

**CALL TO ORDER**

IN REGULAR SESSION Monday, February 3, 2014 at 7:00 P.M. in the Council Chambers of Town Hall, 323 West Michigan Avenue, Marshall, MI, the Marshall City Council was called to order by Mayor Dyer.

**ROLL CALL**

Roll was called:

Present: Council Members: Mayor Dyer, Mankerian, Metzger, Reed, and Revore.

Also Present: City Manager Tarkiewicz and Clerk Nelson.

Absent: Council Members Miller and Williams.

**Moved** Reed, supported Metzger, to excuse the absence of Council Members Miller and Williams. On a voice vote – **MOTION CARRIED.**

**INVOCATION/PLEDGE OF ALLEGIANCE**

Scott Loughrige of Cross Roads Church & Ministries gave the Invocation and Mayor Dyer led the Pledge of Allegiance.

**APPROVAL OF THE AGENDA**

**Moved** Metzger, supported Reed, to approve the agenda with the change of moving item 7A - Update Financial Policies from the Consent Agenda to item 12D. On a voice vote – **MOTION CARRIED.**

**PUBLIC COMMENT ON AGENDA ITEMS**

None.

**CONSENT AGENDA**

**Moved** Metzger, supported Mankerian, to approve the Consent Agenda:

- A. Approve minutes of the City Council Regular held on Tuesday, January 21, 2014;
- B. Approve city bills in the amount of \$ 1,340,164.41.

On a roll call vote – ayes: Mankerian, Metzger, Reed, Revore, and Mayor Dyer; nays: none. **MOTION CARRIED.**

**PRESENTATIONS AND RECOGNITIONS**

None.

**INFORMATIONAL ITEMS**

None.

**PUBLIC HEARINGS & SUBSEQUENT COUNCIL ACTION**

None.

**OLD BUSINESS**

None.

**REPORTS AND RECOMMENDATIONS**

**A. 2nd Quarter Financial Report:**

**Moved** Metzger, supported Mankerian, to accept the 2<sup>nd</sup> Quarter Financial Report as presented. On a voice vote – **MOTION CARRIED.**

**B. 2nd Quarter Investment Portfolio Report:**

**Moved** Metzger, supported Mankerian, to accept the 2<sup>nd</sup> Quarter Investment Portfolio as presented. On a voice vote – **MOTION CARRIED.**

**C. Utility Rules and Regulation Update:**

**Moved** Reed, supported Revore, to approve the recommended changes to the Utility Rules and Regulations for the City of Marshall. On a voice vote – **MOTION CARRIED.**

**D. Update Financial Policies:**

**Moved** Metzger, supported Mankerian, to approve the updated Investment, Fund Balance, Debt Management, and CIP Policies with the recommended changes. On a voice vote – **MOTION CARRIED. (Attachment A – copies of policies)**

**APPOINTMENTS / ELECTIONS**

None.

**PUBLIC COMMENT ON NON-AGENDA ITEMS**

None.

**COUNCIL AND MANAGER COMMUNICATIONS**

**ADJOURNMENT**

The meeting was adjourned at 7:41 p.m.

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James L. Dyer, Mayor

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Trisha Nelson, City Clerk

## INVESTMENT POLICY

Adopted: February 3, 2014

I. It is the policy of the City of Marshall (hereafter known as the CITY) to invest public funds in a manner which will provide the highest investment return with the maximum security while meeting the daily cash flow demands of the entity and conforming to all State statutes and local ordinances governing the investment of public funds.

II. **Scope**

This investment policy applies to all financial assets held by the CITY. These assets are accounted for in the CITY's annual financial report and include:

- General Fund
- Special Revenue Funds
- Internal Service Funds
- Capital Project Funds
- Enterprise Funds
- Trust and Agency Funds
- Debt Service Funds
- Any new fund created by the local unit, unless specifically exempted by the legislative body.

The CITY does not invest the employee pension fund.

