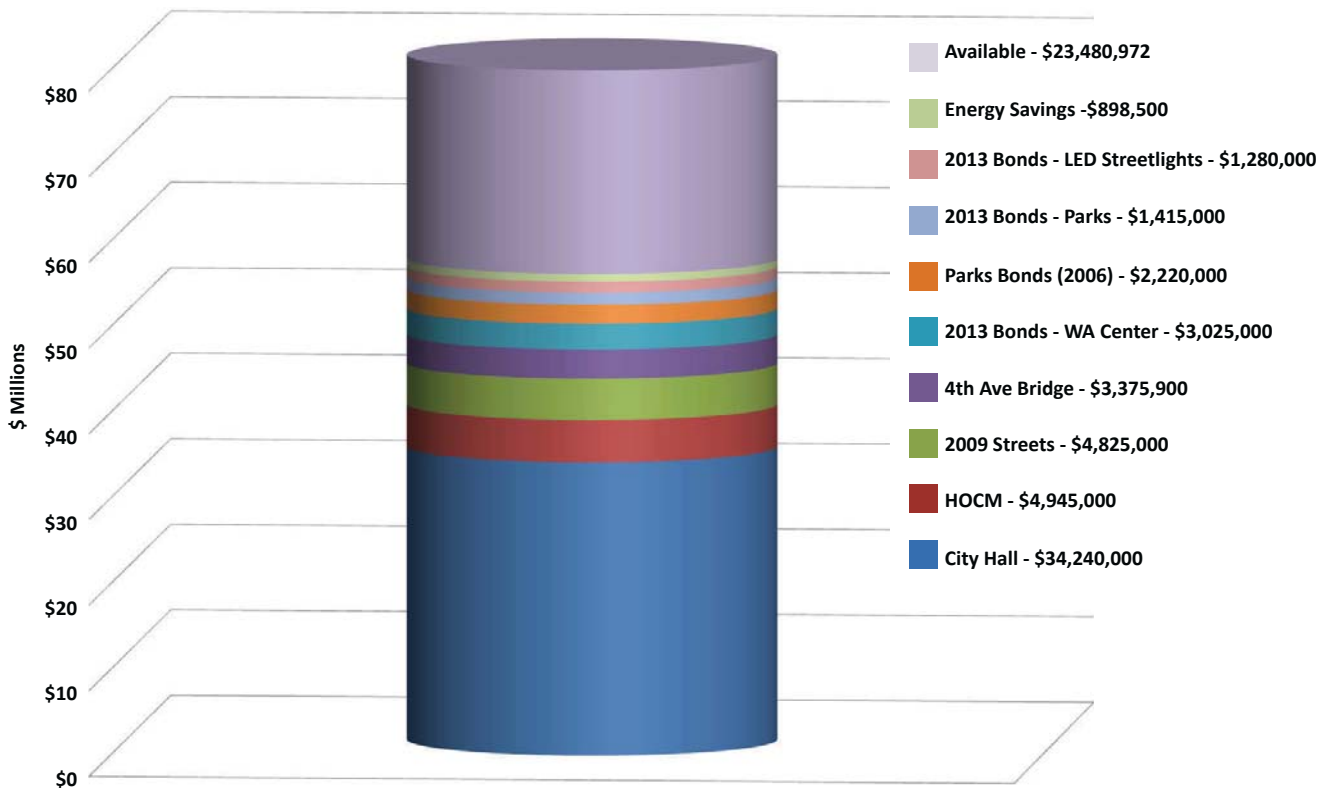
The goal of Olympia’s debt policy is to maintain the ability to provide high quality, essential City services in a cost effective manner. Council members weigh this goal against maintaining the ability to borrow at the lowest possible rates. The City uses the following guidelines before financing projects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

