

EXHIBIT A TO RESOLUTION 2025-1030

City of Newcastle Comprehensive Financial Management Policies

Statement of Purpose

The City of Newcastle, Washington has an important responsibility to its citizens to carefully account for public funds, to manage municipal finances wisely and to plan the adequate funding of services and facilities desired and needed by the public. The City strives to ensure that it is capable of adequately funding and providing local governmental services needed by the municipality.

The City's Comprehensive Financial Management Policies serve as a Council-approved framework for financial planning, budgeting, accounting, reporting and other financial management practices. The purpose of these policies is to ensure the City operates in a prudent manner, making sound fiscal decisions to ensure the safekeeping of the City's assets and provide the delivery of needed services.

Statement of Policy

The City's financial policy has specific objectives to ensure continued fiscal well-being. These objectives include:

- Protecting the governing body's policy-making ability by ensuring that important policy decisions are not controlled solely or principally by financial problems or emergencies.
- Enhancing the Council's policy ability by providing accurate information on program, operating, and other costs.
- Providing a quarterly financial report detailing the fund, department and program revenues and expenditures.
- Assisting with sound management of the City government by providing accurate and timely information on current and anticipated financial conditions.
- Providing sound principles to guide the important decisions of the Council and of City management which have significant fiscal impact.
- Setting forth operational principles that minimize cost and financial risk of government consistent with the services desired and needed by the public.
- Employing revenue policies and forecasting tools to attempt to prevent undue or unbalanced reliance on certain revenues, including property tax, and which distribute the cost of municipal services fairly and provide adequate funds to operate desired programs.
- Providing essential public facilities and preventing deterioration of the City's infrastructure, and facilities.
- Protecting and enhancing the City's credit rating and preventing default on any municipal debts.
- Ensuring, to the greatest extent possible, the legal use and protection of all City funds through efficient systems of financial security and internal control.

These policies will be updated as needed.

EXHIBIT A TO RESOLUTION 2025-1030

A. Chief Financial Officer

1. The Finance Director is designated as the City's Chief Financial Officer and City Treasurer. The Finance Director shall be responsible for the maintenance and monitoring of the City's financial controls, systems, policies, and procedures.
2. The Finance Director is designated as the City's Auditing Officer pursuant to RCW 43.09.260 and as such will be responsible for the review of all claims and certification that the goods have been received or the services rendered and that the claims are valid and should be paid by the City.

B. City Funds

The City shall utilize "governmental fund accounting" as the organizational structure for its financial activities. The following funds have been established for budgeting, accounting and reporting.

1. The *General Fund (001)* is the general operating fund of the City. It accounts for all financial resources and transactions, except those required to be accounted for in another fund.
2. The *Street Fund (101)* is required by state law to account for State-shared Motor Vehicle Fuel Tax revenue distributed on a per capita basis. Expenditures are for transportation maintenance or capital improvements.
3. The *Cumulative Reserve Fund (105)* is for capital purchases or operating shortfalls due to unforeseen cost increases or unanticipated revenue losses, subject to a majority vote of the City Council for use of monies in the Fund.
4. The *Debt Service Fund (202)* accounts for the principal and interest payments on all borrowed money considered long-term debt (maturity more than a year) according to a predetermined payment schedule.
5. The *Real Estate Excise Tax Capital Fund (304)* accounts for the excise tax on the sale of real property within the City. Real Estate Excise Tax proceeds are restricted for capital expenditures pursuant to RCW 82.46.
6. The *Capital Investment Program has two funds: Transportation Capital Fund, and Parks Capital Fund.*
 - a. The *Transportation Capital Fund (302)* accounts for: 1.) City impact fee revenue restricted for transportation projects in the Capital Investment Program; and 2.) Accounts for other non-capacity intermodal transportation projects and funding sources such as grants, developer contributions, and street road tax monies.
 - b. The *Parks Capital Fund (303)* accounts for revenue derived from King County Parks levy, "Park Fees in Lieu" a fee paid when the developer decides not to include the building of a park or trail per City Code, Parks Impact Fees, tree fee in lieu, grants and contributions from developer agreements. The capital projects must be

EXHIBIT A TO RESOLUTION 2025-1030

included in the City's six-year Parks Capital Investment Plan. This fund would also account for any revenue collected that is restricted for the acquisition, construction, improvement, and repair of parks, open space, and related facilities within the City.

7. The *Surface Water Management Fund (401)* accounts for fees charged to all property owners for operation, maintenance and capital improvements to the City's storm and surface water drainage system.
8. The *Equipment Rental Fund (501)* is an internal service fund allocating cost for the repair and maintenance of the City's vehicles and equipment to other funds of the City on a cost reimbursement basis. Along with this, it has the reserves for the orderly replacement of City assets with a value over \$5,000 and an estimated life greater than one year.
9. The *Facilities Fund (503)* is an internal service fund allocating cost for the repair and maintenance of the City's facilities to other funds of the City on a cost reimbursement basis. The fund also accounts for lease revenues, lease deposits, and reserves, creating a fund for replacement of major asset components such as roof repairs, HVAC repair and other assets whose asset life expectancy is shorter than the building.

C. Financial Planning and Budget

1. The Finance Director shall develop on an annual basis a financial planning calendar that will provide for the timely update of the six-year financial forecasts for all City funds along with the process to develop, review and adopt the City's annual Budget and Capital Investment Plan.
2. A six-year financial forecast shall be prepared and updated on an annual basis for all City funds as a multi-year financial planning tool. The financial forecast shall be an integral part of the City's annual operating and capital budgeting process.
3. Prior to the annual issuance of the Preliminary Operating and Capital Budget, the city shall hold a budget retreat that will include discussion of the six-year forecast. The City will use

EXHIBIT A TO RESOLUTION 2025-1030

prudent revenue and expenditure assumptions in the development of the six-year financial forecast and budget for all City funds. Assumptions and rationale will be documented for all major elements of the forecast.

