



## ADMINISTRATIVE SERVICES COMMITTEE

### Agenda

Wednesday, March 4, 2015  
1:00 pm

Madison Avenue Meeting Room  
500 SW Madison Avenue

- |                                    |  |
|------------------------------------|--|
| Discussion/ <b>Possible Action</b> | I. Second Quarter Operating Report<br>(Attachment)   |
| Discussion/ <b>Possible Action</b> | II. Council Policy Review and Recommendation:<br>10.01-10.08, "Financial Policies"<br>(Attachment) |
| Information                        | III. Other Business  |

### **Next Scheduled Meeting**

Wednesday, March 18, 2015 at 1:00 pm  
Madison Avenue Meeting Room, 500 SW Madison Avenue

### **Agenda**

Ambulance Rate Review

## MEMORANDUM

February 20, 2014

TO: Administrative Services Committee

FROM: Janet Chenard, Interim Finance Director

SUBJECT: **Second Quarterly Operating Report**

### I. Issue

To review and accept the Second Quarterly Operating Report for FY 14-15.

### II. Discussion

The full Second Quarterly Operating Report (QOR) is available for review on the City's website, with the first five pages of same provided as Attachment A to this memo. The report was published by the 45-day deadline established in Council Policy. Overall, second quarter results were generally in line with expectations, and continued to show some improvement in certain funds.

Total revenues were almost exactly 60% of budget year-to-date in FY 14-15, which is a bit higher than FY 13-14's 55% at second quarter end. The lower percentage last year was partly due to the \$1.4 million refund in respect of the Hewlett-Packard appeal made in July 2013 as well as about \$3.3 million less in system development charges received in the same period. All operating revenue categories were roughly \$10.3 million higher year-over-year in total, with the exception of intergovernmental grants (where federal operating grant receipts in the Transit fund were running about \$200,000 higher for the same period in FY 13-14).

Operating expenditures across departments were on target at about 46% of the amended budget, but over 2% higher than the same time the prior year. The Fire department continues higher year-to-date in FY 14-15 despite several vacancies, because of overtime expenditures incurred to backfill vacancies, as well as significant August conflagrations and the Timberhill fire in September. The Finance Department spending rate increased and City Manager's Office decreased in terms of percent of budget expended, based on insurance premiums for risk management now being paid by Finance, most of which fall due in the first quarter of the year.

In summary, financial performance for the organization was generally at expected levels. Several items are noted below for particular attention:

- General Fund – At the ASC meeting where the first QOR of FY 14-15 was presented, Councilors requested that some additional information on property tax compression and impacts of assessed valuation changes be included in the next QOR to provide some background for newer Councilors, as well as to illustrate what types of events impact AV coming in more or less than 3%. As such, on pg.3 of this quarter's report, please find some background information on the drivers of compression, as well as recent year results for Corvallis and other local agencies in this regard. Compression for Corvallis has been a lesser issue than other items which impact AV growth of less than 3%, such as properties going off the tax rolls to non-profits, depreciation of personal property and valuation appeals, such as those currently ongoing with HP and Comcast.
- The Community Development Revolving Fund ended FY 13-14 with a small positive cash and fund balance, but moved back into the red early in the first quarter of FY 14-15 and has stayed there through the second quarter. Based on the timing of grant receipts and associated project spending, and on a shortfall of funding from all sources needed to cover program administration costs, the fund manager is currently projecting ending FY 14-15 with a cash/fund balance of negative \$230,000. Projections for the Proposed FY 15-16 Budget are showing an additional shortfall of \$170,000, for a final ending fund balance of negative \$400,000 absent any actions to alleviate these deficits.

Local budget law does not allow a fund to end the year with a negative balance. As such, Council action is expected to be needed prior to year-end FY 14-15 in the form of approval of an interfund loan from the

Development Services or General Fund, General Fund “grant” support, or a combination of these elements. Knowing that Council is considering a Housing related goal for its two-year term, it is assumed the City’s housing assistance programs have high priority for continued funding. Staffing is currently stretched to the maximum for CD Revolving Fund-related work efforts, and an influx of cash before current year-end would help provide the foundation to overcome the gap in federal grant funding that is currently being faced, and which is expected to continue into the foreseeable future.

Council’s consideration of a \$200,000 permanent transfer from General Fund reserves is considered supportable by staff based on the current and growing need in Corvallis for the City’s array of affordable housing programs and related services, especially those intended to serve the needs of lower-income workers and community members with the lowest incomes. The remainder of the shortfall that is expected to occur in FY 14-15 could be managed with an interfund loan from Development Services, which would need to be repaid with interest in FY 15-16. This or a similar approach would likely be needed again the following year to address the potential negative FY 15-16 ending fund balance. This two-year bridge-financing would provide management with the necessary time for potential mitigation by other means to ensure the long-term fiscal health of the Fund’s operations.

- Risk Management – As of the end of the second quarter, the Finance budget in the Risk Management Fund was over 92% expended. This left only about \$81,000 to absorb January’s purchase of enhanced cyber insurance coverage recommended by the City’s risk advisors (a \$9,000 premium for the remaining half of the year), plus significant exposure for self-insurance payments toward tort/liability deductibles known to have accumulated over the past several years. As of the date of this memo, contingency appropriations have been secured. In addition to continuing to monitor these payouts, staff is also carefully watching workers compensation claims paid out of the City Manager’s Office for the remainder of the year to ensure sufficient appropriations exist for these expenditures. Proposed amendments to Council Financial Policies are also going forward to alleviate pressure on the catastrophic reserve and fund balance while minimizing the City’s risk and departments’ costs for same.
- 9-1-1 Emergency Fund – This fund’s expenditures are marginally below the 50% target for the halfway point in the fiscal year. However, overtime spending to backfill for vacancies and compensated absences is at 125% of budget, and has been nearly double last year’s levels for the five months ended January 2015. Although some respite from these costs is anticipated from a Q3 hire of one open dispatch position, the staffing minimum of four dispatchers for safe response levels on busy weekends, will likely require seeking fund contingencies from Council by year-end to maintain this level of service.
- Investment portfolio – the annual update of the City’s Investment Advisor’s (GPA) broker-dealer list is included as Attachment B to this staff report. The changes from the prior approved list consist of two additions of well known names (R.W. Baird, who underwrote the City’s 2012 FFC obligation bonds; and MultiBank Securities (MBS)) and one name change due to an acquisition. The ASC needs to approve and recommend this list for adoption by Council based on Financial Policies.

Please note that an income statement for each fund and the Council Goals update as of December 31, 2014 are linked to the full 15-page online quarterly operating report, to provide ASC with more detail on the City’s current financial position.

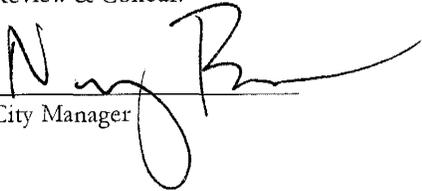
The Capital Project budget is just under 20% expended at the end of the second quarter. It is typical for capital project spending to be lower in the first half of the fiscal year, when projects are still being bid and designs finalized, or due to summer construction projects being delayed or coming in under budget. The following projects had substantial progress or were completed as of the end of the second quarter: construction, including the railroad equipment installation and traffic signal work were completed on the improvement project at 15<sup>th</sup> St. and Washington Way; construction of the Reiman Avenue Bridge, including being reopened for commercial truck delivery access, was also finalized; and all sanitary sewer line rehabilitation projects designed in FY 13-14 as well as a high priority replacement between 12<sup>th</sup> and Dixon St. from Garfield to Grant Ave were finished.

