Financial Management Policies

Revised March 21, 2023

Adopted June 19, 2012

Sound financial policies provide guidance and assurance to the community that the City is following best practices. The Government Finance Officers Association recommends that financial policies be developed and formally adopted by the jurisdiction's governing board. These policies are subject to review and refresh at any time.

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Policy 1
Financial Management Goals

Purpose: Define overall financial management goals.

1.1 Maintain a financially viable city government that provides an adequate level of services.

1.2 Maintain financial flexibility to adapt to local, regional, and national economic changes.

1.3 Maintain programs and activities that add value and contribute to the City’s mission.

Policy 2
Policy Review

Purpose: Require periodic review and revision to financial management policies.

2.1 The Council will annually or more frequently as required, review and, if changes are recommended, adopt the financial management policies.

2.2 These policies are meant to serve as a guideline to ensure that best practices are utilized. Accordingly, the term "shall" as utilized in this document is considered to be synonymous with the term "should".

2.3 City Manager means the Chief Executive Officer of the organization who reports directly to the Mayor and Council or designated representative

2.4 Finance Director means the individual in charge of the day-to-day operations of the Finance Department or designated representative.

2.5 Authorizing the use of contingencies means authorizing a budget transfer from contingency.

2.6 Budget Officer means the individual in charge of compiling, completing, and implementing the Annual Budget or designated representative.

Policy 3
Budget Policies

Purpose: Require the City to systematically plan, adopt, and manage annual operating budgets.

Section 3.1: Introduction

3.1.1 The Council shall annually review, re-affirm, amend as necessary, and adopt budget policies (guidelines) as part of the process to develop, consider, and adopt tentative and final budgets. The budget policies will address revenues, expenditure controls, grants, transfers, reserves/contingencies, balances, and reporting. These policies are intended to ensure that the long-term desires of the Council will be met within the financial constraints of the City.

Section 3.2: General

3.2.1 The Council shall use the budget process to weigh all competing requests for City resources, within expected fiscal constraints. The Council shall discourage requests for new, ongoing activities outside the budget process.

3.2.2 The City shall rely upon ongoing revenues to fund ongoing expenditures and avoid one-time sources of revenues to fund ongoing activities.

3.2.3 The City shall annually prepare 5-year revenue and expenditure forecasts to examine the City's ability to absorb operating costs due to changes in the economy, service demands, service levels, and capital improvements.

3.2.4 The City shall prepare a balanced budget, where fund balance plus revenues plus other financing sources equal or exceed expenditures plus other financing uses for each fund/department. The Council shall adopt a fund/department-level operating budget, as presented in schedule E of state budget forms.

3.2.5 The Council shall compare service delivery alternatives to ensure that quality services are provided at the most competitive and economical cost. Department Directors shall identify all activities that can be provided by another source and review options/alternatives to current service delivery. The City shall review service delivery alternatives continually.

3.2.6 The City shall fund current year capital projects with:

1. bonds,
2. grants/donations, or
3. funds accumulated (fund balances) prior to budgeting for capital expenditures.

3.2.7 The City shall practice conservatism in budgeting for both revenues and expenditures to ensure the City can meet its ongoing obligations. The City shall not budget excess funds collected (fund balance) for ongoing expenditures.

Section 3.3: Revenues

3.3.1 The City shall develop diversified and stable revenue sources to protect activities from short-term fluctuations in any single revenue source.

3.3.2 The City shall not dedicate revenues for specific purposes unless required by law, Council Policy, or Generally Accepted Accounting Principles (GAAP). The Finance Director shall deposit all non-restricted revenues in the general fund for appropriation through the budget process.

3.3.3 The Council shall review and adopt user fees and charges annually to ensure recovery of all direct and indirect costs of service, unless full cost recovery would be excessively burdensome on citizens receiving service.

3.3.4 The Council shall adjust rates for enterprise operations (water, sewer, and sanitation) based on ten-year fund plans.

3.3.5 The Council shall annually consider the impacts to the General Fund of providing public safety services, as well as the financial impact on the residents and property owners, before setting the primary property tax levy. By statute the primary property levy with adjustments shall not exceed 102% of the prior fiscal year's maximum allowable levy plus new construction and reimbursement for the prior calendar year's tort liability payments.

Section 3.4: Grants

3.4.1 The City may rely on grants to leverage City funds. The City shall avoid inconsistent and/or fluctuating grants to fund ongoing activities. In the event of reduced grant funding, the City may substitute City resources only after all other priorities and alternatives are considered. Therefore, employees shall apply for grants that are consistent with the mission and priorities of the City.

When employees apply for, accept, and/or administer a grant, the City assumes responsibility for complying with the grant obligations. The City Manager shall establish policies for grant related projects.

3.4.2 Whenever possible, the City shall consider grant funded projects which require City matching or operating funds as part of the budget process. Any grant funded expenditure should include a five-year analysis of the amount of City funds required to subsidize its operation.

Section 3.5: Transfers and Interfund Loans

3.5.1 All requests for transfer require written justification explaining the rationale and fiscal impact.

3.5.2 Any transfers between funds, projects, or contingencies, or from department to department within the General Fund require City Council approval. Transfers from line item account to line item account within a department, or from division to division within a department shall require City Manager approval.

3.5.3 The council must review and approve interfund loans.

Section 3.6: Reserve/Council Contingency

3.6.1 "Council" Contingency Funds. The City may use contingency funds when additional funds are needed to offset ***unexpected*** expenditure increases or when ***unanticipated*** events threaten the public health or safety. The City Manager shall review and may approve use of contingency funds in accordance with the City's procurement policy.

3.6.2 Reserve Funds. The Council will not budget reserve funds – reserve funds are "savings" intended to offset revenue shortfalls during a fiscal year. If there is a shortfall in revenue, the City shall use reserve funds in accordance with the City's fund balance policy. The City may establish reserves for all operating funds – an operating fund is a fund that has salary expenses or collects user fees for services performed (excludes grant and capital funds).

3.6.3 Debt Service Funds. The City may accumulate secondary property tax revenues in an amount equal to ten percent (10%) of debt service to ensure that the General Fund is not subsidizing debt service payments. The City shall not collect and reserve secondary property taxes in an amount exceeding state law. Additional funds not levied by secondary property tax may be transferred into the Debt Service Fund through the budget process to provide additional reserves.

3.6.4 Debt Service and Replacement Reserves. The City shall fund debt service and replacement reserves to meet required bond covenants including repair and replacement funds in the water and sewer funds.

Section 3.7: Budget Process

3.7.1 The City shall monitor and follow the budget process throughout the year. The City shall initiate the formal budget process by providing departments with budget information that includes an outline of the budget schedule, year-to-date expenditures and revenues, and all applicable budget forms.

3.7.2 The City shall schedule and host a budget introduction session with all Department Heads.

3.7.3 Departments shall prepare and submit their requests in the form and manor provided by the City.

3.7.4 The City shall prepare summary reports, along with detailed budget requests, and submit the reports and detail to the City Manager.