4. The City Manager is responsible for presenting a Preliminary Budget document to the City Council at least 60 days before the beginning of the city's next fiscal year per RCW 35A.33.052. The General Fund Preliminary Budget proposed by the City Manager shall not include an operating deficit. The amount budgeted for operating expenditures (including transfers) shall not exceed the amount of forecasted revenue for the budget year. The preliminary budget shall not include any new City imposed taxes or any rate increases to existing taxes, without prior approval by Council.
5. Should the estimated expenditures exceed estimated resources in the six-year financial forecast, potential options to bring the six-year financial forecast into balance shall be included as an integral part of the annual Budget process.
6. The City's General Fund Budget and Capital Investment Program will be developed to implement the City Council's adopted goals and policies, long-range plans, and the service levels for the community.
7. The relationship between the General Fund and Capital Investment Fund budgets will be incorporated into the financial forecasts and the annual Budget Process. Maintenance and operating costs associated with new Capital Investment Program projects shall be estimated and included in the Operating Budget when the projects are complete.
8. The City shall prepare and adopt its Budget on an annual basis and shall comply with the provisions of state law with respect to the annual budget process. The Finance Director shall be responsible for the management of the City's annual budget development process, along with monitoring and reporting during the year. The Finance Director shall provide timely and accurate budget monitoring reports to Department Directors and Division Managers no less than monthly.
9. Department Directors have primary responsibility for the development, implementation, management, and monitoring of their respective Budgets in accordance with City Council and City Manager direction. Any significant variances from the adopted budget shall be reported by Department Directors to the City Manager in a timely manner.
10. The annual budget process and materials shall be developed in a manner to provide information in a readily understandable manner, and to the greatest extent possible avoid jargon, acronyms, and the like.
11. One-time resources shall be identified and used to support one-time expenditures. Ongoing expenditure programs shall only be supported by ongoing resources.
12. Budgeted staff positions (part-time, full-time, and temporary) will be included in the annual Budget. The addition, elimination, or any other change to staffing levels shall be approved by the City Council.

EXHIBIT A TO RESOLUTION 2025-1030

13. In accordance with State law, the City Council will adopt the Annual Budget at the Fund level. Project budgets will also be adopted for each project within the Capital Investment Program.
14. In accordance with State law, the City Manager is authorized to transfer budgeted amounts within any fund (budget adjustment). Any revisions that alter the total expenditure authority (Budget Amendment), or change the number of authorized employee positions, salary ranges, pay classifications, hours, or other significant conditions of employment, must be approved by the City Council.
15. The Finance Director or his/her designee shall review all agenda items submitted for City Council action for compliance with the Budget and disclosure of fiscal issues.

D. Fund Balances and Reserves

The purpose of the City's Fund Balance is to provide:

- A stable funding source for expenditures that fluctuate significantly each year, such as equipment acquisitions and replacements;
- Working capital to maintain a sufficient cash flow;
- A stable credit rating;
- Avoidance of future debt;
- Reduction of outstanding debt;
- Reserves sufficient to protect the City's credit, as well as the City's financial position for emergencies.

The minimum Fund Balance for the city's *General, Street, and Surface Water Management Operating Funds* shall be targeted at two months (17%) of the fund's budgeted expenditures. Projected variances from the minimum target shall be disclosed during the annual Budget process or during the current year if unanticipated circumstances occur that negatively impact current year revenue and/or expenditure projections. Fund Balance targets may be modified during the annual budget process to reflect extraordinary circumstances (e.g., projected future extraordinary expenditure demands, projected revenue uncertainty, etc.). All City Funds shall maintain ending fund balances sufficient to cover projected needs determined during the annual Budget process.

1. On an annual basis, after the year-end reconciliation has been completed, City staff shall produce a schedule of all fund surpluses and deficits, with projections of reserve requirements and plan for use of any excess surplus for the ensuing year. The schedule will be used not only to ensure compliance with stated policies, but also to analyze the total reserve and surplus finances so that the policies, as provided, do not inadvertently create adverse effects. The City Manager and Finance Director may make changes to such policies in the use of financial reserve and/or use of any surplus based on the needs identified in the schedule.

EXHIBIT A TO RESOLUTION 2025-1030

The City Council has final authority to allocate and appropriate these funds either by amending the current year budget or by appropriating funds in the ensuing budget year.

2. It is the intent of the City to use all surpluses generated to meet reserve requirements, to avoid future debt and reduce outstanding debt. Any surpluses in the General Fund at year-end may be used to fund any or all of the following, in no specific order:
 - a. Maintenance or repair of deteriorating facilities;
 - b. Capital equipment replacement programs for Equipment Rental Fund;
 - c. Capital projects for aging infrastructure or new projects;
 - d. Retirement or refinancing of existing debt;
 - e. Other one-time costs as may be approved by the City Council.
3. Fund transfers may occur when surplus fund balances are used to support non-recurring capital expenses or when needed to satisfy debt service obligations.
4. The City will exercise diligence in avoiding the appropriation of fund balance for ongoing operating expenditures. In the event fund balance is appropriated for ongoing operating expenditures to meet the needs of the community, the budget document shall include an explanation of the circumstances requiring the appropriation and planned methods to prevent the future use of fund balance for ongoing operating expenditures.