III. **Investment Objectives**

The following investment objectives, in priority order, will be applied in the management of the CITY's funds:

Safety

The primary objective of the CITY's investment activities is the preservation of capital in the overall portfolio and the protection of investment principal. The Finance Director will employ mechanisms to control risks and diversify investments regarding specific security types or individual financial institutions.

Liquidity

The investment portfolio will remain sufficiently liquid to enable the CITY to meet operating requirements which might be reasonably anticipated.

Return on Investment

Subject to the foregoing constraints, the CITY will strive to maximize the rate of return on the portfolio and to preserve the purchasing power but will avoid assuming unreasonable investment risk. To attain this objective, diversification is required in order that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

IV. **Prudence**

In managing its investment portfolio, CITY officials shall avoid any transaction that might impair public confidence. 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 for speculation, but for investment, considering the probable safety of their capital as well as the probable income to be derived.

The above standard is established as the standard for professional responsibility and shall be applied in the context of managing the overall portfolio. The investment staff of the CITY, as designated by the Finance Director, acting in accordance with State statute, this Investment Policy, written procedures as may be established, and exercising due diligence, shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

**V. Delegation of Authority**

Authority to manage the CITY's investment program is derived from State statutes.

Daily management responsibility for the investment program is the responsibility of the Finance Director, who shall establish written procedures for the operation of the investment program consistent with this investment policy. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under terms of the procedures established by the Finance Director. Such procedures should also include reference to safekeeping, repurchase agreements, wire transfer agreements, collateral or depository agreements and banking service contracts. The Finance Director shall be responsible for all transactions undertaken, and shall establish a system of controls to regulate the activities of subordinate officials.

**VI. Ethics and Conflicts of Interest**

Officers and employees involved in the investment process shall refrain from personal business activity which could conflict with proper execution of the investment program or which could impair -- or create the appearance of an impairment -- in their ability to make impartial investment decisions. Employees and investment officials shall disclose to the City Manager any material financial interests in financial institutions that conduct business with the unit, and they shall further disclose any large personal financial investment positions that could be related to the performance of the CITY's portfolio. Employees and officers shall subordinate their personal investment transactions to those of the CITY, particularly with regard to the time of purchases and sales.

**VII. Authorized Financial Dealers and Institutions**

The Finance Director will maintain a list of financial institutions, which are authorized to provide investment and depository services. This list shall be continuously reviewed based on quarterly reports of a rating agency. In addition, a list will also be maintained of

approved security broker/dealers selected by credit-worthiness, who maintain an office in the State of Michigan or who are "primary" dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State law.

All financial institutions and broker/dealers who desire to become qualified bidders for investment transactions must supply the Finance Director with the following: audited financial statements for the recent fiscal year; certification of having read the CITY's investment policy and the pertinent State statutes; proof of National Association of Security Dealers certification; and proof of State registration, where applicable.

#### **VIII. Authorized and Suitable Investments**

The CITY is empowered by State statute (1988 Public Act 239, M.C.L. 129.91) to invest in the following types of securities:

- a. Treasury Bills, Treasury Bonds, Treasury Notes, Treasury STRIPS, and other securities or obligations of the United States, or an agency or instrumentality of the United States;
- b. Certificates of Deposit, savings accounts, deposit accounts, or depository receipts of a bank which is a member of the federal deposit insurance corporation or a savings and loan which is a member of the federal savings and loan insurance corporation or a credit union which is insured by the national credit union administration, but only if the bank, savings and loan, or credit union is eligible to be a depository of surplus funds belonging to the state under section 5 or 6 of Act No.105 of the Public Acts of 1855, as amended;
- c. In United States government or federal agency obligation repurchase agreements;
- d. In Banker's Acceptances (BA's) of United States banks;
- e. In commercial paper rated at the time of purchase within the 2 highest classifications established by not less than 2 standard rating services and which matures not more than 270 days after the date of purchase;
- f. In mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan;
- g. Investments purchased through an inter-local agreement under the urban cooperations act of 1967, (Ex Sess) PA 7, MCL 124.501 to 124.512;

h. Investment pools organized under the surplus funds investment pool act, 1982 Public Act 367, MCL 129.111 to 129.118; and

i. The investment pools organized under the local investment pool act, 1985 Public Act 121, MCL 129.141 to 129.150.