3.7.5 Department Heads shall individually present capital and operating requests to the City Manager.

3.7.6 The City Manager shall review budget requests and provide further guidance to departments.

3.7.7 The City Manager shall present a balance recommended draft budget to Council for review and discussion at a Council workshop. As required, Department Heads may be present and participate at the workshop.

3.7.8 After the Council workshop, the City shall revise the draft budget and prepare a recommended tentative budget. The City Manager shall present the recommended tentative budget for Council consideration and adoption at a Council meeting. Capital projects and acquisitions that have not been completed in the current fiscal year are included in the tentative budget as carry forward projects and the beginning fund balance is adjusted accordingly.

3.7.9 After Council action, the City Clerk shall publish the tentative budget for two consecutive weeks as required by law.

3.7.10 The Council shall schedule and host a public hearing on the budget, after which the Council shall consider and may adopt the final budget. The City shall ensure that budget adoption adheres to all statutory hearings, publications, and requirements.

3.7.11 The Council shall set the final property tax levy in accordance with State law.

3.7.12 After the Council adopts the tentative budget and sets the expenditure limitation, the City shall not expend more than the total appropriated for all funds.

Section 3.8: Budget Basis

3.8.1 The City prepares budgets primarily on a cash basis. This is different than the accounting process which utilizes a modified accrual basis. Cash basis means that revenues are recognized when they are collected, and expenses are recognized when they are paid. Modified accrual basis recognizes revenues when they become available and measurable and, generally, recognizes expenditures when the City agrees/commits to buy something.

3.8.2 Independent Auditors shall annually provide a reconciliation of actual expenditures compared to the adopted budget in accordance with State law.

3.8.3 The City shall use the Annual Audited Financial Statements (Audit) to detail the final status of the City's finances compared to budget on the basis of Generally Accepted Accounting Principles (GAAP). In most cases, this conforms to the way the City prepares its budget. Exceptions are as follows:

1. Compensated absences are accrued as earned by employees (GAAP) as opposed to being expended when paid (Budget).
2. Capital Outlay within the enterprise funds are shown as assets (GAAP) and are shown as expenses in the budget.
3. Bond and loan principal payments within the enterprise funds are shown as reductions of liabilities (GAAP) and are shown as expenses in the budget.

3.8.4 Due to expenditure limitation statutes, the City must identify all possible expenditures and corresponding revenues within the budget. The Budget Officer, Finance Director, and Department heads shall closely monitor expenditures to ensure that they are being spent for the purpose identified in the budget and that the corresponding revenue is adequate. The Finance Director shall establish and maintain a detailed accounting structure to record revenues and expenditures at the level of detail shown in the budget.

Section 3.9: Funds

3.9.1 State law only requires the existence of two funds, the General Fund and the Highway Users Revenue Fund (HURF).

3.9.2 The City may create and maintain other funds by statute, agreement, ordinance, contract, or to provide balance sheet accounts for tracking purposes. To the extent feasible, the City may limit the number of funds to comply with GAAP.

Policy 4
Cash Management and Investment

Purpose: Ensure investment, liquidity, and yield.

4.1 The Finance Director, in consultation with the City Manager, will invest all funds of the City according to six criteria in order of importance:

a. Legality
b. Safety
c. Liquidity
d. Yield
e. Duration
f. Accounting Complexity

4.2 The City will collect, deposit, and disburse all funds to maximize invested cash.

4.3 To maximize investment yields, the City will consolidate cash balances from various funds to maximize the size and duration of investments. The Finance Director will allocate investment earnings to participating funds.

4.4 The City will conduct its investment activities with financial institutions in accordance with written contracts.

4.5 The City will protect its investment securities through third party custodial safekeeping.

Policy 5
Capital Improvement Plan

Purpose: Require the City to plan, schedule, and finance capital projects and acquisitions.

5.1 The City Manager will annually coordinate with the City's Engineer, Public Works Director, and other Department Heads to submit a Capital Improvement Plan for review by the Council.

5.2 The Capital Improvement Plan shall include:

a. An estimate of each project's/acquisition's capital costs broken down by fiscal year.
b. An estimate of each project's/acquisition's annual operating costs.
c. An evaluation of potential funding sources for each project/acquisition.
d. Recommended funding sources for each project/acquisition.
e. A development schedule for each project/acquisition.
f. A description of each project/acquisition.
g. If a project/acquisition will be completed in phases, each phase should be identified as a separate project/acquisition.

5.3 The current year of the Capital Improvement Plan will provide the basis for the capital budget.

5.4 When current revenues or resources are available for projects/acquisitions, the City will first consider those projects/acquisitions with the shortest useful life and/or those projects/ acquisitions which are difficult to finance with debt.

5.5 The City may not proceed with construction or acquisition until the funding sources have been identified to finance the project.

5.6 At the end of the Fiscal Year in which the project is completed or acquired, any remaining budgeted funds will revert to the fund balance of the funding source.

Policy 6
Debt Management

Purpose: Evaluate the purpose, necessity, and condition under which the City will issue debt.

Section 6.1: Overall Debt Management Policies

6.1.1 The City will utilize long-term debt to finance capital projects in accordance with the Capital Improvement Plan.

6.1.2 The City will prohibit the City's financial advisor from underwriting any debt directly issued by the City or special districts sponsored by the City within a negotiated underwriting of debt offered through public sale. This underwriting prohibition does not include:

a. competitive bond sales when the City authorizes the financial advisor to submit a competitive bid,
b. bond issues by the Greater Arizona Development Authority, the Water Infrastructure Finance Authority, or other independent financing authority on behalf of the City, and
c. limited offerings, private placements, or other underwritings not offered through public sale.

6.1.3 The City will consider refunding debt when the net present value of the debt service savings exceeds 3% and $100,000 Net Present Value (NPV). The City will also consider refunding debt to modify restrictive covenants or to modify debt structures.

6.1.4 The City will adopt, review, and update as necessary written policies and procedures for tax-advantaged bonds within these financial management policies.

Section 6.2: General Obligation Bonds

6.2.1 The City may finance capital projects with general obligation bonds authorized by voters through a citywide bond election.

6.2.2 The City will repay general obligation bonds from secondary property taxes authorized by voters or from any lawfully available source of revenue.

6.2.3 The target maturity for general obligation bonds will typically range between twenty (20) and thirty (30) years. The final maturity will not exceed the useful life of the capital project.

6.2.4 Where possible, the City will structure general obligation bond issues to create annual level debt service payments.

6.2.5 In accordance with the State of Arizona Constitution, total general obligation debt cannot be issued in excess of 26% of the total Full Cash assessed valuation of taxable property within the City.

6.2.6 The City will use investment earnings on general obligation bond balances to pay debt service unless otherwise committed towards a capital project or as otherwise directed by bond restrictions and covenants.