E. Accounting

1. The City will maintain an accounting and financial reporting system that fully meets Generally Accepted Accounting Principles (GAAP) and the Washington State Auditor's Office requirements as established in the Budgeting Accounting and Reporting System (BARS) Manual.
2. Financial procedures shall be maintained to assure appropriate internal controls are in place to protect city assets. This includes recording all purchased fixed assets in the fixed asset inventory system at the time of purchase.
3. The City will report the results of operations using the Cash-Basis of accounting allowed by the Washington State Auditor's Office for financial reporting.

F. Financial Reporting

1. The City shall prepare and submit in a timely manner an Annual Financial Report to the Washington State Auditor's Office in accordance with the standards established for such reports.
2. The Finance Director shall provide the City Council a financial status report no less than quarterly for all City funds pursuant to RCW 35A.33.140. This report will include

EXHIBIT A TO RESOLUTION 2025-1030

comparisons of actual revenue and expenditure performance to the respective Budget estimates. Where revenue collections are, or are anticipated to be, significantly different than Budget estimates, and/or where expenditures are, or are anticipated to be, significantly different than Budget estimates, the Finance Director shall include recommendations within the report for possible adjustments or actions.

G. Revenue Policy

1. The City will strive to maintain diversified and stable revenue sources as permitted by state law to shelter it from short-run fluctuations in any one revenue source.
2. The City Council will establish cost recovery policies for all fees and charges. Such cost recovery policies shall consider the relative public/private benefits from the services being provided and/or the desirability of providing access to services for specialized populations. These policies will specify the percentage of full costs to be recovered through the fees or charges. The level of cost recovery may be adjusted periodically by the City Council to ensure that fees and charges are current, equitable, competitive, etc. and cover the percentage of the costs deemed appropriate.
3. Staff shall provide for a periodic evaluation of the City's fees and charges to keep the fees and charges in line with Council-established cost recovery policies.
4. Where the City has authority to set fees and charges, all such fees and charges shall be adjusted annually for inflation based on the change in the Seattle-Tacoma Urban Wage Earners Consumer Price Index for the twelve-month period ending June 30, or other applicable index or measure as determined by the City Council.
5. Grant revenue shall be included in the annual Budgets when the grant has been awarded. Should planned or budgeted grant revenue not be received, offsetting expenditure reductions shall be implemented or alternative revenue sources shall be identified by the Finance Director.
6. The Finance Director shall be responsible for the establishment, maintenance, monitoring, evaluation, and testing of systems to provide for the safeguarding of City assets along with the timely accounting, investment, and processing of all receipts. All monies received by the City shall be deposited in the City's bank account(s) by the end of the next business day, unless extraordinary circumstances do not allow for this. When bank deposits are delayed, monies will be safeguarded (e.g., kept in a safe) until they are deposited.
7. Investment Interest shall be credited to all City funds based on the monthly cash balances. The Cumulative Reserve fund balance originated from the General fund, therefore all Cumulative Reserve interest shall be credited to the General fund.

H. Expenditures and Contract Management

EXHIBIT A TO RESOLUTION 2025-1030

1. The Finance Director shall develop detailed procedures for purchasing, credit card usage, and contract management consistent with the policy framework established in this section. Periodic training will be provided to City staff that are involved in purchasing, authorizing expenditures, and/or contract management activities.
2. All contracts and expenditures must be related to a City of Newcastle public purpose.
3. The Department Directors have primary responsibility for purchasing and expenditures for their respective Budgets in accordance with City Council and City Manager direction. Any significant variances from the adopted budget shall be reported by Department Directors to the City Manager in a timely manner.
4. The Finance Department has secondary responsibility to review and audit all expenditures to confirm the mathematical accuracy of all payments along with verification that all expenditures are for a City of Newcastle public purpose and are supported by complete and accurate documentation.
5. City payments shall be made in a manner that provides for the greatest duration by which City monies can remain invested, consistent with payment timelines established in State law and/or City contracts.
6. City claims payments will be reviewed by a member of the City Council Finance Committee prior to submitting for approval by the City Council. The Councilmember review is intended to provide for a general, high-level review of claims to assure that adequate documentation is being maintained and the initiating department, along with the Finance Department, are doing appropriate due diligence in their review activities.
7. City checks for the payment of claims may be issued prior to the City Council's review and approval of such claims, provided that the City Manager and/or Finance Director have put in place the provisions of RCW 42.24.180 which include the following:
 - a) The Auditing Officer and the individuals designated to sign checks shall have in place an official bond for the faithful discharge of his or her duties in an amount equal to or exceeding \$50,000;
 - b) The City Council shall adopt contracting, hiring, purchasing and disbursing policies that implement effective internal controls;
 - c) The City Council shall provide its review of the documentation supporting claims paid and approval of all checks issued for payment of claims at a Council meeting within one month of issuance of the checks. In the case of cancelled meetings, this will be done at the next meeting possible;
 - d) The City Council shall require that if, upon its review, it disapproves some claims, the Finance Director and individuals designated to sign checks shall jointly establish the disapproved claims as receivables of the City and pursue collection

EXHIBIT A TO RESOLUTION 2025-1030

diligently until the amounts disapproved are collected or until the City Council is satisfied and approves the claims.

8. The City will seek to optimize the efficiency and effectiveness of its services to reduce costs and improve service quality.

I. Debt Policy

The debt policy ensures that the City's debt:

- Does not weaken the City's financial structure,
- Provides limits on debt to avoid problems servicing debt.