**III. Requested Action**

Review, and recommend the City Council accept:

1. the Second Quarterly Operating Report; and
2. the updated 2015 Broker/Dealer listing.

Review & Concur:

  
\_\_\_\_\_  
City Manager



# 2nd Quarter Financial Summary

## FY 2014-15

This report provides summary information on the City's financial status as of the end of December, 2014; more detailed comparative income statement format data is available on-line at this [link](#).

PERFORMANCE AT A GLANCE (YEAR TO DATE)		COMMENTS
<b>GENERAL FUND</b>		
General Fund Expenditure vs. Revenue	WATCH	Revenues are exceeding budget since the majority of property tax revenues are received in Q2; receipts are also higher this year due to no Hewlett-Packard refund. Department spending is generally at targeted levels for this point in the fiscal year; long term fiscal health of the fund remains a concern.
Property Tax Revenue	POSITIVE	The majority of Property tax receipts were received during Q2. Per 2014 tax certification, 4.3% AV growth should improve Revised revenue over Adopted projections.
Transient Room Tax	POSITIVE	First half receipts are up nearly 13% over prior year, and on track to exceed budget. The increase likely stems from great summer weather and higher Fall enrollment at OSU. Additionally, a Special Olympics event in March is expected to maintain this growth.
Franchise Fees	POSITIVE	Franchise fees are trending 3% higher in the first half of FY 14-15; although no utility rate increases are expected in 2015, staff still expects budgeted levels to be exceeded.
State Shared Revenue	POSITIVE	FY 13-14 receipts were about 5% above budget, and YTD FY 14-15 revenues are running nearly 7% over prior year, but slightly under current year budget. Nonetheless, this revenue stream is expected to meet budget by the end of the fiscal year.
Fines & Forfeitures	WATCH	The first two months of the fiscal year saw higher traffic fine revenue, but significant CPD vacancies/absence, as well as the learning curve due to e-citation and e-ticketing implementation caused revenue declines in September through November. Some increase in December, but lower receipts for the first half overall.
General Fund Expenditures vs. Budget	WATCH	General Fund expenditures are generally on target and in line with prior year spending, Fire is over 51% expended year-to-date (YTD), and higher than FY 13-14 due to two long-term employee departures with cashouts totaling over \$70,000, as well as overtime already at 110% of budget for summer conflagrations and the September Timberhill fire.
<b>SPECIAL REVENUE FUNDS</b>		
9-1-1 Emergency Services	WATCH	Declining fund balance; although prior year revenues met expectations, and budget was underexpended, YTD spending is right on target with budget, but higher than prior year.
Community Development Revolving	NEGATIVE	FY 13-14 ended with a positive fund balance, but negative cash balances are expected to continue and calculations ytd anticipate a \$230K negative ending fund balance for FY 14-15, due to reduced federal grant revenue availability and ineligible administrative costs.
Development Services	POSITIVE	Permit revenues and charges for service are ahead of last fiscal year and budget ytd. The improved results in this fund relative to a few years ago are from increased development.
Parking	WATCH	Revenues are higher than prior year, but lagging budget and fund balance has declined. The November ballot on Residential Parking Districts (RPD) did not pass so all related activity has been revised out of the FY 14-15 budget. Parking citation revenue is expected to be on a downward trend through at least April due to Parking Enforcement vacancies.
Street	WATCH	Declining fund balance; future revenues may not be adequate for current service levels.
Transit	POSITIVE	Current revenues are lower than last fiscal year and FY14-15 budget, yet expenditures remain stable; FY 13-14 net revenues contributed to a higher ending fund balance.
<b>ENTERPRISE FUNDS</b>		
Airport	POSITIVE	While revenues typically lag against budget at this point in the year, they are expected to achieve budgeted levels by year end; operating expenditures are low and on target.
Storm Water	POSITIVE	Metered revenues are up some from prior year; expenditures are low as a % of budget.
Wastewater	POSITIVE	Metered revenues are up some from prior year; expenditures are low as a % of budget.
Water	POSITIVE	Metered water usage has increased and the application of the new rate structure has bolstered YTD revenues; expenditures are on track.
<b>INTERNAL SERVICE FUNDS</b>		
Risk Management	WATCH	Contingencies will be sought in 3 <sup>rd</sup> quarter due to over target spending on self-insurance.

**What the ratings mean:** **Positive** – Current revenues and City Council-adopted use of reserves are sufficient to support the current level of service. Fund balances appear stable over a three-year forecast. No significant negative issues are identified.

**Watch** – Various stressors may cause current revenues to be flat or decline and impact the fund's capacity to support the current level of service. Factors exist that may contribute to higher than anticipated expenditure levels in more than one category over the next 6-12 months.

**Negative** – Current expenditures exceed or revenues are significantly behind forecast assumptions. Fund balance is unstable. Immediate action to balance fund is likely required.