The Finance Director is restricted to investments which meet the statutory restrictions above and limitations on security issues and issuers as detailed below:

a. Repurchase agreements shall be negotiated only with dealers or financial institutions with whom the Finance Director's Office has negotiated a Master Repurchase Agreement or with the CITY's primary bank. Repurchase agreements must be signed with the bank or dealer and must contain provisions similar to those outlined in the Public Security Association's model Master Repurchase Agreement.

b. Investment of bond proceeds or funds pledged for bond repayment must be fully insured, fully collateralized or otherwise protected from loss of principal. The CITY must assure the availability of funds on the dates for principal and interest payments.

c. Investments in Commercial Paper are restricted to those which have, at the time of purchase, the top investment rating provided by any two nationally recognized rating agencies. Commercial paper held in the portfolio which subsequently receives a reduced rating shall be closely monitored and sold immediately if the principal invested may otherwise be jeopardized.

d. Certificates of deposits shall be purchased only from financial institutions which qualify under Michigan law and are consistent with Opinion No. 6168, Opinions of the Attorney General (1982).

e. In money market mutual funds or qualified bank trust funds composed of investment vehicles which are legal for direct investment by local governments in Michigan.

**IX. Diversification**

The CITY will diversify its instruments and investments by security type and institution. With the exception of U.S. Treasury securities and authorized investment pools, no more than fifty percent (50%) of the total investment portfolio will be invested in a single security type OR with a single financial institution.

**X. Pooling of Cash**

The investment officer may, where appropriate, pool cash of various funds to maximize earnings. Investment income shall be allocated to the various funds based upon their respective participation.

**XI. Maximum Maturities**

To the extent possible, the CITY will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the CITY will not directly invest in securities maturing more than three (3) years from the date of purchase. Reserve funds may be invested in securities exceeding three (3) years if the maturity of such investments is made to coincide as nearly as practicable with the expected use of the funds.

**XII. Collateralization, Safekeeping and Custody**

The State of Michigan does not require collateralization of Public Funds. However, negotiable instruments transactions having a value greater than SIPC or other applicable insurance, will be settled on a Delivery-vs.-Payment basis. If so, a Trust (Safekeeping) Receipt and proof of the applicable insurance will be required by a third-party custodian. Non-negotiable, non-collateralized Certificates of Deposit, as is the law in the State of Michigan, shall be evidenced by a Safekeeping Receipt from the issuing bank.

**XIII. Accounting**

The CITY maintains its records on the basis of funds and account groups, each of which is considered a separate accounting entity. All investment transactions shall be recorded in the various funds of the CITY in accordance with generally accepted accounting principles as promulgated by the Government Accounting Standards Board. Accounting treatment will include:

- Investments will be carried at cost or amortized cost which approximates market.
- Premium or discount will be amortized over the life of the investment.
- Gains or losses of investments in all funds will be recognized at the time of disposition of the security.
- Market price shall be disclosed annually in the financial statements and periodically in the performance reports.

**XIV. Investment Performance and Reporting**

The Finance Director shall submit an annual investment report that provides:

- Principal and type of investment by fund
- Annualized yield
- Ratio of cash to investments
- Earnings for the current month and year-to-date
- Market price and a summary report of cash and investments maintained in each financial institution.

Performance of the portfolio shall be reported to the City Manager and Marshall City Council semi-annually. Reports shall include details of the characteristics of the portfolio as well as its performance for that period. Material deviations from projected investment strategies shall be reported immediately to the City Manager.