This debt policy is critical for maintaining the best possible credit rating for the City.

1. The City shall review its outstanding debt annually for the purpose of determining if the financial marketplace will afford the City the opportunity to refinance an issue and lessen its debt service costs.
2. Long term borrowing will be confined to construction of capital improvements or projects which cannot be supported by current ongoing revenues.
3. Whenever possible, the City will use special assessment, revenue, or other self-supporting bonds instead of general obligation bonds, so those benefitting from the improvements will bear all or part of the cost of the project financed.
4. When the City finances capital projects by issuing bonds, it will pay back the bonds within a period not-to-exceed the estimated life of the project. The Finance Department will regularly monitor outstanding debt issues to verify compliance with bond covenants.
5. Proceeds from long-term debt should only be used for construction related project costs, acquisition of other fixed assets, bond issuance costs, debt service requirements, and refunding of outstanding bond issues.
6. The City will not use long-term debt for current operations.
7. When evaluating the use of non-voted (councilmanic) debt and the associated debt service obligations, an analysis shall be performed to determine the City's ability to make debt service payments, considering revenue fluctuations associated with periodic economic cycles. Non-voted debt may be considered where the Finance Director can demonstrate financial and economic savings to the city and sufficient revenue to service the debt without disrupting the City's existing service delivery programs.
8. Debt is considered long-term when a loan extends beyond twelve (12) months. Financing for a period of less than twelve (12) months is considered a short term loan and not debt.

EXHIBIT A TO RESOLUTION 2025-1030

9. The City will maintain good communications with bond rating agencies regarding its financial condition. The City will follow a policy of full disclosure on every financial report and borrowing prospectus.
10. Voted and non-voted (councilmanic) debt will be used prudently in a manner to avoid any adverse impact on the City's credit rating or ability to issue subsequent or additional debt.
11. Upon the issuance of any debt, the Finance Director will establish the appropriate procedures to assure compliance with bond/debt covenants and applicable Federal, State and local laws, policies and regulations.
12. Options for Interim or Bridge Financing for Major Capital Projects include:
 - a. Bond Anticipation Notes (BANS)
 - b. Interfund loans
 - c. Lines of credit with a major financial institution

J. Post Issuance Compliance Policy

1. This policy addresses the City's compliance with federal tax, federal securities and state law requirements and contractual obligations applicable to the City's tax-advantaged governmental bond issues. The policy applies generally to all the City's tax-exempt governmental bonds, and other bonds subject to comparable requirements. As used in this policy, references to "bonds" include bonds, lines of credit, bond anticipation notes, and equipment and other financing leases.
2. This policy is intended to improve the City's ability to:
 - Prevent violations in bond requirements from occurring;
 - Identify potential violations in a timely manner;
 - Correct identified violations through appropriate remedial steps.
3. *Schedule of Review.* The policy is to be reviewed at least annually and upon each issuance of new bonds, including refunding bonds. In connection with this periodic review, the City will consider whether the policy should be amended or supplemented:
 - To address any particular requirements associated with the new bond issue, or
 - To reflect general changes in legal requirements since the prior bond issue.
4. *Requirements at Bond Closing.* Numerous federal tax, federal securities and state law requirements must be met in connection with a bond issue. In some circumstances (e.g., revenue bonds) rate and other covenant requirements will also need to be satisfied.

EXHIBIT A TO RESOLUTION 2025-1030

These requirements are addressed in the bond transcript completed at bond closing, and confirmed in certain respects by the legal opinions included in the bond transcript. For each bond issuance, the Finance Director (defined below) will create a written schedule for due diligence reviews, with the appropriate officials set forth below, based upon the expectations set forth in the transcript documents.

5. *Requirements after Bond Closing.* Other federal tax, federal securities law and state law requirements and contractual obligations require ongoing monitoring after the issuance of the bonds.
6. *Primary Responsibility.* The City Finance Director, or their designee, will undertake post-issuance compliance relating to the City's bonds. The Finance Director is familiar with the provisions of the Internal Revenue Code of 1986, as amended, and the Treasury Regulations (the "Regulations") governing the tax-exempt status of the bonds and with the federal securities law requirements governing the bonds, including SEC Rule 15c2-12. The Finance Director may delegate tasks to other officers or staff of the City or to outside attorneys or other experts.
7. *Officials or employees responsible for review.* The following officers and employees of the City are identified as the responsible persons for reviewing compliance with the City's post-issuance obligations. Each responsible individual is to institute a system to track compliance with tasks in a timely manner.
 - a. Federal tax requirements, including arbitrage, use of proceeds, use of facilities and IRS filings:
 - i. Arbitrage, IRS Filings: Finance Director or their designee
 - ii. Use of Proceeds: Government Facilities
 - iii. Use of Facilities: City Hall
 - b. Continuing disclosure requirements:
 - i. Annual Filing: Within 9 months of the close of the Fiscal year
 - ii. Material Event Notices: Filed within 10 days of the event.
 - iii. Prior to each annual filing or material event notice, the City Manager is to circulate the draft filing or notice to responsible department heads for subject matter covered and determine remedial actions for correction.
 - c. The City Manager or Finance Director is responsible for reviewing the other requirements under this policy.