Section 6.3: Revenue Bonds

6.3.1 The City may finance capital projects with revenue bonds authorized by voters through a citywide bond election.

6.3.2 The City may repay revenue bonds from any lawfully available source of revenue including revenue generated from the operation of the capital project being financed or from other designated revenues such as highway user revenues, excise taxes, or special fees/taxes.

6.3.3 The target maturity for revenue bonds will typically range between twenty (20) and thirty (30) years. The final maturity will not exceed the useful life of the capital project.

6.3.4 Where possible, the City will structure revenue bond issues to create annual level debt service payments.

6.3.5 The City will fund a debt service reserve when required by rating agencies, bond insurers, or existing bond covenants.

6.3.6 The City will use investment earnings on revenue bond balances to pay debt service unless otherwise committed towards a capital project or as otherwise directed by bond restrictions and covenants.

Section 6.4: Debt Subject to Annually Appropriated Debt Service

6.4.1 The City may finance capital projects with debt authorized by the Council with debt service subject to annual appropriations (henceforth, “Annual Appropriation Debt” or “AAD.”)

6.4.2 The City may repay AAD from any lawfully available source of revenue including revenue generated from the operation of the capital project being financed or from other designated revenues such as excise taxes, or special fees/taxes.

6.4.3 The target maturity for AAD will typically range between twenty (20) and thirty (30) years. The final maturity will not exceed the useful life of the capital project.

6.4.4 Where possible, the City will structure AAD issues to create annual level debt service payments.

6.4.5 The City will fund a debt service reserve when required by rating agencies, bond insurers, or existing bond covenants.

6.4.6 The City will use investment earnings on AAD balances to pay debt service unless otherwise committed towards a capital project or as otherwise directed by bond restrictions and covenants.

Section 6.5: Municipal Improvement District/Special Assessment Bonds

6.5.1 The City may finance capital projects with special assessment bonds after the Council forms a Municipal Improvement District (MID) in accordance with State statutes.

6.5.2 The City may form a MID when there is a clear and significant purpose for the City and when commercial or residential developments or redevelopments desire improvements to property such as roads, water lines, sewer lines, street lights, and drainage.

Section 6.6: Community Facilities District Bonds

6.6.1 The City may form a Community Facility District (CFD) when there is a clear and significant purpose of the City and when commercial or residential developments or redevelopments desire improvement to property such as roads, water lines, sewer lines, street lights, and drainage.

6.6.2 CFD’s for commercial development may be formed for any size district and for any amount deemed appropriate by the Council.

6.6.3 CFD’s for residential development of less than 160 acres are discouraged and should only be considered if the improvements achieve published Council goals.

6.6.4 Should the City desire to form a CFD, the Council may adopt and the City will maintain an expanded policy on CFDs.

Section 6.7: Financial Disclosure Compliance

6.7.1 A "Material Financial Obligation" shall be defined as any indebtedness secured by a security interest in or a lien, deed of trust, or mortgage on assets owned, leased, operated, or maintained by the City with a term in excess of one year and with a par amount in excess of $100,000 when originally issued or executed. Material Financial Obligations include but are not limited to bank loans; bonds; capital leases; certificates of participation; loans from local, state, and federal agencies and governments; guarantees, lines of credit, and placements.

6.7.2 In accordance with Security Exchange Commission's (SEC) Rule 15c2-12 and continuing disclosure agreements affiliated with public offerings of debt, the Finance Director shall comply with primary and secondary disclosure requirements in a timely and comprehensive manner.

6.7.3 In addition to the disclosing on publicly offered debt as per 6.7.2, the Finance Director shall annually disclose any other material financial obligations issued after February 27, 2019 in accordance with the amended SEC Rule 15c2-12.

6.7.4 The Finance Director shall post ongoing disclosure data to the Municipal Security Rulemaking Board's (MSRB) Electronic Municipal Market Access (EMMA) system, the central repository designed by the SEC.

Policy 7
Accounting, Auditing and Financial Reporting

Purpose: Provide financial data to the Council, City management, citizens, investors, and creditors.

7.1 The City will maintain accounting and financial reporting systems in conformance with Generally Accepted Accounting Principles (GAAP) and standards promulgated by the Governmental Accounting Standards Board (GASB).

7.2 The City will develop and manage its accounting system to provide reasonable assurance regarding the:

a. safeguarding of assets against loss from unauthorized use or disposition,
b. proper recording of financial transactions,
c. reliability of financial records for preparing financial statements, and
d. accountability for capital assets.

7.3 The Finance Director shall catalog all significant financial events and related matters and prepare the City's annual disclosures, as required by the SEC Regulation 15-C-2-12.

7.4 The City will engage an independent public accounting firm to annually audit the City's financial statements in accordance with Generally Accepted Government Auditing Standards (GAGAS). The City will prepare its financial statements in accordance with applicable standards and will account for its operations in a manner consistent with the goal of obtaining an unqualified opinion from its auditors.

7.5 Following the annual financial statement audit, the Finance Director will issue an official Annual Financial Report (AFR) The AFR will include the bond related on-going disclosure requirements and will fully disclose all significant financial events and related matters. The Finance Director will provide the AFR to the rating agencies, municipal bond insurers, and national bond disclosure repositories.

7.6 The Finance Director or Budget Officer will post the AFR and Annual Adopted Budget on the City's website and make them available to the public.

7.7 The Finance Director or Budget Officer will generate monthly revenue and expenditure reports for review by the Council and City management.

Policy 8
Written Policies and Procedures for Tax-Advantaged Bonds

Purpose: Comply with federal requirements to issue bonds or other obligations of the City.

Section 8.1: Introduction and Overview

8.1.1 The City has issued and may in the future issue tax-exempt obligations (including, without limitation, bonds, notes, loans, leases and certificates), tax credit obligations and "direct-pay" tax credit obligations (together, "tax-advantaged bonds") that are subject to certain requirements under the Internal Revenue Code of 1986, as amended (the "Code").

8.1.2 The City has established the policies and procedures contained herein (the "Procedures") in order to ensure that the City complies with the requirements of the Code that are applicable to its tax-advantaged bonds. These Procedures, coupled with requirements contained in the Arbitrage and Tax Certificate (the "Tax Certificate") or other operative documents executed at the time of issuance of the tax-advantaged bonds, are intended to constitute written procedures for ongoing compliance with the Federal tax requirements applicable to the bonds and for timely identification and remediation of violations of such requirements.

8.1.3 The tax-advantaged bonds that are covered by these Procedures include, but are not limited to, "Build America Bonds", "Recovery Zone Economic Development Bonds", and "Specified Tax Credit Bonds" that constitute "qualified bonds" under Section 6431 of the Code and are therefore eligible for interest subsidy payments (the "Subsidy") from the U.S. Treasury (such Build America Bonds, Recovery Zone Economic Development Bonds and Specified Tax Credit Bonds are collectively referred to as "Direct-Pay Bonds"). Specified Tax Credit Bonds include new clean renewable energy bonds, qualified energy conservation bonds, qualified zone academy bonds and qualified school construction bonds.