**XV. Internal Controls**

The Finance Director shall establish a system of internal controls which is designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Finance Director's Office. Required elements of the system

## INVESTMENT POLICY

Adopted: February 3, 2014

of internal controls shall include: 1) The timely reconciliation of all bank accounts (i.e. monthly reconciliation's within 30 days of the end of the monthly cycle), 2) details of delivery versus payment procedures and trust receipt documentation, and 3) a third party audit to be conducted on annually. Internal controls will also encompass at a minimum the additional issues of:

- transfers of all funds (purchases, sales, etc.);
- separation of functions including transaction authority and accounting and record-keeping;
- custodial safekeeping;
- avoidance of delivery of bearer from or non-wireable securities to the CITY;
- delegation of authority to subordinate staff members;
- written confirmation of telephone transactions;
- supervisory control of employee actions;
- specific guidelines regarding securities losses and remedial action;
- identification and minimization of the number of authorized investment officials

### **XVI. Investment Policy Adoption**

The CITY's investment policy shall be adopted by resolution of the Marshall City Council. The policy shall be reviewed as necessary by the Marshall City Council.

## GLOSSARY

**Bankers' Acceptance (BA):** A draft or bill or exchange accepted by bank or trust company. The accepting institution guarantees payment of the bill, as well as the issuer.

**Broker:** A broker brings buyers and sellers together for a commission.

**Commercial Paper:** Short-term unsecured debt obligation issued by a bank holding company, finance company, utility or industrial company to raise short term cash.

**Certificate of Deposit (CD):** A receipt of funds deposited in a financial institution for a specified period at a specified rate of interest. A negotiable receipt may be in bearer or registered form and can be traded in the secondary market. A non-negotiable receipt is always registered and has no secondary market. Denominations can be any agreed amount, and interest is normally calculated using actual number of days on a 360 day year. However, each financial institution's calculations vary, and the investor should ask to avoid misunderstanding.

**Discount:** The difference between the cost price of a security and its maturity when quoted at lower than face value. A security selling below original offering price shortly after sale also is considered to be at a discount.

**Federal Deposit Insurance Corporation (FDIC):** A federal agency that insures bank deposits, currently up to \$250,000 per deposit.

**Federal Savings and Loan Insurance Corporation (FSLIC):** A federal institution that insures deposits of federally chartered savings and loan associations.

**Liquidity:** A liquid asset is one that can be converted easily and rapidly into cash without a substantial loss of value. In the money market, a security is said to be liquid if the spread between bid and asked prices is narrow and reasonable size can be done at those quotes.

**Market Price:** The price at which a security is trading and could presumably be purchased or sold.

**National Credit Union Administration:** A federal institution that insures deposits of federal and state chartered credit unions.

**Primary Dealer:** A group of government securities dealers who submit daily reports of market activity and positions and monthly financial statements to the Federal Reserve Bank of New York and are subject to its informal oversight. Primary dealers include Securities and Exchange Commission (SEC)-registered securities broker-dealers, banks and a few unregulated firms.

**Portfolio:** Collection of securities held by an investor.

**Rate of Return:** The yield obtainable on a security based on its purchase price or its current market price. (see Yield)

**Repurchase Agreement:** A contractual arrangement, not a security, between a financial institution or dealer and an investor. The agreement normally can run for one to thirty days, but some can go longer. The investor puts up his funds for a certain number of days at a stated yield. In return he takes title to a given block of securities as collateral. At maturity the securities are returned and the funds repaid plus interest.

**Safekeeping:** A service to customers rendered by banks for a fee whereby securities and valuables of all types and descriptions are held in the bank's vault for protection.

**SEC Rule 15C3-1:** See Uniform Net Capital Rule.

**Securities & Exchange Commission:** Agency created by Congress to protect investors in securities transactions by administering securities legislation.

**SIPC:** Securities Investor Protection Corporation created as a non-profit member corporation by Congress in 1970 for the purpose of protection of cash and securities held by member SEC-registered broker/dealers that protects customer accounts in the event of the financial failure of a member.

**Treasury Bills:** A non-interest bearing discount security issued by the U.S. Treasury to finance the national debt. Most bills are issued to mature in three months, six months or one year.

**Treasury Bonds:** Long-term coupon-bearing U.S. Treasury security issued as direct obligations of the U.S. Government and having initial maturities of more than 10 years.