EXHIBIT A TO RESOLUTION 2025-1030

- d. The responsible persons identified above may need to confer, from time to time, with the City's bond counsel and/or financial advisor, to confirm the applicability and scope of the requirements outlined in this policy.
8. *Training of the responsible official/employee.* The City provides opportunities for training to the responsible individuals, specifically including the following training opportunities:
- a. At or after bond closing, a conference call or meeting with bond counsel to review the requirements applicable to a new bond issue.
 - b. Participation in in-house training sessions, CPE seminars, or seminars/webinars conducted by professional organizations (e.g., GFOA)
9. *Records to be maintained.* The following documents are maintained in connection with each bond issue. The goal is to retain adequate records to substantiate compliance with federal tax, federal securities law, state law and other contractual requirements applicable to the City's bonds. Generally, records should be maintained for the term of the bonds (plus the term of any refunding bonds) plus three years. Unless otherwise specified, the following records are to be maintained in the office of the Finance Director.
- a. Complete bond transcript (provided by bond counsel) in CD or hard copy.
 - b. Records of investment of bond proceeds in a format showing the date and amount of each investment, its interest rate and/or yield, the date any earnings are received, the amount earned, the date each investment matures and if sold prior to maturity, the sale date and sale price.
 - c. Records of expenditure of bond proceeds in a format showing the amount, timing and the type of expenditure.
 - d. Records of invoices or requisitions, together with supporting documentation showing payee, payment amount and type of expenditure, particularly for projects involving multiple fund sources.
 - e. Records necessary to document the allocation of bond proceeds and other sources of funds to particular projects or portions of projects.
 - f. Records documenting the final allocation of bond proceeds to projects, including any reallocations of bond proceeds, in a format showing the timing and substance of the reallocation, if applicable.
 - g. Records demonstrating compliance with arbitrage and rebate requirements, including arbitrage calculations, documentation of spending exceptions to rebate, rebate reports and IRS filings and payments.
 - h. Copies of contracts relating to the use of the bond-financed facility including leases, concession agreements, management agreements and other agreements that give usage rights or legal entitlements with respect to the facility to nongovernmental persons (e.g., advertising displays, cell tower leases, and

EXHIBIT A TO RESOLUTION 2025-1030

naming rights agreements).

1. Copies of contracts relating to ongoing compliance with respect to the bonds, such as Calculation Agency Agreements or filings.
- J. Copies of any filings or correspondence with the IRS, the SEC or other regulatory body.

10. *Investment of Bond Proceeds.* In general, bond proceeds and certain other funds can only be invested at a rate that exceeds the yield on the bonds under limited circumstances. Furthermore, amounts earned by investing above the bond yield must be rebated to the IRS, unless the City qualifies as a small issuer or a spending exception is met. The arbitrage and rebate requirements for each bond issue are detailed in the federal tax certificate. The Finance Director will monitor the investment and expenditure of the funds and accounts listed below. The Finance Director will determine whether the bond issue meets the requirement for one of the expenditure exceptions to arbitrage rebate. The Finance Director will determine whether a rebate calculation is necessary and, if so, will perform the calculation or engage a rebate consultant. The Finance Director will arrange for the payment of any required rebate to the IRS together with the appropriate IRS form on the dates described below.

- a. Funds to Monitor.
 - i. Bond or debt service funds/accounts
 - ii. Project or construction funds/accounts
 - iii. Debt service reserve funds/accounts
 - iv. Other accounts with bond proceeds or amounts pledged to pay bonds
- b. Arbitrage Reports; Rebate May Be Due.
 - i. During construction, monitor expenditures to confirm satisfaction of expected exceptions to rebate (such as six-month exception, 18-month exception, 24-month exception).
 - ii. The first rebate payment is due five years after date of issue plus 60 days.
 - iii. Rebate is due every succeeding five years, if there are unspent gross proceeds of the bonds.
 - iv. Final rebate payment is due 60 days after early redemption or retirement of the bonds.
- c. Limitations on Type of Investments.
 - i. Bond proceeds must be invested as permitted under state law. In addition, the bond resolution or any bond insurance agreement may further limit the permitted investments. To ensure compliance with these investment restrictions the investment policy is a segment of this comprehensive financial policy.

11. *Use of Bond Proceeds during the Construction Period.* Monitoring the expenditure of

EXHIBIT A TO RESOLUTION 2025-1030

bond proceeds is necessary to ensure that the required amount of bond proceeds are expended for capital expenditures and not more than 10% of the bond proceeds are expended for projects that will be used for in a private trade or business (including by the federal government and nonprofit entities).

- a. The Finance Director, in consultation with the City's Project Manager, is responsible for reviewing the transcript for the bonds, and in particular the authorizing documents and the federal tax certificate, as well as invoices and other expenditure records to monitor that the bond proceeds are spent on authorized project costs.
- b. If, at the completion of the project, there are unspent bond proceeds the Finance Director, conferring with bond counsel, will direct application of the excess proceeds for permitted uses under federal tax law, state law, and bond authorization documents.
- c. If the project involves bond proceeds and other sources of funds, and included both governmental and nongovernmental use of the financed facilities, the Finance Director, in consultation with the City's Project Manager, will undertake a final reconciliation of bond proceeds expenditures and expenditures of other funds with project costs no later than 18 months after the later of the date of expenditure or the date that the project is placed in service (but in no event more than five years after the date of issue).
- d. Any change in the scope of the project financed with bond proceeds should be reviewed and documented.

12. Refundings.

- a. For advance refunding escrows, confirm that any scheduled purchases of State and Local Government Series or open market securities are made as scheduled.
- b. On the redemption date, confirm that the refunded bonds have been redeemed and cancelled.
- c. Promptly following the redemption date, confirm that all proceeds of the bonds and all proceeds of the refunded bonds have been spent. Verify that excess proceeds, if any, of the bonds do not exceed an amount permitted by the Regulations.