Allocation of Debt*

Not Requiring Voter Approval



*Excludes 2014 Payments

SCHEDULE OF DEBT OBLIGATIONS

General Obligations	Payment From	Type*	Year Issued	Final Payment	Interest Rate	Total Issue	Outstanding 1-1-14	Principal Payments 2014	Interest Payments 2014
Bridge/Corridor Street Improv.	Debt Service Fund 216	PWTF	2000	2020	0.5 - 1.00%	\$9,996,144	\$3,909,699	\$533,759	\$32,162
Park Acquisition & Improvements	Debt Service Fund 223	LTGO	2006	2016	5.0%	\$9,385,000	\$3,255,000	\$1,035,000	\$162,750
Fire Station & Training Facility	Debt Service Fund 224	ULTOG	2009	2029	3.0 - 4.25%	\$16,180,000	\$13,830,000	\$635,000	\$560,531
City Hall Construction	Debt Service Fund 225	LTGO	2009	2039	4.2%	\$35,210,000	\$34,495,000	\$255,000	\$2,166,918
Street Improvements	Debt Service Fund 226	LTGO	2010	2029	3.0 - 4.25%	\$5,865,000	\$5,065,000	\$240,000	\$198,213
Facility Energy Improvements	Debt Service Fund 227	LOCAL	2010	2020	2.97%	\$1,534,496	\$1,046,777	\$148,276	\$30,005
Hands On Children's Museum	Debt Service Fund 228	LTGO	2010	2028	3.0 - 4.25%	\$5,670,000	\$5,150,000	\$205,000	\$200,063
WA Center, LED Conv., & Percival Landing	Debt Service Fund 229	LTGO	2013	2032	3.0 - 5.00%	\$6,385,000	\$6,140,000	\$420,000	\$252,325
Total General Obligation							\$72,891,476	\$3,472,036	\$3,602,966
Utility Operations									
Combined Drinking Water and Wastewater:									
W/S Refunding & Construction	Drinking & Wastewater	Revenue	2001	2021	3.55 - 5.20%	\$7,525,000	\$ -	\$ -	\$ -
W/S Refunding & Construction	Drinking & Wastewater	Revenue	2013	2023	4.10%	\$7,780,000	\$7,780,000	\$ 650,000	\$ 330,613
Drinking Water:									
Drinking Water System Improvements	Drinking Water	Revenue	2007	2027	4.00 - 4.13%	\$8,000,000	\$6,355,000	\$325,000	\$257,044
McAllister Well Development **	Drinking Water	DWSRF	2011	2034	1.50%	\$10,871,640	\$5,496,170	\$517,695	\$163,075
Wastewater (Sewer) :									
General System Improvements	Wastewater	Revenue	2010	2030	2.0 - 4.375%	\$6,485,000	\$5,765,000	\$250,000	\$229,288
Sleater-Kinney Sewer Line	Wastewater	PWTF	2009-2010	2028	0.50%	\$1,803,375	\$1,379,194	\$91,946	\$6,896
Septic to Sewer Conversion	Wastewater	SRF	2010-2011	2031	3.10%	\$250,000	\$98,253	\$3,996	\$3,035
Storm & Surface Water:									
Yauger Park Retention Improvements	Storm & Surface Water	DOE	2010-2011	2031	2.90%	\$1,219,756	\$1,159,487	\$49,794	\$33,468
Log Cabin Rd Drainage Improvements	Storm & Surface Water	PWTF	1997	2015	1.0%	\$169,740	\$ -	\$ -	\$ -
North Percival Basin Improvements	Storm & Surface Water	PWTF	1996	2013	3%	\$1,492,830	\$ -	\$ -	\$ -
Total Utility Operations							\$28,033,105	\$1,888,431	\$1,023,418
Total General Obligation & Revenue External Indebtedness							\$100,924,581	\$5,360,467	\$4,626,384