**Treasury Notes:** Medium-term coupon-bearing U.S. Treasury securities issued as direct obligations of the U.S. Government bearing interest payable at six month intervals and having initial maturities from one to 10 years.

**Treasury STRIPS:** Separate Trading of Registered Interest and Principal of Securities issued by the U.S. Government

**Uniform Net Capital Rule:** Securities and Exchange Commission requirement that member firms as well as nonmember broker-dealers in securities maintain a maximum ratio of indebtedness to liquid capital of 15 to 1; also called net capital rule and net capital ratio. Indebtedness covers all money owed to a firm, including margin loans and commitments to purchase securities, one reason new public issues are spread among members of underwriting syndicates. Liquid capital includes cash and assets easily converted into cash

**Yield:** The rate of annual income return on an investment, expressed as a percentage.

## FUND BALANCE RESERVE POLICY

February 3, 2014

The City desires to maintain a prudent level of financial resources to guard its citizens against service disruption in the event of unexpected temporary revenue shortfalls or unpredicted one-time expenditures. The Fund Balance has been accumulated to meet this purpose, to provide stability and flexibility to respond to unexpected adversity and/or opportunities. The City's goals are to maintain annual expenditure increases at a conservative growth rate, and to limit expenditures to anticipated revenues.

The following fund balance reserve policy should be used to provide the general framework for setting unreserved, undesignated fund balance reserve levels and for proposals with intended use of fund balance reserves. City Council recognizes there are no absolute rules or easy formulas that provide fund balance reserve levels. Generally, reserve levels are determined based on a percent of operating expenditures plus debt service ratio. The City recognizes the need to provide a policy which provides the guidelines for the annual review and discussion of fund balance reserves during the budget development process. Planned use of fund balance reserve decisions should be the result of deliberative consideration of all factors involved.

### **GENERAL FUND      18-22% Operating Expenditures Plus 1.2 Debt Service Ratio**

To account for resources traditionally associated with governments, which are not required to be accounted for in another fund. Expenditures from the General Fund go to services such as public safety (police, fire, and emergency management); parks and recreation programs; development and planning; community development services; roads; the City's legal and general government administration; and a variety of other services and programs.

The City Council considers it a good practice to keep around 18-22% of annual operating expenditures in unrestricted governmental fund balance plus 1.2 debt service ratio to cover new, unexpected expenses.

The decision to retain a fund balance of 18-22% of operating expenditures stems from the following considerations:

- This amount, in combination with the Working Capital Reserve, provides adequate funding to cover approximately three months (or 25%) of operating expenses.
- It provides the liquidity necessary to accommodate the City's uneven cash flow, which is inherent in its periodic tax collection schedule.
- It provides the liquidity to respond to contingent liabilities.

Fund balance may be accessed under the following conditions.

- The Fund balance target will be maintained at 18-22% of Operating Expenditures. Surplus Funds may be transferred to Capital Reserve, Long Term Obligation or Debt Service Fund, or may be used to restore the target fund balance.

- Except in the event of a declaration of an emergency by the City Council, a minimum Fund Balance equal to 18-22% of operating expenditures will be maintained. A majority of the Council is required to approve use of the Fund Balance such that it falls below the 15% target. The City will identify a plan to restore the General Government Fund Balance to its target amount as part of the emergency budget proposal.

**ENTERPRISE FUNDS     25% Operating Expenditures Plus 1.2 Debt Service Ratio**

Includes all revenue and expenses necessary to operate the funds including, but not limited to, administration, operations, maintenance, financing and related debt service, billing and collection.

For Utility fund balance reserves (electric, wastewater and water), the decision to increase or decrease target fund balance reserves will be supported by the report of cost of service study or review provided by the City's consultant.

Marshall House – to account for the HUD assistance and rental activities of a lower-income senior citizen housing facility.

Electric System - to account for the provision of electricity of the City and account for the proceeds of bonds and construction of infrastructure related to the City's Electric System.

Dial-A-Ride Transportation – to account for the user fees, property taxes and grants related to the operation and maintenance of a local public transportation system.