13. *Use of Bond-Financed Facilities.* Monitoring (and limiting) any private use of the bond-financed facility is important to maintaining the federal tax treatment of governmental bonds. In general, no more than 10% of the bond-financed facility can be used in a private trade or business (including by the federal government and nonprofit entities). Private use can arise through any of the following arrangements, either directly or indirectly.

- a. Types of Private Use.
 - i. Selling all or a portion of the facility.
 - ii. Leasing all or a portion of the facility.

EXHIBIT A TO RESOLUTION 2025-1030

- iii. Entering into a management contract for the facility (except for qualified management contracts under IRS Rev. Proc. 97-13).
 - iv. Use of all or a portion of the facility for research purposes under a research contract (except for qualified research contracts under IRS Rev. Proc. 97-14).
 - v. Entering into contracts giving "special legal entitlement" to the facility (for example, sale of advertising space or naming rights).
- b. Procedures for monitoring private use; procedures reasonably expected to identify noncompliance.
- i. All leases and other contracts involving bond-financed property will be sent prior to execution to the Finance Director for review.
 - ii. The Finance Director will confer with personnel responsible for bond financed projects at least annually to discuss any existing or planned use of bond-financed or refinanced facilities.
 - iii. Private use for each bond-financed project will be calculated annually.
- c. Procedures ensuring that the City will take steps to correct noncompliance.
- i. Consult with bond counsel regarding any private use or proposed change in use with respect to bond-financed property.
 - ii. If noncompliance will be remediated under existing remedial action provisions or tax-exempt bond closing agreement programs contained in the Regulations or other published guidance from the IRS, determine the deadline for taking action and proceed with diligence to take the required remedial actions.
 - iii. If remedial actions are unavailable, determine whether to make a submission to the Tax Exempt Bonds Voluntary Closing Agreement Program ("VCAP") under Internal Revenue Manual 7.2.3.
- 14. *Reissuance.*** A significant modification of the bond documents may result in bonds being deemed refunded or "reissued." Such an event will require, among other things, the filing of new information returns with the federal government and the execution of a new arbitrage certificate. Bond counsel should be consulted in the event of modification of the bond documents.
- 15. *Continuing Disclosure.*** The City is required to make annual filings with the Municipal Securities Rulemaking Board ("MSRB") as described in the continuing disclosure undertaking for each bond issue (which may include tax-exempt or taxable bonds), and to file notice of certain material events.
- a. Submissions will be made in electronic form through the MSRB's web-based system known as Electronic Municipal Market Access ("EMMA"), currently available at <http://www.emma.msrb.org> . Submissions will be made in word-

EXHIBIT A TO RESOLUTION 2025-1030

- searchable PDF.
- b. Annual filings
 - i. Financial information and operating data about the City included in the Official Statement for the bonds.
 - ii. Change in fiscal year; other information described in the continuing disclosure undertaking.
 - iii. Audited financial statements.
 - iv. These reports must be filed no later than nine months after the end of the City's fiscal year (currently August 31st).

 - c. Material event notices.
 - i. The City is required to provide or cause to be provided to the MSRB, in a timely manner, notice of certain events with respect to the bonds. Amendments to SEC Rule 15c2-12 (the "Rule") in 2010 expanded the list of events requiring disclosure and added a 10-day compliance period for undertakings effective after December 1, 2010.
 - ii. Generally, if any of the following events occur, the City shall provide, or cause to be provided, to the MSRB, in a timely manner not in excess of ten business days after the occurrence of the event, notice of the occurrence of the any of the following events with respect to the bonds:
 - 1. Principal and interest payment delinquencies.
 - 2. Non-payment related defaults, if material.
 - 3. Unscheduled draws on debt service reserves reflecting financial difficulties.
 - 4. Unscheduled draws on credit enhancements reflecting financial difficulties.
 - 5. Substitution of credit or liquidity providers, or their failure to perform.
 - 6. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the bonds, or other material events affecting the tax status of the bonds.
 - 7. Modifications to the rights of bondholders, if material.
 - 8. Bond calls, if material, and tender offers.
 - 9. Defeasances.
 - 10. Release, substitution, or sale of property securing repayment of the Bonds, if material.
 - 11. Rating changes (both upgrades and downgrades).
 - 12. Bankruptcy, insolvency, receivership or similar event of the City.
 - 13. The consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of the assets of the City, other than in the ordinary course of business, the entry

EXHIBIT A TO RESOLUTION 2025-1030

into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.

14. Appointment of a successor or additional trustee or the change of name of a trustee, if material.

- d. Procedure for ensuring that notice of the above events is provided to the responsible individual(s) identified above: Finance Director, or their designee.
- e. Periodic check of information regarding bonds on EMMA. Prior to each new bond issue, the City will search EMMA for its continuing disclosure filings to confirm proper filings have been made.

K. Investment Policy Statement

It is the policy of the City of Newcastle ("City") that the administration of its funds and the investment of those funds shall be handled as its highest public trust. Investments shall be made in a manner that will provide the maximum security of principal invested, employing limitations on maturities and diversification of the portfolio while meeting the daily cash flow needs of the City and conforming to all applicable State and City statutes governing the investment of public funds. The receipt of a market rate of return will be secondary to safety and liquidity requirements. It is the intent of the City to be in complete compliance with local, state, and federal law. The earnings from investment will be used in a manner that best serves the public trust and interest of the local government.

I. Scope

This investment policy applies to all the financial assets held by the City of Newcastle with regards to the investing of the financial assets as established by the rules and regulations of the State of Washington.