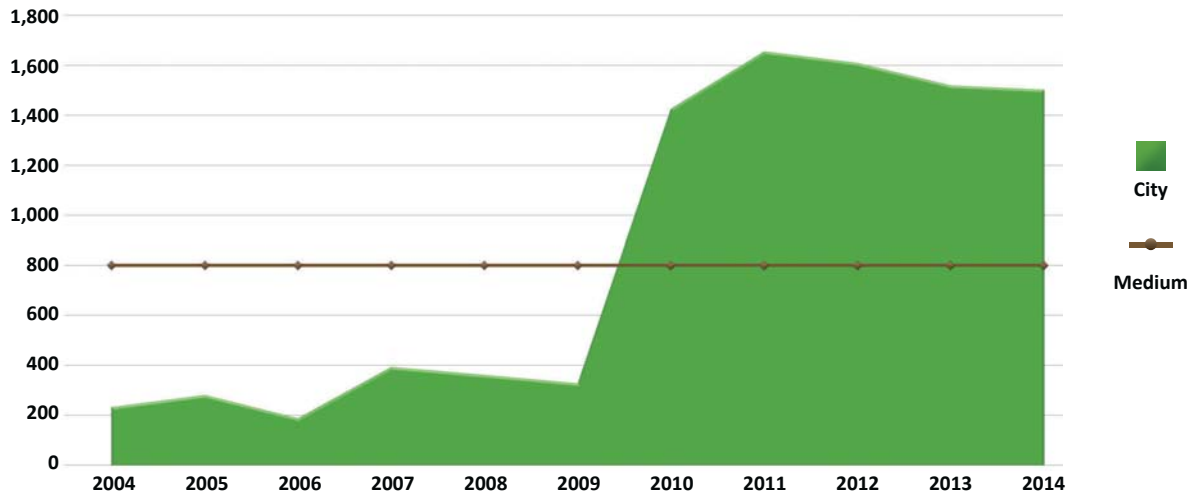
Notes:

* Type Acronym:	Definition:
Revenue	Revenue bonds
PWTF	State of Washington, Public Works Trust Fund loan
LTGO	Limited Tax General Obligation bond (non-voter approved)
ULTGO	Unlimited Tax General Obligation bond (voter approved)
LOCAL	State of Washington, Local Option Capital Asset Lending program. This is an obligation of the State of Washington in which the City participates.
SRF	State of Washington, Revolving Fund
DOE	State of Washington, Department of Ecology
DWSRF	State of Washington, Drinking Water Revolving Fund loan

** The loan is a draw down as construction occurs. Annual debt service is determined after all funds are received. Loan authorization is for \$10,871,640, of which the City is estimating full draw down by early 2014. Repayments are scheduled to begin October 1, 2014.

GENERAL DEBT PER CAPITA

Includes General Obligation Bonds and Bridge Corridor Public Works Trust Fund Loans