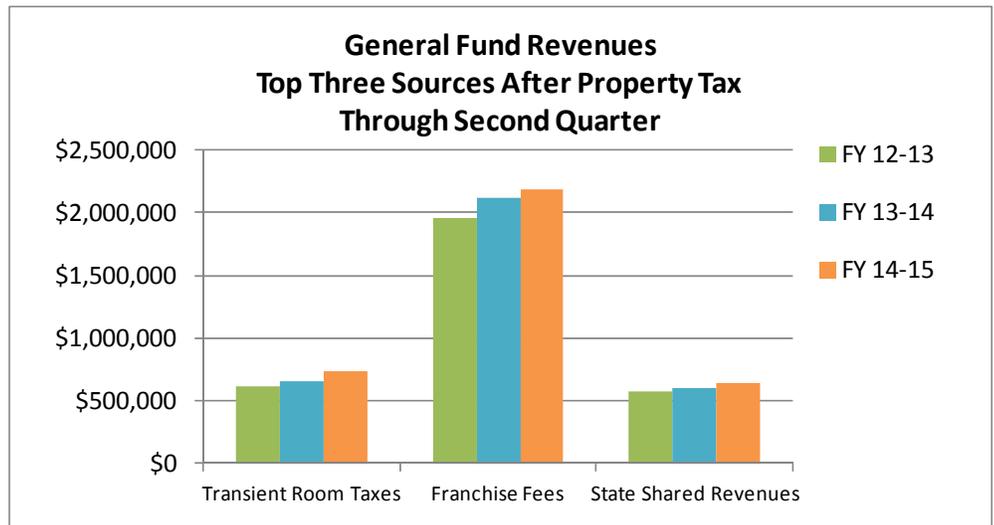
**GENERAL FUND COMBINED\***

REVENUE	AMENDED BUDGET	2nd Quarter FY 13-14	Y-T-D FY 13-14	FY 13-14 % REC/EXPEND	AMENDED BUDGET	2nd Quarter FY 14-15	YTD FY 14-15	FY 14-15 % REC/EXPEND
Budgeted Beg. Fund Balance (incl reserves)	6,265,564				\$6,451,158			
Property Taxes	\$20,617,620	\$18,896,232	\$17,648,957	85.60%	\$24,447,050	\$22,913,330	\$23,088,514	94.44%
Other Tax	1,372,600	389,826	654,416	47.68%	1,427,600	434,391	736,453	51.59%
Licenses/Permits	5,925,060	1,375,809	2,294,957	38.73%	5,741,280	1,331,390	2,356,940	41.05%
Charges for Service	5,889,850	2,287,032	3,725,521	63.25%	5,892,810	2,263,366	3,719,929	63.13%
Intergovernmental	4,227,760	2,383,739	2,594,150	61.36%	3,877,120	2,785,320	3,001,677	77.42%
Fines/Forfeitures	771,390	175,949	343,330	44.51%	759,660	181,823	356,629	46.95%
Miscellaneous	1,307,680	745,316	886,448	67.79%	617,440	149,289	311,289	50.42%
Other Financing Sources	7,075,308	2,361,139	2,527,382	35.72%	798,330	358,029	814,526	102.03%
<b>TOTAL CURRENT REVENUE</b>	<b>\$47,187,268</b>	<b>\$28,615,041</b>	<b>\$30,675,161</b>	<b>65.01%</b>	<b>\$43,561,290</b>	<b>\$30,416,938</b>	<b>\$34,385,957</b>	<b>78.94%</b>
<b>EXPENDITURE BY DEPARTMENT</b>								
City Manager's Office	\$326,250	\$79,301	\$145,353	44.55%	\$293,300	\$75,013	\$147,435	50.27%
Community Development	1,309,840	293,024	580,880	44.35%	\$1,498,870	\$298,930	\$601,092	40.10%
Finance	646,770	148,986	312,427	48.31%	\$647,260	\$142,477	\$292,606	45.21%
Fire	10,485,960	2,495,024	5,158,165	49.19%	\$11,397,090	\$2,526,183	\$5,863,223	51.44%
Library	6,524,140	1,415,271	2,829,505	43.37%	\$6,151,640	\$1,410,829	\$2,889,566	46.97%
Parks & Recreation	6,295,130	1,341,344	3,075,441	48.85%	\$6,302,410	\$1,356,987	\$3,141,666	49.85%
Police	10,688,290	2,419,213	5,040,582	47.16%	\$11,293,220	\$2,624,478	\$5,333,775	47.23%
Public Works	1,026,260	190,924	342,441	33.37%	\$991,940	\$221,548	\$423,879	42.73%
Non-Departmental	1,480,870	283,345	625,701	42.25%	994,420	220,839	433,277	43.57%
<b>TOTAL OPERATING EXPENDITURES</b>	<b>38,457,260</b>	<b>8,666,433</b>	<b>18,110,495</b>	<b>47.09%</b>	<b>\$39,570,150</b>	<b>\$8,877,284</b>	<b>\$19,126,519</b>	<b>48.34%</b>
Debt Service	\$243,180	\$0	\$220,530	90.69%	\$837,160	\$0	\$222,644	26.60%
Transfers / Other Financing Uses	7,085,818	1,729,853	2,190,059	30.91%	2,940,640	1,614,292	2,151,475	73.16%
Contingencies/Reserves	597,200	0	0	0.00%	630,000	0	0	0.00%
<b>TOTAL ALL EXPENDITURES</b>	<b>\$46,383,458</b>	<b>\$10,396,286</b>	<b>\$20,521,084</b>	<b>44.24%</b>	<b>\$43,977,950</b>	<b>\$10,491,576</b>	<b>\$21,500,638</b>	<b>48.89%</b>
<b>CURRENT REVENUE LESS TOTAL EXPENDITURES</b>		<b>\$18,218,755</b>	<b>\$10,154,076</b>		<b>(\$416,660)</b>	<b>\$19,925,362</b>	<b>\$12,885,319</b>	

\* General Fund Combined includes component reserve funds effective FY 14/15

The General Fund Income Statement format above illustrates that the Fund is generally in better shape than it was this time last year, and is also largely on track with budget. One area of note above that is not discussed elsewhere in this report, but of which both ASC and Council are aware as of the date of this memo, is the status of pass-through receipts for payments to other agencies having already surpassed adopted at 102% of estimated levels at quarter end. A budget adjustment will be needed in the third quarter in order to increase appropriations for pass these payments on.

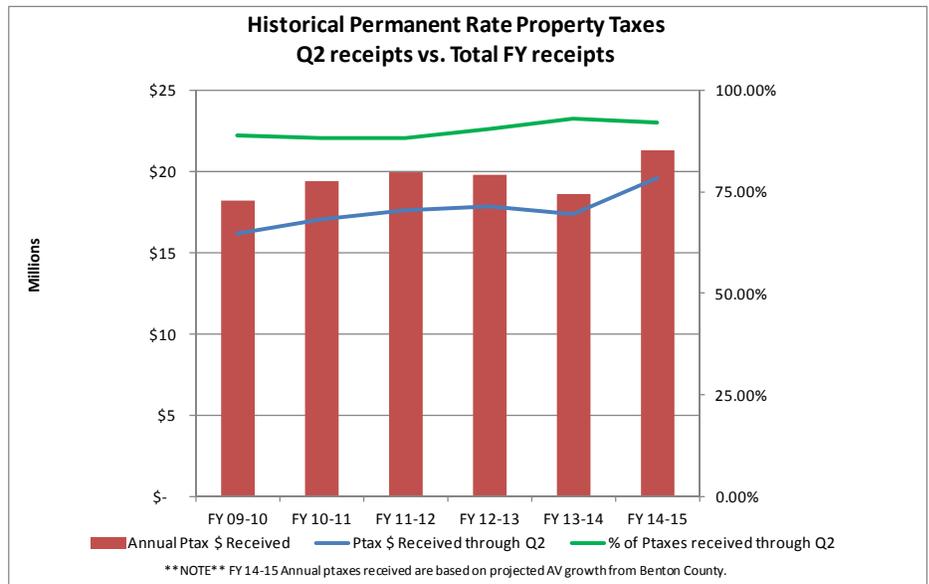
The adjacent graph illustrates improvements being noted in all of the major revenue categories year-to-date (YTD) in the General Fund. Although YTD operating expenditures offset these improvements somewhat, as they are over \$1M higher than last fiscal year as of the end of December, the budget did anticipate a net increase in costs, and spending YTD is slightly below 50% of budget which is where we would expect to be at the end of Q2. The Fire Department saw significantly higher first half spending than anticipated, due to two unbudgeted accrual cash outs totaling over



\$70,000 and overtime spending at 110% of FY 14-15 budget vs. about 78% of budget in the first half of FY 13-14. Casual (i.e., temporary) employee wages for the Fire Department were also higher at 81% of budget vs. 54% of budget in the prior year. Overtime and casual overages partly reflect backfilling for minimum coverage for absences, but this year are also due to increased conflagration activities in August and the Timberhill fire in early September. The impact of these events should each be partly offset in future months by reimbursements from other agencies for the former and insurance monies for the latter; at the end of the second quarter, Fire was awaiting a \$102K reimbursement from the Office of the State Fire Marshall for personnel service costs for the Beaver Complex fire, with which the department assisted in August.