II. Standards of Care

Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived. The standard of prudence to be used by investment managers or brokers shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio.

Investment managers or brokers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

EXHIBIT A TO RESOLUTION 2025-1030

III. Investment Objectives

The primary investment objectives of the City of Newcastle, in priority order shall be:

- Safety: Safety of the principal is the foremost objective. Investments of the City of Newcastle shall be undertaken in a manner that seeks to ensure the preservation of capital for the overall portfolio. To obtain this objective, diversification is required to ensure the preservation of capital in the overall portfolio.
- Liquidity: The City's investment portfolio will remain sufficiently liquid to meet all reasonably anticipated operating requirements.
- Return on Investment: The City of Newcastle's investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the county's investment risk constraints and the cash flow characteristics of the portfolio. Long-term financial stability and sustainability are key objectives.

Effective cash management is recognized as essential to good fiscal management. Cash management is defined as the process of managing monies in order to ensure maximum cash availability. The City shall maintain a comprehensive cash management program that includes collection of accounts receivable, prudent investment of its available cash, timely disbursement of payments, and the active management of banking services.

IV. Delegation Authority

According to R.C.W. 36.29.20, the Treasurer is the authorized investment officer for the city and its taxing districts. For the City of Newcastle, the Finance Director is designated City Chief Financial Officer and City Treasurer. Investments shall be placed in authorized investments when directed by the governing body in whose name the funds are held. The Finance Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

V. Ethics and Conflicts of Interest

The Chief Financial officers and employees involved in the investment process shall refrain from personal business activity that may conflict with the proper execution of the investment program, or may impair their ability to make impartial investment decisions.

Employees and investment managers or brokers shall disclose to the Chief Financial Officer any material financial interest in financial institutions that conduct business within this jurisdiction,

EXHIBIT A TO RESOLUTION 2025-1030

and they shall further disclose any personal financial/investment positions that could be related to the performance of the City's portfolio.

The Chief Financial Officer and employees shall subordinate their personal investment transactions to those of the City, particularly with regard to the timing of purchases and sales.

VI. Authorized Financial Dealers and Institutions

- The Finance Director shall maintain a list of all authorized brokers/dealers and financial institutions that are approved for investment purposes or investment dealings. Banking institutions must be authorized as public depositories by the Public Deposit Protection Commission. (R.C.W. 39.58.080). Broker/Dealers must provide evidence of membership with the National Association of Securities Dealers.
- Quarterly reports of the Public Deposit Protection Commission will be used to assist in determining which institutions investments are to be placed with.
- Investments may not be placed outside the State of Washington. In addition, the City shall maintain a list of approved security broker/dealers selected by creditworthiness, who maintain an office in the State of Washington.
- To obtain name placement on the list, broker/dealers who wish to handle investments for the City must apply for certification by the Finance Director. The certification process will require detailed financial experience and existing client profiles be submitted to the Finance Director in writing. Approval or non-approval will be determined upon review of the application.
- All investment managers or brokers and financial institutions who desire to do business with the City must supply the Finance Director with annual audited financial statements.
- All financial institutions with which the City transacts business will be provided a copy of this Investment Policy to ensure that they are familiar with the goals and objectives of the investment program.

VII. External Controls

The City of Newcastle may enter into contracts with external investment management firms on a non-discretionary basis. These services will apply to the investment of the City's short-term operating funds and capital funds including bond proceeds and bond reserve funds.

If an investment advisor is hired, the advisor will serve as a fiduciary for the City and comply with all requirements of this Investment Policy. Exceptions to the Investment Policy must be disclosed and agreed upon in writing by both parties. The Finance Director remains the person

EXHIBIT A TO RESOLUTION 2025-1030

ultimately responsible for the prudent management of the portfolio. Factors to be considered when hiring an investment advisory firm may include, but are not limited to:

- The firm's major business
- Ownership and organization of the firm
- The background and experience of key members of the firm, including the portfolio manager expected to be responsible for the City's account
- The size of the firm's asset base, and the portion of that base which would be comprised of the City's portfolio if the firm were hired
- Management fees

VIII. Eligible Investment for Public Funds in the State of Washington

RCW 43.250.040

- ❖ The Local Government Investment Pool (LGIP)

RCW 43.250.190

- ❖ Separately Managed Accounts Program (SMA)

RCW 35.39.030:

- ❖ Utility revenue bonds or warrants of any city or town in the State of Washington.
- ❖ Bonds or warrants of a local improvement district must be within the protection of the local improvement guaranty fund law.
- ❖ Shares of mutual funds that invest in United States government bonds or United States government guaranteed bonds issued by federal agencies with average maturities less than four years, or bonds of state and local governments that have one of the four highest credit ratings of a nationally recognized rating agency.
- ❖ Shares of money market funds that invest in Bonds of states and local governments or other issuers authorized by law for investment by local governments, which bonds have one of the two highest credit ratings of a nationally recognized rating agency; or, securities otherwise authorized by law for investment by local governments.