Section 8.2: General Matters

8.2.1 Responsible Officer. The Finance Director will have overall responsibility for ensuring that the ongoing requirements described in these Procedures are met with respect to tax-advantaged bonds (the "Responsible Officer").

8.2.2 Establishment of Procedures. The Procedures established herein will be set forth within the City's Financial Management Policies which includes the City's Debt Management Policies.

8.2.3 Additional Responsible Employees. The Responsible Officer shall identify any additional persons who will be responsible for each section of the Procedures, notify the current holder of that office of the responsibilities, and provide that person a copy of the Procedures. Upon employee or officer transitions, new personnel should be advised of responsibilities under the Procedures and ensure they understand the importance of the Procedures. If employee or officer positions are restructured or eliminated, responsibilities should be reassigned as necessary.

8.2.4 Training Required. The Responsible Officer and other responsible persons shall receive appropriate training that includes the review of and familiarity with the contents of these Procedures, review of the requirements contained in the Code applicable to each tax-advantaged bond, identification of all tax-advantaged bonds that must be monitored, identification of all facilities (or portions thereof) financed with proceeds of tax-advantaged bonds, familiarity with the requirements contained in the Tax Certificate or other operative documents contained in the transcript, and familiarity with the procedures that must be taken in order to correct noncompliance with the requirements of the Code in a timely manner.

8.2.5 Periodic Review. The Responsible Officer or other responsible person shall periodically review compliance with the Procedures and with the terms of the Tax Certificate to determine whether any violations have occurred so that such violations can be timely remedied through the "remedial action" regulations (Treasury Regulation §1.141-12, §1.142-2, §1.144-2, §1.145-2 or §1.147-2, as applicable) or the Voluntary Closing Agreement Program described in Internal Revenue Service ("IRS") Notice 2008-31 (or successor guidance) and related sections of the Internal Revenue Manual. Such periodic review shall occur at least annually or more frequently prior to the issuance of new or refunding obligations.

8.2.6 Change in Bond Terms. If any changes to the terms of the bonds are contemplated, bond counsel should be consulted. Such modifications could result in a re-issuance, i.e., a deemed refunding, of the bonds which could jeopardize the status of tax-advantaged bonds, including Direct-Pay Bonds (and thereby affect the continued receipt of the Subsidy for Direct-Pay Bonds).

8.2.7

Section 8.3: Issue Price for Tax-Advantaged Bonds; Premium Limit for Direct-Pay Bonds

8.3.1 Issue Price. In order to document the issue price of tax-advantaged bonds, the Responsible Officer shall consult with bond counsel and obtain a written certification from the underwriter, placement agent or other purchaser of the bonds as to the offering price of the bonds that is in form and substance acceptable to the City and bond counsel.

8.3.2 Premium Limit for Direct Pay-Bonds. Prior to issuing Direct-Pay Bonds, the Responsible Officer shall consult with bond counsel and the City's financial advisors to assure that the premium on each maturity of the Direct-Pay Bonds (stated as a percentage of principal amount) does not exceed one-quarter of one-percent (0.25%) multiplied by the number of complete years to the earlier of the final maturity of the bonds or, generally, the earliest call date of the bonds, and that the excess of the issue price of the bonds over the price at which the bonds are sold to the underwriter or placement agent, when combined with other issuance costs paid from proceeds of the bonds, does not exceed 2% of the sale proceeds of the bonds.

Section 8.4: IRS Information Return Filing

8.4.1 Filing of Applicable Form 8038. The Responsible Officer will confirm that bond counsel has filed the applicable information reports (such as Forms 8038, 8038-G, 8038-B or 8038-TC) for such bond issue with the IRS on a timely basis, and maintain copies of such form including evidence of timely filing as part of the transcript of the bond issue.

8.4.2 Filing of Form 8038-CP. For Direct-Pay Bonds, the Responsible Officer shall review the IRS Form 8038-CP in order to ensure that the proper amount of interest is being reported and the proper amount of Subsidy is being requested with respect to each interest payment date. The Responsible Officer shall ensure that the IRS Form 8038-CP is filed on a timely basis with respect to each interest payment date in order to receive timely payment of the Subsidy. If the Subsidy is to be paid to a person other than the City (i.e., the bond trustee), the Responsible Officer shall obtain and record the contact information of that person, and ensure that it is properly shown on Form 8038-CP so that the direct payment will be made to the proper person.

8.4.3 Filing of Forms 8038-T or 8038-R. The Responsible Officer shall file the IRS Form 8038-T relating to the payment of rebate or yield reduction payments in a timely manner as discussed in Section 8.10. The Responsible Officer shall also monitor the extent to which the City is eligible to receive a refund of prior rebate payments and provide for the timely filing for such refunds using an IRS Form 8038-R.

Section 8.5: Use of Proceeds

8.5.1 The Responsible Officer or other responsible shall be responsible for ensuring and monitoring the appropriate use of proceeds as detailed in this section.

8.5.2 Consistent Accounting Procedures. Maintain clear and consistent accounting procedures for tracking the investment and expenditures of bond proceeds, including investment earnings on bond proceeds.

8.5.3 Reimbursement Allocations at Closing. At or shortly after closing of a bond issue, ensure that any allocations for reimbursement expenditures comply with the Tax Certificate.

8.5.4 Timely Expenditure of Bond Proceeds. Monitor that sale proceeds and investment earnings on sale proceeds of tax-advantaged bonds are spent in a timely fashion consistent with the requirements of the Tax Certificate.

8.5.5 Costs of Issuance. With respect to Direct-Pay Bonds and qualified private activity bonds, monitor that no more than 2% of the sale proceeds are used to pay costs of issuance.

8.5.6 Qualified Use of Proceeds of Direct-Pay Build America Bonds. With respect to Build America Bonds, determine the correct amount of available project proceeds and monitor that 100% of all sale proceeds and investment earnings on sale proceeds (other than proceeds used to pay costs of issuance or deposited in a reasonably required reserve fund) are allocated to capital expenditures in a timely fashion consistent with the requirements of the Tax Certificate.

8.5.7 Qualified Use of Proceeds of Recovery Zone Economic Development Bonds. With respect to Recovery Zone Economic Development Bonds, determine the correct amount of available project proceeds and monitor that 100% of all sale proceeds and investment earnings on sale proceeds (other than proceeds used to pay costs of issuance or deposited in a reasonably required reserve fund) are allocated to expenditures for qualified economic development purposes within the recovery zone in a timely fashion consistent with the requirements of the Tax Certificate. Ensure compliance with the "Davis Bacon" requirements described in Section 8.9.

8.5.8 Qualified Use of Proceeds of Specified Tax Credit Bonds. With respect to Specified Tax Credit Bonds, determine the correct amount of available project proceeds and monitor that 100% of all sale proceeds and investment earnings on sale proceeds (other than proceeds used to pay costs of issuance) are allocated to qualifying expenditures that are permitted for each type of Specified Tax Credit Bond in a timely fashion consistent with the requirements of the Tax Certificate. If proceeds are not spent by the end of the "expenditure period" as defined in Section 8.9, redeem bonds in accordance with the requirements of the Code as further described in Section 8.9.