Waste Water Disposal System - to account for the collection and treatment of the sewage of the City and to account for the proceeds of bonds and construction of infrastructure related to the City's Sewage Disposal System.

Water Supply System - to account for the provision of treated water of the City and account for the proceeds of bonds and construction of infrastructure related to the City's Water Supply System.

**SPECIAL REVENUE FUNDS     1.2 Debt Service Ratio**

To account for the proceeds of specific revenue sources (other than those from expendable trusts or for major capital projects), which are restricted legally to expenditure for specified purposes.

MVH Major and Local Roads - to account for the State-Shared gasoline and weight tax collections to provide for certain maintenance, repair costs and capital improvements of the City's Roads.

Leaf, Brush and Trash Removal - to account for the dedicated millage collections to provide for certain maintenance, repair costs and capital improvements of the City's Leaf removal, spring brush removal and spring trash removal services.

**INTERNAL SERVICE FUNDS 1.2 Debt Service Ratio**

To account for the costs of the various services below, which are billed to the various other funds on the basis of services used. The costs include, but are not limited to, administrative, operation, maintenance and financing costs.

Data Processing - to account for the operation and maintenance of the City's information technology equipment and software.

Motor Pool - to account for the operation and maintenance of the City's motor vehicle fleet and other equipment.

Safety - to account for the operation of the City's safety training program.

Health Reimbursement Arrangement - to account for the City's funding for health insurance HRA and HSA deductibles.

**COMPONENT UNITS 15% Plus 1.2 Debt Service Ratio**

Legally separate organizations for which the elected officials of the primary government are financially accountable.

Downtown Development Authority - to account for the tax increment revenue that is derived from new construction in the Downtown Development District, which is used to finance various improvements in the downtown area.

Local Development Finance Authority - to account for the monies which provide local financing/partnership for developing and sustaining local industrial business.

## DEBT MANAGEMENT POLICY

Adopted: February 3, 2014

The following debt management policy should be used to provide the general framework for planning and reviewing debt proposals. City Council recognizes there are no absolute rules or easy formulas that can substitute for a thorough review of all information affecting the City's debt position. Debt decisions should be the result of deliberative consideration of all factors involved.

### 1. General Debt Policy

- 1.1 The City shall seek to maintain and, if possible, to enhance its current bond rating so borrowing costs are minimized and access to credit is preserved. It is imperative that the City demonstrates to rating agencies, investment bankers, creditors, and taxpayers that City officials are following a prescribed financial plan. The City will follow a policy of full disclosure by communicating with bond rating agencies to inform them of the City's financial condition.
- 1.2 The City recognizes that it is of the utmost importance that elected and appointed City officials, and all others associated with the issuance of City debt, not only avoid the reality of a conflict of interest, but the appearance thereof as well. City officials must conduct themselves in a manner consistent with the best interests of the City and taxpayers. Elected and appointed City officials should avoid even the appearance of linkages between politics and public finance that can erode the confidence of taxpayers, ratepayers, and voters. This includes avoiding gratuities, and political contributions of more than nominal value from service providers and the disclosure of all possible conflicts of interest shall be provided in writing and filed with the City Clerk.
- 1.3 Bonds will be sold on a competitive basis unless it is in the best interest of the City to conduct a negotiated sale. Competitive sales will be the preferred method. Negotiated sales may occur when selling bonds for a defeasance of existing debt, for current or advanced refunding of debt, or for other appropriate reasons.

### 2. Taxpayer Equity

- 2.1 Marshall's property taxpayers and citizens who benefit from projects financed by bonds should be the source of the related debt service funding. This principle of taxpayer equity should be a primary consideration in determining the type of projects selected for financing through bonds. Furthermore, the principle of taxpayer equity shall be applied for setting rates in determining net revenues for bond coverage ratios.

### 3. Uses

- 3.1 Bond proceeds should be limited to financing the costs of planning, design, land acquisition, buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs as permitted by law. Utility revenue bond proceeds may be used to establish a debt service reserve as allowed by State law. Acceptable uses of bond proceeds can be viewed as items, which can be capitalized. Non-capital furnishings and supplies will not be financed from bond proceeds. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bonds proceeds.