RCW 43.84.080:

- ❖ Treasury Bills
- ❖ Treasury Bonds
- ❖ Federal Home Loan Bank Bonds
- ❖ Federal Home Loan Bank Discount Notes
- ❖ Federal National Mortgage Association Bonds
- ❖ Federal National Mortgage Association Discount Notes
- ❖ Federal Farm Credit Banks Consolidated System-Wide Bonds
- ❖ Federal Farm Credit Banks Consolidated System-Wide Discount Notes
- ❖ Federal Home Loan Mortgage Corporation Bonds
- ❖ Federal Home Loan Mortgage Corporation Discount Notes
- ❖ Government National Mortgage Association Bonds
- ❖ Student Loan Marketing Association Bonds

EXHIBIT A TO RESOLUTION 2025-1030

- ❖ Student Loan Marketing Association Discount Notes
- ❖ Small Business Administration Bonds
- ❖ Export-Import Bank Bonds
- ❖ Maritime Administration Bonds
- ❖ Obligations of any other government sponsored corporation whose obligations are or may become eligible as collateral for advances to member banks as determined by the board of governors of the Federal Reserve System.
- ❖ Bankers' acceptances purchased on the secondary market.
- ❖ Commercial paper: provided that the Finance Director shall adhere to the investment policies and procedures adopted by the State Investment Board.

RCW 39.59.020:

- ❖ State, county, municipal, or school district bonds, or in warrants of taxing districts of the state. Such bonds and warrants shall be only those found to be within the limit of indebtedness prescribed by law for the taxing district issuing them and to be general obligations.
- ❖ Bonds of the State of Washington and any local government in the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency;
- ❖ General obligation bonds of a local government of a state other than the State of Washington, which bonds have at the time of investment one of the three highest credit ratings of a nationally recognized rating agency.

IX. Investments not Eligible for Public Funds

- Corporate Stocks
- Corporate Bonds
- Foreign Government Obligations
- Futures Contracts
- Guaranteed Investment Contracts (GICs)
- Investment in Commodities
- Limited Partnerships
- Negotiable Certificates of Deposit
- Real Estate

X. Important Guidelines for Repurchase Agreements

- Securities should be kept with a third party acting on the investor's behalf for safety purposes.
- It is acceptable for securities used in repurchase agreements with banks to be held in that bank's trust safekeeping department for the account of the investor.
- All securities in a repurchase agreement should be priced to reflect current market conditions.
- Pricing of securities should allow for a margin of market fluctuations.

EXHIBIT A TO RESOLUTION 2025-1030

- Deal with well capitalized firms which have a good reputation in the industry.

XI. Investment Parameters

A. Diversification. The City will diversify the investment portfolio to avoid incurring unreasonable risks, both credit and interest rate risk, inherent in over investing in specific instruments, or maturities. Listed below are the diversification constraints on the total holdings:

<u>Issuer Type</u>	<u>Maximum % of Holdings</u>
US Treasury Obligations	100%
GSE-Agency Securities	100%
<i>Limit per Issuer</i>	<i>25%</i>
Local Government Investment Pool (LGIP)	100%
Separately Managed Accounts Program (SMA)	90%
Allowable Mutual Funds per (R.C.W. 35.39.030) (Avg. Maturities less than 4 years)	15%
Bonds or Warrants per (R.C.W. 35.39.030)	5%
Commercial Paper A1, P1	15%
<i>Limit per Issuer</i>	<i>5%</i>
Bankers' Acceptance	50%
<i>Limit per Issuer</i>	<i>5%</i>
Certificates of Deposit	50%
<i>Limit per Issuer</i>	<i>10%</i>
Obligations of the States (municipal securities)	15%
<i>Limit per Issuer</i>	<i>5%</i>

B. Investment Maturity. The City will not directly invest in securities maturing more than five (5) years from the date of purchase.

EXHIBIT A TO RESOLUTION 2025-1030

C. Maximum Weighted Portfolio Duration. The total portfolio shall not exceed 2.5 years in weighted average duration of the portfolio. This maximum is established to limit the portfolio to excessive price change exposure.

The portfolio should be structured with staggered maturities to assure that: 1) adequate resources are available to meet cash flow requirements without forced liquidation of investments, and 2) price volatility and reinvestment risks are minimized.

D. Liquidity funds. These funds will be held in the State Pool or in money market instruments maturing six months and shorter. The liquidity portfolio shall, at a minimum, represent one and one half months budgeted outflows.

E. Reserve Funds. Reserve funds will be defined as the funds in excess of liquidity requirements.

XII. Performance Standards

The Reserve Fund investment portfolio will be designed to obtain a competitive rate of return during budgetary and economic cycles, consistent with the investment objectives and cash flow needs. The portfolio will be measured comparatively to the twelve-month moving average two year U.S. Treasury.

The Finance Director will routinely monitor the contents of the portfolio, and no less than quarterly be in contact with the designated investment advisor.

XIII. Important Elements of Custodial Agreements

- Agreement should be between the Finance Director and custodial third party.
- Agreement specifies that the custodial third party will act as trustee solely on behalf, and at the direction of the Finance Director and carry out other duties as specified and agreed to between the parties in the agreement (disposition of money coming to the custodian for the benefit of the Finance Director, money entrusted to the custodian by the Finance Director for the payment of securities, audit requests, account statements, etc.).
- The responsibilities of the custodial third party and the Finance Director in the event of default by the seller.
- Means of compensation to custodial third party.
- Terms by which the agreement may be altered or terminated.

XIV. Safekeeping and Custody

All transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities purchased by the entity will be delivered against payment and held in a custodial safekeeping account. The Finance Director will designate a third party custodian and safekeeping receipts will evidence all transactions.

EXHIBIT A TO RESOLUTION 2025-1030

XV. Reporting

- The Finance Director will provide the Finance Committee no less than quarterly reporting. The reports shall provide an accurate and meaningful representation of the investment portfolio.

XVI. Investment Policy Adoption

The City of Newcastle Investment Policy shall be adopted by resolution approved by the City Council. It will be reviewed by the Finance Director and the Finance Committee for appropriate modifications on an annual basis. Any amendments to this policy must be approved by the City Council.