**Property Taxes and Assessed Value:**

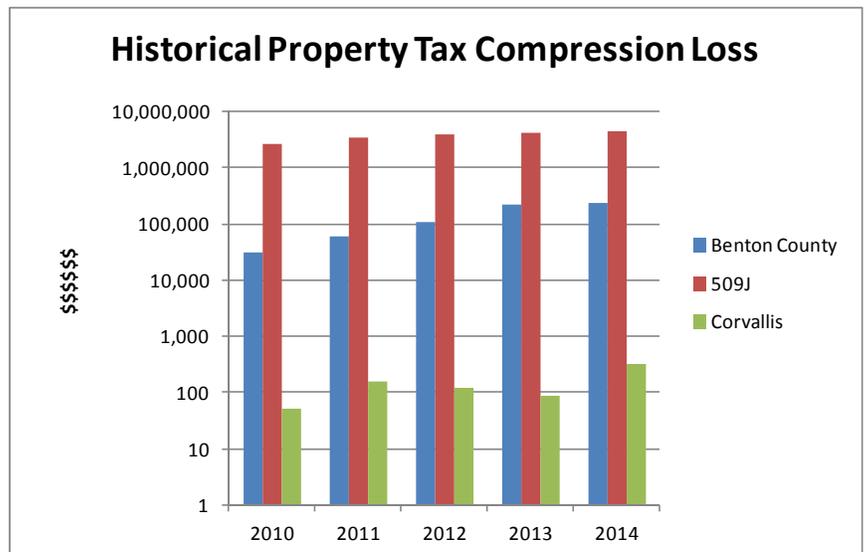
The majority of property taxes in any given year are received during the second quarter as a result of property tax statements being distributed to tax payers in October and then primarily paid in full in November and December. Tax payers are incented to pay early due to a 3% discount that represents a good “return” relative to what that money would get if left in the bank at current interest rates. The graph to the right shows total annual property taxes received in the fiscal year (red bar), with the blue line depicting the amount of property taxes received through the second quarter of the fiscal year, and the green line showing what percent Q2 property tax receipts are of the annual property taxes received, which on average is approximately 90%.



Tax Year	\$K RMV	Growth From Prior Yr	\$K AV	Growth From Prior Yr
2005	4,522,703	5.19%	3,433,647	4.27%
2006	5,088,443	12.51%	3,467,066	0.97%
2007	5,565,083	9.37%	3,613,017	4.21%
2008	5,946,532	6.85%	3,745,147	3.66%
2009	5,825,693	-2.03%	3,825,054	2.13%
2010	5,664,529	-2.77%	3,999,075	4.55%
2011	5,672,462	0.14%	4,118,580	2.99%
2012	5,496,249	-3.11%	4,139,865	0.52%
2013	5,574,068	1.42%	4,201,469	1.49%
2014	5,891,389	5.69%	4,381,367	4.28%
<b>Avg Annual</b>		<b>3.33%</b>		<b>2.91%</b>

Property taxes for operations are levied in accordance with the Oregon constitutional limitations known as Measure 5 (1990) and 50 (1997). Measure 5 (M5) placed a maximum tax rate for non-education governments of \$10 per \$1,000 of real market value (RMV) on each parcel of property. Measure 50 (M50) set a permanent property tax rate for each governmental entity and developed a base assessed value (AV) for each parcel of property that is different than RMV for purposes of levying taxes. While AV growth is technically limited to 3% for each parcel of property, it can be more or less based on factors such as residential, commercial and industrial development, personal property depreciation, valuation appeals, sales of privately owned properties to non-taxable entities/agencies such as OSU or Samaritan Health, and vice versa. The table to the left depicts the recent history of AV and RMV growth in Corvallis; in five of the last ten years, total AV has not increased by the full 3% that most people “expect” from their understanding of M50.

One factor which can impact valuations and thus tax receipts, is when a property’s RMV becomes less than its AV. The AV decreases to the RMV level due to “M50 Compression.” The chart to the right shows that some taxing districts, such as Benton County and the 509J School District, have been greatly impacted by compression. These agencies saw respective losses of \$242,000 and \$4,508,500 in property tax collections due to compression in 2014, while the City of Corvallis has seen relatively little impact from compression, with its largest loss from compression to date at only \$318 in 2014. Another element to consider vis-à-vis compression relates to the “order” in which it applies to the various tax rates being levied by an agency. For example, an operating levy is compressed prior to the permanent rate taxes.



<b>GENERAL FUND</b>				
<b>BUDGETARY BASIS</b>	<b>AUDITED FY 13-14</b>	<b>ADOPTED FY 14-15</b>	<b>Year-To-Date FY 14-15</b>	<b>% of Budget Year-to-Date</b>
<b>RECURRING</b>				
<b>NON DEDICATED REVENUE</b>				
Property Taxes - Permanent Rate	\$18,632,793	\$20,808,660	\$19,613,947	94.26%
Local Op Levy 2013 - HP Replacement/Social Services Funding	0	706,340	693,424	98.17%
Prior Year Delinquent Tax Revenue	451,986	438,280	332,636	75.90%
Transient Room Tax	1,424,997	1,427,600	736,453	51.59%
Franchise Fees	5,486,499	5,374,000	2,185,978	40.68%
State Revenue Sharing	537,106	531,160	277,768	52.29%
Alcohol/Cigarette Tax	847,782	826,580	370,634	44.84%
Pass-Throughs	618,750	790,130	814,526	103.09%
Miscellaneous Other Revenues	1,194,000	103,690	67,159	64.77%
<b>TOTAL NON-DEDICATED RECURRING REVENUE</b>	<b>\$29,193,914</b>	<b>\$31,006,440</b>	<b>\$25,092,525</b>	<b>80.93%</b>
<b>DEDICATED REVENUE</b>				
Property Tax - Local Option Levy	\$1,910,761	\$2,493,770	\$2,448,507	98.18%
City Manager's Office	121,176	121,000	112,190	92.72%
Community Development	140,902	117,590	62,746	53.36%
Finance	133	625,200	271,178	43.37%
Fire	3,602,373	3,618,080	2,537,169	70.12%
Library	2,523,642	2,785,260	2,508,728	90.07%
Parks & Recreation	1,930,571	1,730,190	873,472	50.48%
Police	378,095	378,730	225,504	59.54%
Public Works	145,282	0	27	0.00%
<b>TOTAL DEDICATED RECURRING REVENUE</b>	<b>\$10,752,934</b>	<b>\$11,869,820</b>	<b>\$9,039,521</b>	<b>76.16%</b>
<b>TOTAL RECURRING REVENUE</b>	<b>39,946,848</b>	<b>\$42,876,260</b>	<b>\$34,132,046</b>	<b>79.61%</b>
<b>EXPENDITURES</b>				
City Manager's Office	\$320,760	\$293,300	\$147,435	50.27%
Community Development	1,304,740	1,498,870	601,092	40.10%
Finance	629,758	647,260	292,606	45.21%
Fire	10,896,499	10,697,090	5,243,203	49.02%
Library	5,990,215	6,068,140	2,861,581	47.16%
Parks & Recreation	6,202,251	5,817,320	2,921,200	50.22%
Police	10,638,622	11,123,210	5,312,613	47.76%
Public Works	860,955	703,940	300,595	42.70%
Non-Departmental	1,296,680	822,420	402,256	48.91%
Debt Service	243,174	837,160	222,644	26.60%
Pension Obligation Bond Debt - Transfers	1,870,950	1,931,790	1,621,980	83.96%
Pass-Throughs	597,869	790,130	529,495	67.01%
Contribution to Fund Balance Reserve/Contingencies	945,000	1,645,630	1,969,720	119.69%
Contributions/Adjustments to Other Reserves	128,856	0	1,226,373	100.00%
<b>TOTAL RECURRING EXPENDITURES</b>	<b>\$41,926,330</b>	<b>\$42,876,260</b>	<b>\$23,652,794</b>	<b>55.17%</b>
<b>RECURRING REVENUE EXCESS (SHORTFALL) OVER EXPENDITURES</b>	<b>(\$1,979,482)</b>	<b>\$0</b>	<b>\$10,479,253</b>	
<b>POTENTIAL BEGINNING BUDGETARY FUND BALANCE</b>	915,434	269,750	269,750	
<i>Net Recurring Revenue/Expenditure</i>	(1,979,482)	-	10,479,253	
<i>Net Non-Recurring Revenue/Expenditure</i>	1,333,799	(269,750)	(265,630)	
<b>ENDING BUDGETARY FUND BALANCE</b>	<b>\$269,750</b>	<b>\$0</b>	<b>10,483,373</b>	
<b>Ending Reserve Balance by Type</b>				
RESTRICTED	\$761,935	\$377,160	\$866,425	
COMMITTED	\$1,172,107	\$1,018,258	\$1,095,507	
ASSIGNED	\$1,474,499	\$448,875	\$2,091,649	
<b>FUND BALANCE</b>	<b>\$2,850,489</b>	<b>\$4,190,204</b>	<b>\$4,820,209</b>	
	\$6,259,030	\$6,034,498	\$8,873,790	