8.5.9 Qualified Use of Proceeds of Qualified Private Activity Bonds. With respect to qualified bonds, including exempt facility bonds, monitor that sale proceeds and investment earnings on sale proceeds are allocated to qualifying expenditures permitted for each type of qualified bond in a timely fashion consistent with the requirements of the Tax Certificate. If an exempt facility or other applicable facility will not be completed, or the facility has been placed in service, and there are remaining unspent bond proceeds, immediately consult with bond counsel to determine whether bonds are required to be redeemed under Treasury Regulation §1.142-2. If exempt facility bonds are required to be redeemed or defeased in order to comply with the remedial action rules under Treasury Regulation §1.142-2, such redemption or defeasance must occur within 90 days of the date an action is taken that causes the bonds to not be used for the qualifying purpose for which the bonds were issued.

8.5.10 Requisitions. Utilize requisitions to draw down bond proceeds, and ensure that each requisition contains (or has attached to it) detailed information in order to establish when and how bond proceeds were spent; review requisitions carefully before submission to ensure proper use of bond proceeds to minimize the need for reallocations.

8.5.11 Final Allocation. Ensure that a final allocation of bond proceeds (including investment earnings) to qualifying expenditures is made if bond proceeds are to be allocated to project expenditures on a basis other than "direct tracing" (direct tracing means treating the bond proceeds as spent as shown in the accounting records for bond draws and project expenditures). An allocation other than on the basis of "direct tracing" is often made to reduce the private business use of bond proceeds that would otherwise result from "direct tracing" of proceeds to project expenditures. This allocation must be made within 18 months after the later of the date the expenditure was made or the date the project was placed in service, but not later than five years and 60 days after the date the bonds are issued (or 60 days after the bond issue is retired, if earlier). Bond counsel can assist with the final allocation of bond proceeds to project costs. Maintain a copy of the final allocation in the records for the tax-advantaged bond.

8.5.12 Maintenance and Retention of Records Relating to Proceeds. Maintain careful records of all project and other costs (e.g., costs of issuance, credit enhancement and capitalized interest) and uses (e.g., deposits to a reserve fund) for which bond proceeds were spent or used. These records should be maintained separately for each issue of bonds for the period indicated under Section 8.11.

Section 8.6: Monitoring Private Business Use

8.6.1 With respect to tax-advantaged bonds that are subject to the private activity bond limitations provided in the Code (e.g., governmental bonds and qualified 501(c)(3) bonds), the Responsible Officer or other responsible person shall ensure and monitor the appropriate use of proceeds as detailed within this section.

8.6.2 Identify Bond-Financed Facilities. Identify or "map" which outstanding bond issues financed which facilities and in what amounts.

8.6.3 Review of Contracts with Private Persons. Review all of the following contracts or arrangements with non-governmental persons or organizations or the federal government (collectively referred to as "private persons") with respect to the bond-financed facilities which could result in private business use of the facilities:

a. Sales of bond-financed facilities;
b. Leases of bond-financed facilities;
c. Management or service contracts relating to bond-financed facilities;
d. Research contracts under which a private person sponsors research in bond-financed facilities; and
e. Any other contracts involving "special legal entitlements" (such as naming rights or exclusive provider arrangements) granted to a private person with respect to bond-financed facilities.

8.6.4 Counsel Review of New Contracts or Amendments. Before amending an existing agreement with a private person or entering into any new lease, management, service, or research agreement with a private person, consult counsel to review such amendment or agreement to determine whether it results in private business use.

8.6.5 Establish Procedures to Ensure Proper Use and Ownership. Establish procedures to ensure that bond-financed facilities are not used for private use without written approval of the Responsible Officer or other responsible person. For qualified 501(c)(3) bonds, establish procedures to ensure that the bond-financed facilities continue to be owned by a qualified 501(c)(3) organization or a governmental unit.

8.6.6 Analyze Use. Analyze any private business use of bond-financed facilities and, for each issue of bonds, determine whether the 10% limit on private business use (5% in the case of qualified 501(c)(3) bonds or "unrelated or disproportionate" private business use) is exceeded, and contact bond counsel or other tax advisors if either of these limits appears to be exceeded.

8.6.7 Remediation if Limits Exceeded. If it appears that private business use limits are exceeded, immediately consult with bond counsel to determine if a remedial action is required with respect to nonqualified bonds of the issue under Treasury Regulation §1.141-12, or if the IRS should be contacted under its Voluntary Closing Agreement Program. If tax-advantaged bonds are required to be redeemed or defeased in order to comply with the remedial action rules under Treasury Regulation §1.141-12, such redemption or defeasance must occur within 90 days of the date a deliberate action is taken that results in a violation of the private business use limits.

8.6.8 Maintenance and Retention of Records Relating to Private Use. Retain copies of all of the above contracts or arrangements (or, if no written contract exists, detailed records of the contracts or arrangements) with private persons for the period indicated under Section 8.11.

Section 8.7: Monitoring Use of Facilities Financed with Qualified Private Activity Bonds

8.7.1 With respect to tax-advantaged bonds that are not subject to the private activity bond limitations, but are subject to the limitations provided in the Code as to the qualifying use of proceeds and qualifying use of bond-financed facilities (e.g., exempt facility bonds, qualified small issue bonds and qualified redevelopment bonds), the Responsible Officer or other responsible person shall ensure and monitor the appropriate use of proceeds as detailed within this section.

8.7.2 Identify Bond-Financed Facilities. Identify or "map" facilities that have been bond-financed and assure that use is for an appropriate purpose (e.g., airport facilities are being used for airport purposes).

8.7.3 Review of Contracts with Private Persons. If the bond-financed facilities are required to be governmentally owned, examine all leases, management contracts or other contracts with private persons to assure compliance with applicable safe-harbors for governmental ownership provided in the Code. Before amending an existing agreement or entering into any new lease, management or other contract, consult bond counsel to review such amendment or agreement to determine whether it complies with applicable safe harbors.

8.7.4 Establish Procedures to Monitor Use. Establish procedures to monitor that bond-financed facilities are not used for nonqualifying purposes. Require users of facilities to immediately notify the Responsible Officer or other responsible person if a change in use of the facilities is contemplated or occurs.

8.7.5 Remediation if Limitations Exceeded. If qualified use of facilities financed with tax-advantaged bonds changes to a non-qualified use (e.g., use of airport facilities that is not for airport purposes), immediately consult with bond counsel to determine if a remedial action is required with respect to nonqualified bonds of the issue under Treasury Regulation §1.142-2, or if the IRS should be contacted under its Voluntary Closing Agreement Program. If tax-advantaged bonds are required to be redeemed or defeased in order to comply with the remedial action rules under Treasury Regulation §1.142-2, such redemption or defeasance must occur within 90 days of the date an action is taken that causes the bonds to not be used for the qualifying purpose for which the bonds were issued.