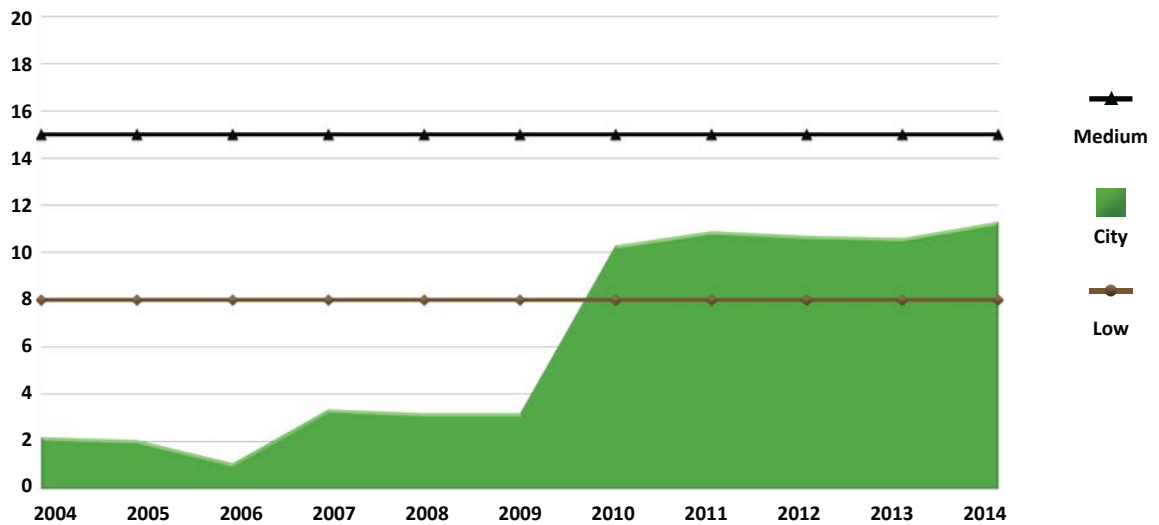
Use of Ratios to Assess Credit Quality

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

Source: Standard & Poor's Corporation

RATIO OF GENERAL DEBT SERVICE TO GENERAL FUND EXPENDITURES

Includes General Obligation Bonds and Bridge Corridor Public Works Trust Fund Loans



Debt Service as a Percentage of Budget Guideline

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

Source: Standard & Poor's Corporation

DEBT SERVICE FUNDS

	2012 Actual	2013 Budget	2014 Budget	Variance
Bridge/Corridor P WTF Loans (1)	\$ 574,862	\$ 570,391	\$ 565,921	\$ (4,470)
2006 Park Bonds (2)	1,210,500	1,218,000	1,197,750	(20,250)
Fire Station & Training Facility (3)	1,191,831	1,193,981	1,195,531	1,550
City Hall Bonds (4)	2,421,468	2,419,268	2,421,918	2,650
Street Improvement Bonds (5)	436,863	435,113	438,213	3,100
Energy Project Debt (6)	178,282	178,281	178,281	-
Hands On Children's Museum (7)	386,463	395,987	405,063	9,076
2013 General Obligation Bonds (8)	-	-	672,325	672,325
Water/Sewer Bonds (9)	1,632,078	1,635,559	2,027,113	391,554
Total	\$ 8,032,347	\$ 8,046,580	\$ 9,102,115	\$ 1,055,535

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 & 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 & improvements. Final payment will be in 2016. These bonds are paid with voter approved utility tax.
- (3) Bonds issued to pay construction of a Fire Station, Fire Training Facility, and vehicle purchases. Final payment will be in 2029. These bonds are paid from voter approved excess property tax levy.
- (4) Bonds issued to pay construction of New City Hall. Final payment will be in 2039. These bonds are paid with general levy property tax.
- (5) Bonds issued to pay transportation system improvements. Final payment will be in 2029. These bonds are paid from the following revenues sources, in order: Transportation Impact Fees, state shared gas tax revenue, and general levy property tax.
- (6) Bonds issued by the State of Washington, Local Option Capital Asset Lending program. The City has contracted with the State to pay the City's share of the bond issue. Final payment will be in 2020. The City obligation is paid with general levy property tax. Energy savings are estimated to be about the same as the debt service on this debt.
- (7) Bonds issued to pay for the construction of a museum, which will be managed and operated by the "Hands On Children's Museum" non-profit organization. Final payment will be in 2028. Debt service is paid from funds received from the Capital Area Regional Public Facilities District.
- (8) Bonds issued for improvements to the Washington Center for the Performing Arts, streetlight conversion to LED lighting and redemption of Bond Anticipation Notes (BANs) issued in 2011 for the Percival Landing Project. The BANs were issued with the intent to convert them to longer term debt by April of 2014. Final payment will be in 2021 for the Parks portion, 2022 for the LED streetlight conversion, and 2032 for the Washington Center portion. The Parks portion is repaid from voter approved utility tax, the LED streetlight portion from power savings within the General Fund, and the Washington Center portion from funds set-aside for facilities major repair.
- (9)
 - A: The budget on this schedule will vary from information on the Schedule of Debt Obligations. That schedule indicates actual payments made, where this schedule is on an accrual basis.
 - B: 2007 Bonds issued to fund water improvements will be fully paid in 2027. Bonds issued in 2010 for sewer improvements will be fully paid in 2030. Bonds issued in 2013 were to refund the 2001 issue and to finance the conversion of water meters to automatic reads. The bonds are paid from Drinking Water and Wastewater utility revenues and will be fully paid in 2013.