The General Fund Financial Plan update provided above shows the unaudited, estimated status of the "green line" at the end of Q2. The majority of FY 14-15 property taxes were received in the second quarter, thus the sustainable green line and the ending budgetary fund balance YTD are shown with a large positive balance. However, these amounts will decrease as the year progresses with planned department expenditures. Certified assessed property values for the City grew by 4.28% versus the 3% increase built into projections, thus year-end property tax revenue is expected to exceed

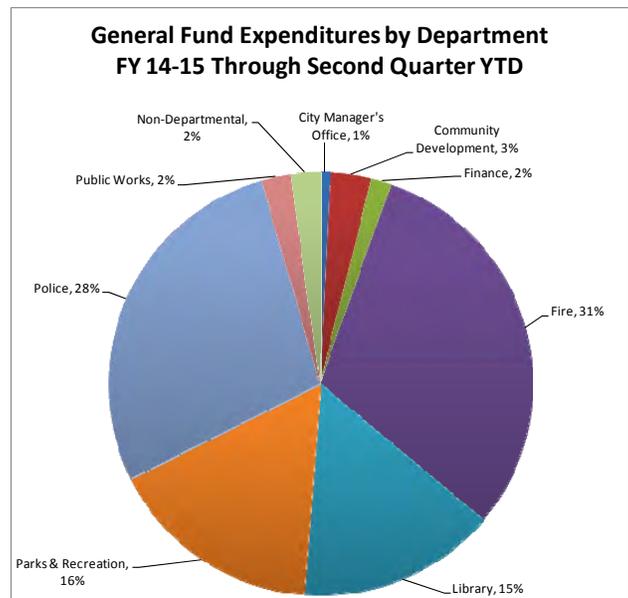
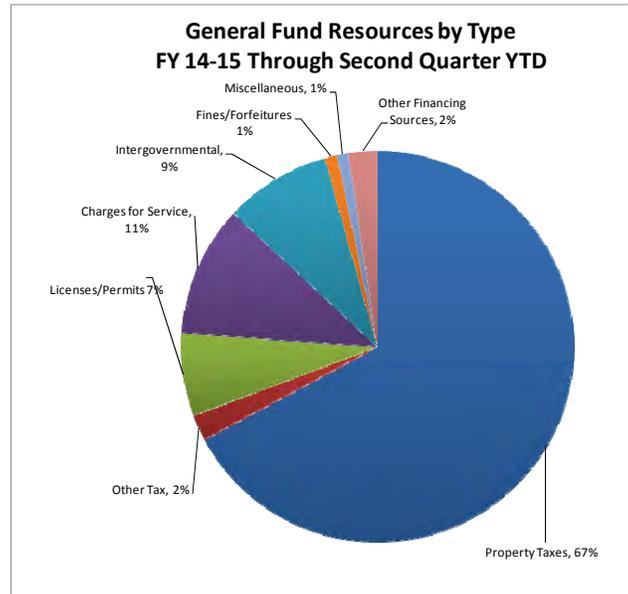
adopted levels. As such, current estimates are for the General Fund to end FY 14-15 with a higher positive bottom line than projected at time of Budget Adoption. Comcast and HP appeals are still ongoing and the County has advised the City of approximately \$100,000 in holdbacks for possible future HP interest refunds should the award decision prevail, which will reduce the revenue amounts turned over to the City for permanent rate, local option and debt service levies. The Q2 ending budgetary fund balance above is currently reflective of several revisions subsequent to adoption, such as removal of an interfund loan no longer needed to balance the Fund; a reduction in the 2014 FFC obligation interest payment as a result of final issuance value; and identifying additional reserve balances based on finalization of the FY 13-14 CAFR.

The **resources** pie chart, to the right, graphically illustrates the YTD proportions of all resources supporting General Fund services. Property taxes are exceeding target at approximately 67% of the total resources received YTD and are anticipated to be at least 56% of the total General Fund revenues by June 30, 2015.

The **expenditures** pie chart shows the distribution of General Fund expenditures by department through the second quarter. The public safety departments (Fire and Police) account for 59% of fund operating expenditures; while other operations such as library, parks, recreation, economic development, planning, code enforcement, and municipal court make up the remaining 41% of expenditures.

Comparing year-to-year expenditures in this Fund (table on page 2) demonstrates that FY14-15 spending is closely aligned with FY13-14 as a percentage of budget, but higher as a whole in FY14-15. Some notable increases by department include:

- Fire’s purchase of a new aerial equipped engine, along with increased personnel service costs due to retirement cashouts and use of over-time for conflagrations;
- Library’s personnel services are trending higher due to restoration of Sunday hours, funded by the 2013 LOL;
- Police’s total expenditures are up 6% from last year due to implementation of a contractual 2% COLA plus overtime running higher than it has in recent years to back-fill for vacancies, including the new levy positions not yet hired; and
- Parks & Recreation (P&R) saw a 12% increase in non-personnel services due partly to the \$36,000 payment for annual Art Center support, which was formerly accounted for in the non-departmental budget, as well as for expenditures incurred as a result of an increased number of specialty summer camps.



ATTACHMENT B



GOVERNMENT  
PORTFOLIO  
ADVISORS

Approved Broker/Dealer List

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Bank of America Merrill

Bank of Oklahoma

Citigroup Global Markets Inc.

Deutsche Bank Securities Inc.

Daiwa Capital Markets

Goldman Sachs & Co.

Intl FCStone Partners LP, Formerly GX Clarke

JP Morgan Securities Inc.

Key Bank

Mesirow

Morgan Stanley

Multi Bank Securities

Nomura

Piper Jaffray

Raymond James

RBC Capital Markets

R.W. Baird

UBS Securities LLC

Wells Fargo Securities

**MEMORANDUM**

Feb. 25, 2015

TO: Administrative Services Committee

FROM: Janet Chenard, Interim Finance Director

SUBJECT: Annual Financial Policies Review

**I. Issue**

To complete the annual review of the City Council's Financial Policies.