8.7.6 Maintenance and Retention of Records Relating to Qualifying Use. Retain copies of all of the above contracts or arrangements (or, if no written contract exists, detailed records of the contracts or arrangements) with private persons for the period indicated under Section 11 below.

Section 8.8: Loan of Bond Proceeds

8.8.1 The Responsible Office or other responsible person shall consult bond counsel if a loan of proceeds of tax-advantaged bonds is contemplated. If proceeds of tax-advantaged bonds are permitted under the Code to be loaned to other entities and are in fact so loaned, require that the entities receiving a loan of bond proceeds institute policies and procedures similar to the Procedures to ensure that the proceeds of the loan and the facilities financed with proceeds of the loan comply with the limitations provided in the Code. Require the recipients of such loans to annually report to the City ongoing compliance with the Procedures and the requirements of the Code.

Section 8.9: Special Requirements Applicable to Specified Tax Credit Bonds

8.9.1 The Code imposes certain additional special requirements that apply to the issuance of Specified Tax Credit Bonds. For Specified Tax Credit Bonds, the Responsible Officer or other responsible person shall ensure and monitor that the requirements of this section are met.

8.9.2 Davis-Bacon. Pursuant to the terms of Section 1701 of the American Recovery and Reinvestment Tax Act of 2009, projects financed with Specified Tax Credit Bonds are subject to the prevailing wage requirements of Subchapter IV of Chapter 31 of Title 40, United States Code. Note that these requirements also apply to the issuance of Recovery Zone Economic Development Bonds.

8.9.3 Spending Requirements. Although these may seem similar to "temporary period requirements," the "spending requirements" applicable to Specified Tax Credit Bonds are hard and fast rules that if not met may cause payments of the Subsidy on some or all of the Specified Tax Credit Bonds to be lost or revoked and will require redemption of such bonds. The spending requirements are as follows:

a. 100% of the sale proceeds and investment proceeds must be spent within the three-year period beginning on the date of issuance (unless such period is extended as described below) (the "expenditure period");
b. a binding commitment with a third party to spend at least 10 percent of the sale proceeds and investment proceeds (other than the amount spent on costs of issuance) ("available project proceeds") will be incurred within the six-month period beginning on the date of issuance;
c. to the extent less than 100% of available project proceeds are not spent by the end of the expenditure period for qualified purposes, the City must redeem all of the "nonqualified bonds") within 90 days after the end of the expenditure period (this should be done with the assistance of bond counsel);
d. the expenditure period may be extended beyond the initial three-year period only by the U.S. Treasury upon the request of the City, which request must establish that the failure to spend the available project proceeds within three years was due to a reasonable cause and that spending will continue with due diligence.

8.9.4 Sinking Funds. Special rules permit Specified Tax Credit Bonds to be structured with sinking funds that will not be subject to rebate. These sinking funds must be structured as follows:

a. the sinking fund may not be funded more rapidly than in equal monthly installments;
b. the sinking fund may only be funded in a manner reasonably expected to result in an amount not greater than the amount necessary to repay the bond issue; and
c. the yield on the investments in the sinking fund may not exceed the published permitted sinking fund yield for the sale date (which is set forth in the Tax Certificate).

8.9.5 Prohibition on Financial Conflicts of Interest. Upon the issuance of Specified Tax Credit Bonds, the City certified that applicable State and local laws governing conflicts of interest were followed with respect to the bonds. If the U.S. Treasury prescribes additional conflicts of interest rules with respect to the Specified Tax Credit Bonds, such rules must also be satisfied.

8.9.6 Additional Rules Applicable to Specified Tax Credit Bonds. New clean renewable energy bonds, energy conservation bonds, qualified school construction bonds and qualified zone academy bonds each have their own set of specific and unique requirements that are applicable to the use of proceeds or eligibility as a Specified Tax Credit Bond. The Responsible Officer should consult the Tax Certificate and establish procedures for monitoring compliance with such specific requirements that are applicable to the Specified Tax Credit Bonds of the City.

Section 8.10: Arbitrage and Rebate Compliance

8.10.1 The Responsible Officer or other responsible person shall ensure and monitor compliance with the requirements detailed in this section.

8.10.2 Review Tax Certificate. Review each Tax Certificate to understand the specific requirements that are applicable to each tax-advantaged bond issue.

8.10.3 Arbitrage Yield. Record the arbitrage yield of the bond issue, as shown on IRS Form 8038-G, 8038-B, 8038-TC or other applicable form. If the bonds are variable rate bonds, yield must be determined on an ongoing basis over the life of the bonds as described in the Tax Certificate.

8.10.4 Temporary Periods. Review the Tax Certificate to determine the "temporary periods" for each bond issue, which are the periods during which proceeds of bonds may be invested without yield restriction.

8.10.5 Post-Temporary Period Investments. Ensure that any investment of bond proceeds after applicable temporary periods is at a yield that does not exceed the applicable bond yield, unless yield reduction payments can be made pursuant to the Tax Certificate.

8.10.6 Monitor Temporary Period Compliance. Monitor that bond proceeds (including investment earnings) are expended promptly after the bonds are issued in accordance with the expectations for satisfaction of three-year or five-year temporary periods for investment of bond proceeds and to avoid "hedge bond" status.

8.10.7 Monitor Yield Restriction Limitations. Identify situations in which compliance with applicable yield restrictions depends upon later investments (e.g., the purchase of 0% State and Local Government Securities from the U.S. Treasury for an advance refunding escrow). Monitor and verify that these purchases are made as contemplated.

8.10.8 Establish Fair Market Value of Investments. Ensure that investments acquired with bond proceeds satisfy IRS regulatory safe harbors for establishing fair market value (e.g., through the use of bidding procedures), and maintaining records to demonstrate satisfaction of such safe harbors. Consult the Tax Certificate for a description of applicable rules.

8.10.9 Credit Enhancement, Hedging and Sinking Funds. Consult with bond counsel before engaging in credit enhancement or hedging transactions relating to a bond issue, and before creating separate funds that are reasonably expected to be used to pay debt service on bonds. Maintain copies of all contracts and certificates relating to credit enhancement and hedging transactions that are entered into relating to a bond issue.

8.10.10 Grants/Donations to Governmental Entities. Before beginning a capital campaign or grant application that may result in gifts that are restricted to bond-financed projects (or, in the absence of such a campaign, upon the receipt of such restricted gifts), consult bond counsel to determine whether replacement proceeds may result that are required to be yield restricted.

8.10.11 Bona Fide Debt Service Fund. Even after all proceeds of a given bond issue have been spent, ensure that the debt service fund meets the requirements of a "bona fide debt service fund," i.e., one used primarily to achieve a proper matching of revenues with debt service that is depleted at least once each bond year, except for a reasonable carryover amount not to exceed the greater of: (i) the earnings on the fund for the immediately preceding bond year; or (ii) one-twelfth of the debt service on the issue for the immediately preceding bond year. To the extent that a debt service fund qualifies as a bona fide debt service fund for a given bond year, the investment of amounts held in that fund is not subject to yield restriction for that year.