### 4. Decision Analysis

- 4.1 Whenever the City is contemplating a possible bond issue, information will be developed concerning the following four categories commonly used by rating agencies assessing the City's creditworthiness. The subcategories are representative of the types of items to be considered. The Finance Director will present this information to the City Manager:

#### 4.1.a Debt Analysis

- Debt capacity analysis
- Purpose for which debt is issued
- Debt structure
- Debt burden
- Debt history and trends
- Adequacy of debt and capital planning
- Obsolescence of capital plant

#### 4.1.b Financial Analysis

- Stability, diversity, and growth rates of tax or other revenue sources
- Trend in assessed valuation and collections
- Current budget trends
- Appraisal of past revenue and expenditure trends
- History and long-term trends of revenues and expenditures
- Evidences of financial planning
- Adherence to generally accepted accounting principles
- Audit results
- Fund balance status and trends in operating and debt funds
- Financial monitoring systems and capabilities
- Cash flow projections

- 4.1.c Governmental and Administrative Analysis
- Government organization structure
  - Location of financial responsibilities and degree of control
  - Adequacy of basic service provision
  - Intergovernmental cooperation/conflict and extent of duplication
  - Overall city planning efforts
- 4.1.d Economic Analysis
- Geographic and location advantages
  - Population and demographic characteristics
  - Wealth indicators
  - Housing characteristics
  - Level of new construction
  - Types of employment, industry, and occupation
  - Evidences of industrial decline
  - Trend of the economy
- 4.2 The City may use the services of qualified internal staff and outside advisors to assist in the analysis, evaluation, and decision process, including bond counsel and financial advisors. Recognizing the importance and value to the City's creditworthiness and marketability of the City's bonds, this policy is intended to ensure that potential debt complies with all laws and regulations, as well as sound financial principles.
5. **Debt Planning**
- 5.1 Unlimited-tax general obligation bond borrowing should be planned and the details of the plan should be included in the City's Capital Improvement Plan.
- 5.2 Unlimited-tax general obligation bond issues should be included in at least two Capital Improvement Plans preceding the year of the bond sale. The first inclusion should contain a general description of the project, its timing, and financial limits; subsequent inclusions should become increasingly specific.
6. **Communication and Disclosure**
- 6.1 Significant financial reports affecting or commenting on the City will be forwarded to the rating agencies. Each bond prospectus will follow the disclosure guidelines of the Government Finance Officers Association of the U.S. & Canada.
- 6.2 The City should attempt to develop coordinated communication processes concerning collective plans for future debt issues with all other jurisdictions with which it shares a common property tax base. Reciprocally, shared information on debt plans including amounts, purposes, timing, and types of debt would aid each jurisdiction in its debt planning decisions.

**7. General Obligation Bonds**

- 7.1 Every project proposed for financing through general obligation debt should be accompanied by a full analysis of the future operating and maintenance costs associated with the project.
- 7.2 Generally, bonds cannot be issued for a longer maturity schedule than a conservative estimate of the useful life of the asset to be financed. The City will attempt to keep the average maturity of general obligation bonds at or below 25 years. The City will limit the total of its general obligation debt to 10% of the City's assessed value.
- 7.3 Whenever possible, the City will finance capital projects by using self-supporting revenue bonds. Revenue bonds assure the greatest degree of equity because those who benefit from a project and those who pay for a project are most closely matched.

**8. Limited Tax General Obligation Debt**

- 8.1 Limited tax general obligation bonds should be considered only when constraints preclude the practice of voter approved general obligation bonds. As a precondition to the issuance of limited tax general obligation bonds, all alternative methods of financing should have been investigated. Consideration should always be given to provide a pledge of facility revenue to accompany the basic pledge of limited tax revenues.
- 8.2 Limited tax general obligation bonds should only be issued under certain conditions:
  - 8.2.a A project to be financed will generate positive net revenues, i.e., additional revenues generated by the project will be greater than the debt service requirements. The net revenues should be positive over the life of the bonds, and be positive each year if possible. The City recognizes that net revenues may not be positive in the early years of certain projects, but should be positive within a reasonable time period of five to seven years. These calculations will be made on a conservative basis so that the potential for a long-term net decrease in general fund revenues is minimized.
  - 8.2.b Matching fund monies are available which may be lost if not applied for in a timely manner.
  - 8.2.c Catastrophic conditions.