**II. Background**

The City Council's Financial Policies have been in place since 1989. They are reviewed annually to help inform the budget process, along with other financial management practices. Extensive changes have been made in the last several years to the Fund Balance, General Fund and the Investment Policy sections, so those require little updating this year.

In recent years the City has needed to use contingency appropriations for Risk Management more frequently, based on either higher than projected workers' compensation claims or higher property/liability premiums and self-insurance spending for deductibles.

Additionally, when Finance Department staff issued the City's 2012 and 2014 full faith and credit bonds, staff recognized that additional focus on the Debt section of Financial Policies was necessary to be more explicit with regard to SEC/MSRB rules on disclosure.

As a result, these two areas were the focus for this year's review and updates.

**III. Discussion**

The only recommended significant changes in Financial Policies are in those areas noted above. The recommended changes are shown in a redline/strikeout of the full policy (Attachment A, and in particular see policy sections 10-6 and 10-7). Also attached for the City Council's information is the Administrative Procedure on Post-Issuance Debt Compliance to provide background on the new reference in Financial Policies (Attachment B).

The fundamental issues staff is attempting to address with the changes incorporated in this update include:

- In the Risk Management Fund, what is an appropriate level for, and rate at which, the catastrophic reserve and unappropriated fund balance should be established and rebuilt when used?
  - In the case of a true catastrophe such as an earthquake, major fire or flood, etc., the \$500,000 established reserve will likely not make a dent in the total costs to restore order to City operations. However, it is a substantial enough set aside, when combined with other resources such as the General Fund Fund Balance Reserve, to help bridge the gap until restorative funding such as insurance proceeds can be secured.
  - In recent years annual premiums have increased significantly, and self-insurance costs (where the City is responsible for the first \$100,000 of deductible for tort/liability and \$10,000 for property related claims) are much more frequently and heavily drawn on.

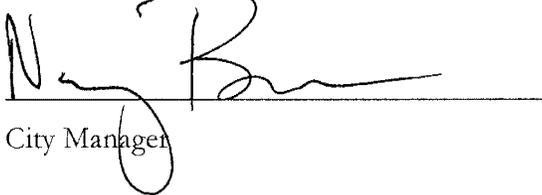
- In order to address the more frequent demand on contingencies, but not unduly increase the City's risk or costs for departments to provide their services, staff recommends that the policy be changed to allow for up to a two-year period to rebuild the catastrophic reserve when contingencies are needed, counter-balanced by a higher targeted ending fund balance of \$60,000 (vs. the current \$40,000 target) for the budget year under development.
- City staff is responsible to meet all post- issuance compliance reporting for debt. Over the last several years, federal agencies and the Governmental Accounting Standards Board have increased the requirements for post issuance disclosures. At the federal level, compliance issues have extended from the Securities and Exchange Commission to also now include the Municipal Securities Rulemaking Board (MSRB) which has been expanding the list of potential compliance issues that are required to be reported along with when and how those reports must be filed.
  - The City has long had a debt policy addressing the City's legal obligations and best practices with regard to debt management. In 2014, the MSRB introduced its Municipalities Continuing Disclosure Cooperation (MCDC) initiative along with writing standards for municipal advisors, underwriters and bond counsel, to help strengthen documentation and ensure bond buyers have complete information about an issuer prior to making a purchase. The City's Bond Counsel has recommended implementing a formalized, detailed guideline for staff on post-issuance compliance; that Administrative Procedure is included as Attachment B for your reference.

There are some minor edits in the policies to make them more readable in the newly approved format.

#### IV. Requested Action

Staff requests the Administrative Services Committee review the recommended amendments to the Financial Policies, clarify as needed, and then recommend the City Council adopt updated Financial Policies.

Review and Concur:



City Manager

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10</p> <p><b>Financial Policies</b></p>	
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**Policy:**

The City Council's Financial Policies serve to:

- ❖ protect the policy making ability of the City Council by ensuring that important policy decisions are not controlled by financial problems or emergencies.
- ❖ enhance the policy making ability of the City Council by providing accurate information on program costs.
- ❖ assist sound management of the City by providing accurate and timely information to the City Council and public on the City's financial condition.
- ❖ provide sound principles, reports and analyses to guide the important decisions of the City Council and of management which have significant fiscal impact.
- ❖ set forth operational principles which minimize the cost of government and financial risk, and safeguard the City's assets.
- ❖ employ revenue policies which prevent undue or unbalanced reliance on certain revenues, which distribute the costs of municipal services fairly, and which provide adequate funds to operate desired programs.
- ❖ provide adequate resources to operate and maintain essential public facilities and the City's infrastructure.
- ❖ protect and enhance the City's credit rating and prevent default on any debt issue of the City.
- ❖ ensure the legal use of all City funds through a sound system of administrative policies and internal controls.

**Purpose:**

To underscore the responsibility of the City of Corvallis to its citizens for the long-term care of public funds and wise management of municipal finances while providing adequate funding for the services desired to achieve a sense of well-being and safety by the public and maintaining the community's public facilities and infrastructure to enhance the long-term livability and economic vitality of Corvallis.

**Scope:**

Municipal financial operations have a wide variety of oversight or standard setting agencies, including multiple departments within both State and Federal governments, the Securities and Exchange Commission, and the Governmental Accounting Standards Board. The City of Corvallis manages public funds within all of these oversight agency requirements. These financial management policies, designed to ensure the fiscal stability of the City of Corvallis municipal corporation, provide guidance in financial management when oversight agencies are otherwise silent or to reiterate best practices that may be codified by another entity. The City Council's Financial Policies have been reviewed and updated each year since they were first adopted to ensure the policy direction is current.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10</p> <p><b>Financial Policies</b></p>	
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**Goals:**

To achieve and maintain the goals outlined in these policies, the Finance Department will conduct an annual analysis of projected financial condition and key financial indicators. This budget capacity analysis shall be used to inform the next budget development process.

It is the focus of this analysis to:

- A. identify the areas where the city is already reasonably strong in terms of protecting its financial condition;
- B. identify existing or emerging problems in revenue sources, management practices, infrastructure conditions, and future funding needs;
- C. forecast expenditures and revenues for the next three to seven years, with consideration given to such external factors as state and federal actions, the municipal bond market, management options being explored and used by other local governments; and
- D. review internal management actions taken during the last budget cycle.

Financial Policies 10.1 through 10.9 are attached and together define the complete Financial Policies of the City Council.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10-1</p> <p><b>Financial Policies – Fund Balance</b></p>	
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**Policy:** This policy is designed to provide guidance for maintaining an ending fund balance that is adequate to manage risk while maximizing the services provided to citizens.

The budgetary ending fund balance describes the net financial assets of governmental funds; in lay terms it represents the net revenues in excess of expenditures since the fund's inception. Actual fund balances for each fund shall be reported in the Comprehensive Annual Financial Report, issued as of June 30 of each fiscal year. Budgetary fund balances shall be reported in the annual budget, and shall be projected for each operating fund as part of the financial planning process to prepare the budget each year.

**Purpose:** Fund balance is used to provide stable resources for times when service levels might otherwise be impacted by taxes or fees that temporarily underperform, or to cover one-time unexpected expenditures. Maintaining a positive ending fund balance is a best financial management practice, and is important to maintain the City's credit rating, and to meet state law requirements for no deficit spending.