8.10.12 Debt Service Reserve Funds. Ensure that amounts invested in any reasonably required debt service reserve fund do not exceed the least of: (i) 10% of the stated principal amount of the bonds (or the sale proceeds of the bond issue if the bond issue has original issue discount or original issue premium that exceeds 2% of the stated principal amount of the bond issue plus, in the case of premium, reasonable underwriter's compensation); (ii) maximum annual debt service on the bond issue; or (iii) 125% of average annual debt service on the bond issue.

8.10.13 Rebate and Yield Reduction Payment Compliance. Review the Arbitrage Rebate covenants contained in the Tax Certificate. Subject to certain rebate exceptions described below, investment earnings on bond proceeds at a yield in excess of the bond yield (i.e., positive arbitrage) generally must be rebated to the U.S. Treasury, even if a temporary period exception from yield restriction allowed the earning of positive arbitrage.

a. Ensure that rebate and yield reduction payment calculations will be timely performed and payment of such amounts, if any, will be timely made. Such payments are generally due 60 days after the fifth anniversary of the date of issue of the bonds, then in succeeding installments every five years. The final rebate payment for a bond issue is due 60 days after retirement of the last bond of the issue. The City should hire a rebate consultant if necessary.
b. Review the rebate section of the Tax Certificate to determine whether the "small issuer" rebate exception applies to the bond issue.
c. If the 6-month, 18-month, or 24-month spending exceptions from the rebate requirement (as described in the Tax Certificate) may apply to the bonds, ensure that the spending of proceeds is monitored prior to semi-annual spending dates for the applicable exception.
d. Make rebate and yield reduction payments and file Form 8038-T in a timely manner.
e. Even after all other proceeds of a given bond issue have been spent, ensure compliance with rebate requirements for any debt service reserve fund and any debt service fund that is not exempt from the rebate requirement (see the Arbitrage Rebate covenants contained in the Tax Certificate).

8.10.14 Maintenance and Retention of Arbitrage and Rebate Records. Maintain records of investments and expenditures of proceeds, rebate exception analyses, rebate calculations, Forms 8038-T, and rebate and yield reduction payments, and any other records relevant to compliance with the arbitrage restrictions for the period indicated in Section 11 below.

Section 8.11: Record Retention

8.11.1 For each issue of bonds or other obligations of the City, the Responsible Officer or other responsible person shall ensure and monitor the transcript and all records and documents described in these Procedures will be maintained while any of the bonds are outstanding and during the three-year period following the final maturity or redemption of that bond issue, or if the bonds are refunded (or re-refunded), while any of the refunding bonds are outstanding and during the three-year period following the final maturity or redemption of the refunding bonds.

Policy 9
Fund Balance

Purpose: Identify and classify fund balances in accordance with Governmental Accounting Standards Board (GASB) Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions and establish minimum fund balance targets as recommended by the Government Finance Officers Association Best Practices and Advisories guidelines, Replenishing Fund Balance in the General Fund.

Section 9.1: Fund Balance Classifications

9.1.1 In accordance with GASB 54, the City shall categorize fund balance within five classifications for governmental accounting and tracking purposes as more fully defined within this policy:

1. Nonspendable,
2. Restricted,
3. Committed
4. Assigned, and
5. Unassigned.

9.1.2 The City shall maintain a prudent level of financial resources to protect against reducing service levels, incurring debt, or raising taxes and fees because of unexpected revenue shortfalls, unanticipated expenditures, and similar circumstances. The City shall use this Fund Balance Policy as guide to prepare and execute the annual budget to ensure the City:

1. maintains sufficient reserves for cash flow needs, economic and legislative uncertainties, unanticipated expenditures or revenue shortfalls, and contingencies
2. preserves flexibility throughout the fiscal year to make adjustments in funding for programs approved in connection with the annual budget.

Section 9.2: Nonspendable Fund Balances

9.2.1 Consists of funds that are not in a spendable form (e.g., inventories and prepaid items) or funds that legally or contractually must be maintained intact (e.g., corpus of a permanent fund).

Section 9.3: Restricted Fund Balances

9.3.1 Consists of funds that are externally imposed by creditors (e.g., debt covenants), grantors, contributors, laws and regulations of other governments, or by law through constitutional provisions or enabling legislation.

Section 9.4: Committed Fund Balances

9.4.1 The Council may set aside funds ("Committed Fund Balances") for specific purposes by adopting a resolution prior to the end of the fiscal year. The City may not use Committed Fund Balances for any other purpose unless the Council removes or changes the specified uses by resolution.

9.4.2 As a Committed Fund Balance, the Council may establish Fiscal Stabilization reserves within the General Fund. The City may use fiscal stabilization reserves when the following conditions are met:

a. The City has exhausted all efforts to fund the response to a natural disaster, urgent event, revenue shortfall or budget deficit, and there are no budget adjustments available to continue to provide the essential services to the public.
b. The City Manager, or designee, analyzes and documents the impacts of the natural disaster, urgent event, revenue shortfall, or budget deficit.
c. Sudden and unexpected declines in ongoing revenues, including taxes, intergovernmental revenues, and charges for services, when such declines exceed 10 percent (10%) of General Fund operating revenues.
d. Sudden or unexpected drop in state-shared revenues, such as income taxes and state sales taxes, when such declines exceed 10 percent (10%) of the budgeted General Fund operating revenues of the prior fiscal year.
e. Reduction in secondary assessed valuations or secondary property tax collections, resulting in secondary property tax revenue below the City's general obligation debt service requirements.
f. Sudden or unexpected risk management loss that exceeds available reserves in the Risk Management Fund.
g. The Council approves the spending of stabilization reserves by a simple majority vote.

The City shall not spend fiscal stabilization reserves in excess of the amount required to offset the revenue shortfall or unexpected budget deficit.

9.4.3 If the reserves are spent down below the minimum required reserve levels, the City shall replenish the reserves within five (5) fiscal years following the fiscal year in which the reserves were spent. If the depletion of the reserves occurs during an ongoing economic downturn, the City shall restore the funds within five (5) years of revenue stabilization, as applicable. The Finance Director or Budget Officer shall report the progress of reserve replenishment in the City's Annual Budget & Financial Plan.

9.4.4 The City shall maintain fiscal stabilization reserves equal to twenty-five percent (25%) of the highest annual General Fund plus Special Revenue Funds operating expenditures identified in the Capital Improvements Plan (CIP) for any year, rounded up to the nearest $1,000,000. For example if the General Fund plus Special Revenue Funds operating expense in year five of the CIP is $31 million the reserve would be $8.0 million ($31,000,000 * 25% = $7,750,000 rounded to $8,000,000).