9. Debt Coverage

9.1 It is City policy that each utility or enterprise should provide adequate debt service coverage. A specific factor is established by City Council that projected operating revenues in excess of operating expenses less capital expenditures, depreciation and amortization in the operating fund should be at least 1.2 times the annual debt service costs. An example of the debt coverage calculation is below.

*EXAMPLE*

<u>Debt Coverage Example:</u>	
Operating Revenues	\$14,000,000
Operating Investment Income	<u>800,000</u>
Total Operating Revenue	\$14,800,000
Operating Expenses	\$11,500,000
Less: Depreciation and Amortization	<u>1,000,000</u>
Net Expenses	\$10,500,000
Net Revenue Available for Debt Service	\$ 4,300,000 (1*)
Principal	\$ 1,500,000
Interest	<u>2,000,000</u>
Total Debt Service	\$ 3,500,000 (2*)
Debt Coverage Ratio (1* divided by 2*)	1.23

*EXAMPLE*

10. Short Term Financing/Capital Lease Debt

10.1 Short-term financing or capital lease debt will be considered to finance certain equipment and rolling stock purchases when the aggregate cost of equipment to be purchased exceeds \$100,000. Adequate funds for the repayment of principal and interest must be included in the requesting service area's approved budget.

10.2 The term of short-term financing will be limited to the usual useful life period of the vehicle or equipment, but in no case will exceed ten years.

## CAPITAL IMPROVEMENT PROGRAM POLICY

Adopted: February 3, 2014

City Council recognizes the importance of a CIP policy to guide capital programming because: 1) it provides a better understanding of the basis for a CIP; 2) it raises issues that should be discussed; and 3) it provides more specific guidance to the City Manager as well as to the operating service areas that propose capital improvements. This policy is intended to be the basis for deliberation and debate. Both policies and priorities change over time as new components of the master plan are adopted.

- 1) The Capital Improvements Program plays an increasingly significant role in the implementation of the master plan, providing the link between planning and budgeting for capital projects. Nearly all of the capital improvement project requests will evolve, over time, from a component of the master plan. All City service areas will be asked to take a more active role in the planning process so that master plan components more consistently contain objectives and policies for capital improvements.
- 2) The Capital Improvements Program will continue to develop by adding features each year to gradually improve its quality and sophistication. Greater attention will be devoted to more detailed information about individual project requests, program planning, fiscal analysis, fiscal policies, and developing debt strategy.
- 3) Projects first will be evaluated in relation to each other before consideration is given to available financing. Projects will be prioritized as a matter of implementing the goals and objectives of adopted plans and policies, not as a matter of available funds.
- 4) Capital projects that encourage private economic investment in the City will be considered in components of the master plan.
- 5) Projects that maintain the existing infrastructure normally will take precedence over projects that create or expand facilities.
- 6) The City must develop sources of revenue to pay for capital expenditures that do not use, or compete for, resources from the General Fund.
- 7) A successful capital improvements program cannot be achieved without the understanding and support of the taxpayers and voters. A more comprehensive effort to involve the public in the process will evolve to ensure that their concerns, preferences, and priorities are considered.

CAPITAL IMPROVEMENT PROGRAM POLICY

Adopted: February 3, 2014

- 8) The Capital Improvements Program must strive to provide for services equally among all residents of the City and to focus on those projects that provide the most benefit to the entire community. Likewise, careful evaluation must be made as to which projects should be paid for in greater measure by those who benefit from them, and which are better spread among all residents.
- 9) Projects that are necessary to protect against a clear and immediate risk to public health or public safety should be regarded as highest priority.