**Scope:** Budgetary fund balance is a critical component of the City's financial management policies. Large ending fund balance targets may be viewed as reducing resources that could be used to provide direct services to citizens; small ending balances may be viewed as leaving the City open to too much risk from emergencies or temporary economic downturns and may result in downgrades to the City's credit rating that would increase the cost of borrowing. Residents' sense of well-being is enhanced when the City is able to provide a consistent level of service from year-to-year.

**Guidelines:** General Fund – Budgetary Fund Balance for Financial Planning Purposes

1. The City Council has established the fund balance reserve target for the General Fund to total three months of payroll expenses.
2. The City Council shall appropriate 10% of the target fund balance amount each fiscal year as a contingency to be used for unanticipated expenditures such as costs associated with a response to a disaster, or to meet unanticipated increases in service delivery costs. Use of the contingency is expected to be infrequent. The City Council must authorize expenditure of any contingencies via a resolution.
3. The City Manager will review the City's financial status each year and develop a budget process that is designed to meet Oregon Local Budget Law requirements, taking into account the City's projected financial status for the budget year, including:
  - a. the current budgetary fund balance;
  - b. cash flow requirements within the fund to support expenditures, including up to three months of payroll costs;

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10-1</p> <p><b>Financial Policies – Fund Balance</b></p>	
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- c. future capital needs;
  - d. significant revenue and expenditure trends including the HNA;
  - e. susceptibility of the fund's operations to emergency or unanticipated expenditures;
  - f. credit worthiness and capacity to support debt service requirements and covenants;
  - g. legal or regulatory requirements affecting revenues, expenditures, and fund balances;
  - h. reliability of outside revenues; and
  - i. any other factors pertinent to the fund's operations.
4. Should the projected ending fund balance reserve for the budget year be lower than the City Council's target, the following strategy will be implemented:
- a. For times when the fund balance reserve is lower than the target as the result of structural/systemic changes, the fund balance shall be re-built over a period of no more than:
    - i. five years if the fund balance reserve is less than 50 percent of the target. The balance shall be re-built to achieve an ending fund balance of no less than 10 percent of the target in the first year; 25 percent in the second year; 45 percent in the third year; 70 percent in the fourth year; and 100 percent in the fifth year. This strategy is specifically designed to allow for consideration/development of a new revenue source prior to significant service reductions taking effect should the City Council wish to consider revenue alternatives.
    - ii. three years if the fund balance reserve is between 50 percent and 100 percent of the target. The balance shall be rebuilt to achieve an ending fund balance of no less than 60 percent at the end of the first year; 75 percent at the end of the second year, and 100% at the end of the third year.
  - b. For times when the fund balance reserve is lower than the target as the result of short-term poor experience (i.e., costs to respond to a natural disaster; use of contingencies for unanticipated expenditures), the City Manager shall recommend a strategy for re-building the fund balance reserve taking into account the following criteria:
    - i. the cause of the poor experience;
    - ii. the City's ability to control/change the causing factor;
    - iii. the impact to services to achieve an immediate re-build of fund balance;
    - iv. the likelihood the causing factor will end and revenues/expenditures will return to normal levels within one year; and
    - v. the likely amount of time required to re-build the fund balance if no additional changes in services/revenues occurred and/or one-year is not a viable time frame for proposed solutions.
5. Should the projected ending fund balance be above the target, the City Manager will make a recommendation to the City Council whether to reserve those monies above the target for:

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10-1</p> <p><b>Financial Policies – Fund Balance</b></p>	
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- a. one time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs;
- b. undesignated assigned or committed balances for future basic operations;
- c. other one-time costs; and/or
- d. ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections of revenue and expenditures.

Appropriate Budgetary Fund Balance – all other funds

1. Each operating fund shall have a positive budgetary ending fund balance for the budget year under discussion.
2. The Finance Director shall recommend the appropriate ending budgetary fund balance for each fund as part of the budget development process. The Finance Director shall take into account the following factors:
  - a. the current budgetary fund balance;
  - b. cash flow requirements within the fund to support expenditures, including up to three months of payroll costs;
  - c. future capital needs;
  - d. significant revenue and expenditure trends including the HNA;
  - e. relative rate stability from year to year for enterprise funds;
  - f. susceptibility of the fund's operations to emergency or unanticipated expenditures;
  - g. credit worthiness and capacity to support debt service requirements and covenants;
  - h. legal or regulatory requirements affecting revenues, expenditures, and fund balances;
  - i. reliability of outside revenues; and
  - j. any other factors pertinent to that fund's operations.
3. The minimum fund balance targets for any given non-property tax fund shall be no less than five percent of current revenue.

Ending Budgetary Fund Balance Below Recommended – All Other Funds

If the annual budget is recommended by the Budget Commission and accepted by the City Council to be adopted with a budgetary fund balance below either the minimum or the recommended ending budgetary fund balance in any fund, the budgetary ending fund balance for the then current fiscal year will be recalculated as soon as the audit work for the prior fiscal year is complete. If at that point, the audited ending fund balance contributes to a budgetary fund balance which is lower than this policy would dictate, staff shall develop a plan for City Council consideration through the Administrative Services Committee that addresses the shortfall.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10-1</p> <p><b>Financial Policies – Fund Balance</b></p>	
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Ending Budgetary Fund Balance Above Recommended

In the event the ending budgetary fund balance is higher than either the minimum or recommended level, the difference may be used to fund the following activities:

1. one time capital expenditures or reserves for future capital expenditures which do not significantly increase ongoing City costs;
2. undesignated assigned or committed balances for future basic operations;
3. other one-time costs; and/or
4. ongoing or new City programs, provided such action is considered in the context of Council approved multi-year projections of revenue and expenditures.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 2</p> <p><b>Financial Policies – Revenue</b></p>	
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**Purpose:** To underscore the responsibility of the City of Corvallis to its citizens for the long-term care of public funds and wise management of municipal finances while providing adequate funding for the services desired to achieve a sense of well-being and safety. These policies provide direction in the management and oversight of existing revenue sources and for the development of new revenue sources.

**Scope:** A significant portion of the City's revenues come from taxes, charges for service and fees. Some of these revenue sources are governed by the Oregon Constitution/Statutes, federal law, or regulations promulgated by a state, federal, or other agency; others are assessed solely through the City's home rule authority. Revenues are critical to the City's financial operations as they provide the resources necessary to provide services at the level the community desires.

However, the City Council also recognizes that the majority of the revenue received by the City comes from its own citizens and the ability to pay increasing amounts may make Corvallis less livable, especially for low income residents. Revenue decisions are complex and must take into account a variety of factors. The Revenue Policies are designed to provide guidance to staff and the City Council as new revenue sources or rate increases for existing revenues are considered.

**Guidelines:** Revenue Diversity and Stability – The City will strive to maintain a diversified and stable revenue system to shelter the government from short run fluctuations in any one revenue source and ensure its ability to provide ongoing service. In particular, the City will seek alternatives to the property tax for general government services.

Restricted Revenues -- Restricted revenue shall only be used for the purposes legally permissible and in a fiscally responsible manner. Programs and services funded by restricted revenue will be clearly designated and accounted for as such.

Capital Improvement Funding -- Revenue for capital improvements shall be used to finance only those capital improvements identified in the funding plan (i.e., bond or grant funded projects) that are consistent with the capital improvement program and local government priorities, and where the operating and maintenance costs have been included in operating budget forecasts. Revenue restricted for specific purposes will be expended consistent with those restrictions.