Section 9.5: Assigned Fund Balances

9.5.1 The City Manager may set aside funds (Assigned Fund Balances) for specific purposes and shall report the set asides to the Council at their next meeting. The Council may remove or change the assignment with a majority vote.

Section 9.6: Unassigned Fund Balances

9.6.1 Includes funds not otherwise classified above as the residual classification within the General Fund. The City may use unassigned funds for any lawful purpose as identified and recommended by the City Manager and approved by the Council.

Section 9.7: Order and Use of Fund Balances

9.7.1 When the City has the discretion to expend funds from more than one or all of the Fund Balances, the City shall expend according to the following order:

a. Restricted Fund Balances
b. Committed Fund Balances
c. Assigned Fund Balances
d. Unassigned Fund Balances

Policy 10
Capital Assets

Purpose: To distinguish between capital items and operating items for purposes of budgeting for capital improvements, financial planning, providing for the stewardship of assets, financial reporting, and for providing information for insurance purposes.
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Section 10.1: Capital Asset Definition

10.1.1 Capital assets are defined as: buildings, parks, land, street construction and major repairs, water and sewer lines, major improvements other than buildings, infrastructure, machinery and equipment, networks or systems, with a cost of $30,000 or more; or groups of same items purchased in the same fiscal year that serve the same purpose whose total costs are significant (over $125,000), and, with an estimated useful life greater than one year, and all land regardless of value. Subscription-based information technology arrangements are addressed in Section 10.5.

10.1.2 Capital Asset vs. Repair and Maintenance Expense

Often significant costs are incurred in connection with capital assets in periods after their initial acquisition. Improvements as defined below would be recorded as a capital asset, whereas repairs and maintenance would not.

1. Improvements (betterments) - An improvement provides *additional value*. Such added value is achieved either by 1) lengthening a capital asset's estimated useful life or 2) increasing a capital asset's ability to provide service (i.e., greater effectiveness or efficiency). Improvements should be capitalized and recognized (i.e., depreciation or amortization) over the estimated useful life of the improvement.
2. Repairs and maintenance - In contrast to improvements, repairs and maintenance *retain value* rather than provide additional value. The cost of repairs and maintenance must be reported as an expense in the period in which it was incurred.

Section 10.2: Capital Asset Valuation

10.2.1 Capitalized assets are recorded at cost if purchased or constructed. The cost includes freight charges, installation, and site preparation charges. Donated capital assets are recorded at estimated acquisition value at the date of donation.

Section 10.3: Depreciation

10.3.1 The City will use the Straight-Line Method as its "basic approach" (standard approach) to depreciate capital assets based on the asset valuation and estimated useful life.

Section 10.4: Estimated Useful Life

10.4.1 The following ranges are guidelines in setting estimated useful life for depreciating assets.

Land	Non-Depreciable
Construction in Progress	Non-Depreciable
Buildings and improvements	10 to 50 years
Machinery and equipment	5 to 20 years
Vehicles	5 to 15 years
Streets, sidewalks, and other infrastructure	7 to 30 years
Land improvements	10 to 25 years
Water and Sewer Plants and Infrastructure	10 to 50 years

Section 10.5: Subscription-Based Information Technology Arrangements Definition

10.5.1 Subscription-based information technology arrangements (SBITA) are defined as: contracts that convey control of the right to use another party's IT software, alone or in combination with tangible capital assets, as specified in the contract, for a period of time longer than 12 months, that have a value that is more than the threshold established in the implementation year that will ensure that 90% of the total costs of all SBITAs are recorded as assets beginning July 1, 2023 in accordance with GASB 96.

Section 10.6: SBITA Valuation and Recording

10.6.1 SBITAs that meet the capitalization threshold must be recorded as an acquisition of a subscription asset in the capital assets and the incurrence of a liability. The intangible subscription asset should be recorded as the sum of the subscription liability, any payments made to the vendor at or before the commencement of the lease term, and any capitalizable initial implementation costs less any lease incentives received from the vendor at or before the commencement of the subscription term.

Section 10.7: SBITA and GASB 96

10.7.1 The guidance contained herein is intended to adhere to GASB pronouncement 96 SBITA. In case of any differences between Policy 10 and GASB 96, GASB 96 will prevail.

Policy 11
Leases

Purpose: To identify and properly record lease assets/liabilities or lease receivables/deferred inflows in accordance with GASB 87.
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Section 11.1: Lease Definition

11.1.1 Leases are defined as: a contract that conveys the right to use another entity's nonfinancial asset as specified in the contract/agreement for a period more than one year in an exchange or exchange-like transaction whose net present value is greater than $30,000 for lessee and $125,000 for lessor. This section does not pertain to leases that convey ownership which are now termed as financed purchases. Leases under this policy can be leased by or from the City.

Section 11.2: Lease Valuation

11.2.1 **Lessees:** Qualifying leases should be recorded at the present value of payments expected to be made during the lease term, including the following: fixed payments, variable payments that depend on an index or a rate (such as the Consumer Price Index or a market rate) measured using the index or rate as of the commencement of the lease term, variable payments that are fixed in substance, amounts that are reasonably certain to be paid under residual value guarantees, the exercise price of a purchase option if reasonably certain that the option will be exercised, payments for termination penalties if it is reasonably certain that option will be exercised, any lease incentives receivable from the lessor, any other payments that are reasonably certain of being required, the future lease payments should be discounted using the interest rate the lessor charges the lessee. If the rate is not readily determinable, the lessee's incremental borrowing rate should be used, that is the interest rate the state would be charged to finance a similar asset. Variable payments based on future performance of the lessee or usage of the underlying asset, such as charges based on hours equipment was used, should not be included in the measurement of the lease.

The intangible right-to-use leased asset should be recorded at the sum of the lease liability, any ancillary charges, and lease payments made to the lessor at or before the commencement of the lease term, less any lease incentives received from the lessor at or before the commencement of the lease term.

11.2.2 **Lessors:** should recognize a lease receivable and a deferred inflow of resources at the commencement of the lease term. The lessor should continue to recognize the capital asset. At the commencement of the lease term, the lease receivable should be recorded at the present value of payments expected to be received during the lease term, including the following: fixed payments, variable payments that depend on an index or a rate (such as the Consumer Price Index or a market rate) measured using the index or rate as of the commencement of the lease term, variable payments that are fixed in substance, residual value guarantee payments that are fixed in substance, less any lease incentives payable to the lessee.

The future lease payments should be discounted using the interest rate the lessor charges the lessee, which may be the interest rate implicit in the lease. If the rate is not readily determinable, the lessee's incremental borrowing rate should be used, that is the interest rate the state would be charged to finance a similar asset.

Variable payments based on future performance of the lessee or usage of the underlying asset should not be included in the measurement of the lease receivable. Rather, those variable payments should be recognized as revenue in the period to which those payments relate.

Section 11.3: Leases under GASB 87

11.3.1 The guidance contained herein is intended to adhere to GASB pronouncement 87 Leases. In case of any differences between Policy 11 and GASB 87, the guidance provided by GASB 87 will prevail.