One-time Revenue -- One-time revenue includes fund balances and grants or other sources which has a specific time limit and/or reason for expenditure. One-time revenue will be used for one-time expenses whenever possible; in some cases one-time revenue may be used for costs the City would have incurred for a

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 2</p> <p><b>Financial Policies – Revenue</b></p>	
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program or service, regardless of the receipt of the one-time revenue. If one-time revenue is considered for ongoing expenditures (such as adding staff) the Budget Commission or City Council will balance the need for the additional ongoing expenditures with the on-going ability to pay prior to approving the program.

Unpredictable Revenue -- Unpredictable revenue, which includes development related revenue such as Systems Development Charges (SDC), Public Improvement by Private Contractor fees, Development Review, Plan Review and Inspection Permit revenue, will be closely monitored through the year. Capital projects to be constructed with SDC monies will not be initiated until SDC revenue is available or another financing alternative is developed.

Revenue Monitoring -- Revenues will be monitored monthly for performance compared to both the annual budget and the anticipated timing of revenue receipts. Operations funded partially or wholly from unpredictable revenue will be monitored monthly and mitigating action will be taken if revenues are not received as expected.

Collections -- The City shall manage its revenue collections through a policy that actively pursues collection of all revenues owed to the City.

Charges for Services -- Fees and charges for service are assessed to specific users where the user pays all or a portion of the costs to provide the service. When assessed as a fee, the charge generally grants the payer permission or a license to do a specific activity (i.e., franchise fees authorize use of the public right-of-way; a liquor license fee authorizes the license holder to sell liquor). When assessed as a charge for service, the charge is for a specific service, directly used by the payer (i.e., the admission fee at the swimming pool is only assessed to the person going swimming).

1. Fees and charges other than those identified elsewhere in City Council policy or via Corvallis Municipal Code will use the following criteria to determine the ratio of cost recovery:
  - a. Whether the person paying the fee can avoid it;
  - b. Whether the program supported by the fee is designed to benefit the entire community or only a small segment of the population;
  - c. Whether the fee is set high or low to incentivize something (i.e., change behavior);
  - d. Whether the fee should be earmarked for a specific use or should be treated as a general revenue available for operations;
  - e. Whether there are extenuating circumstances where the Council believes the fee should not cover all of the costs associated with the service; and
  - f. Whether the fee costs less to collect/administer than the revenue it brings in.
2. Fees and charges are reviewed annually, and are updated via Council action when necessary. A revenue manual listing all such fees and charges of the City shall be maintained by the Finance Department and updated concurrent with the review.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 2</p> <p><b>Financial Policies – Revenue</b></p>	
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3. A fee shall be charged for any service that benefits limited interests within the community, except for basic, unavoidable human needs type services provided to persons with limited ability to pay.
4. Historically, the City Council has provided very limited tax and fee exemptions; rather, the City Council has elected to use General Fund monies to pay the fees/charges for non-profit entities that request exemptions when the cause matches the City's goals.

Systems Development Charges (SDC) – SDC rates are set via resolution and are designed to cover the costs of infrastructure necessary to provide services for future growth. The list of projects eligible for SDC funding shall be updated when facility plans are updated or amended, or when a project not listed in a facility plan is identified and will provide additional capacity to serve growth. The overall SDC program methodology and population service scenario shall be reviewed approximately every ten years.

#### PROPERTY TAXES

The City levies property taxes for operations and for general obligation debt service in compliance with the Oregon Constitution and Oregon Revised Statutes. The City has a permanent tax rate of \$5.1067 per \$1,000 of assessed value; the City may have a local option property tax levy for a limited period of time. Revenue for a local option levy will be accounted for according to the ballot language for the levy. Revenue from property taxes levied for general obligation debt service shall be for specific series of debt, levied and accounted for in accordance with state legal requirements. Revenue from the City's permanent tax rate shall be accounted for in the General Fund.

#### UTILITY FEES (WATER, WASTEWATER, STORM WATER)

- A. Utility Fee Basis -- Utility user charges for each of the three City utilities will be based on the total cost of providing the service (i.e., set to fully support the total direct, indirect, and capital costs) and are established so that the operating revenues of each utility are at least equal to its operating expenditures, reserves, debt coverage and annual debt service obligations, and planned replacement of the utility's facilities.
- B. Annual Rate Review -- Staff shall conduct an annual comprehensive rate review each fall for the Water, Wastewater and Storm Water funds for Council review. Rate increases will be targeted for implementation in February. Every effort shall be made to index/limit rate increases for the entire utility bill (water, wastewater, and storm water) to the rate of inflation (estimated at 2% to 3%) but not more than 7% in any one year unless federal or state mandate, judgment arising out of litigation, or Council approved policy needs dictate otherwise.
- C. Rate Adoption -- Utility rates will be adopted by ordinance and will be recorded in the Corvallis Municipal Code.
- D. Franchise Fees -- The City's Water, Wastewater, and Storm Water utilities will pay a franchise fee to the City's General Fund to compensate for the use

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 2</p> <p><b>Financial Policies – Revenue</b></p>	
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of the public right-of-way. The franchise fee will be equal to 5% of the utility's gross operating revenue each year, net of interest, intergovernmental monies, miscellaneous water service fees, permit fees, SDCs, and turn-on service fees.

### PARKS AND RECREATION DEPARTMENT FEES

- A. Cost Recovery -- Parks and Recreation services are funded through a combination of user fees, property taxes, grants, and donations. Fees and charges shall be assessed in an equitable manner in accordance with the following fee and charge assessment schedule. Through a special initiative, services that provide recreational opportunities for populations with the fewest recreational alternatives (youth, limited income, senior adults, and families) may be more heavily supported by grants, donations, or property taxes than user fees to ensure that the population is well served by Parks & Recreation programs. Percentages shall be considered as guidelines; however, special circumstances, the nature and cost of each program, and persons to be served should be taken into consideration.
- B. Fee Model -- the following lists represent all categories of services currently provided or those which may be provided in the future by the Parks & Recreation Department. The model is based upon the degree of benefit to the community (Tier 1 -- mostly a community benefit) or individual (Tier 5 -- mostly an individual benefit) of the service provided, the values of the Corvallis community, and the vision and mission of the Parks & Recreation Department. This model and policy form the basis for setting fees and charges.
  1. Revenue positive cost recovery (Tier 5 services are targeted to recover a minimum of 200 percent of direct costs):
    - a. concession/vending
    - b. merchandise for resale
    - c. private/semi-private lesson
    - d. rentals – private/commercial
    - e. long-term leases
    - f. equipment rentals
    - g. trips
    - h. organized parties
    - i. drop-in childcare/babysitting
    - j. leased services – private/commercial
    - k. permitted services
  2. Totally fee supported with no tax investment (tier 4 services are targeted to recover a minimum of 100 percent of direct costs, and some of these services may be appropriate for use of alternative funding sources such as grants, donations, and use of volunteers):
    - a. classes and programs – intermediate/advanced
    - b. leased services – non-profit/governmental agency
    - c. preschool
    - d. social clubs

 <p><b>CORVALLIS</b> ENHANCING COMMUNITY LIVABILITY</p>	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 2</p> <p><b>Financial Policies – Revenue</b></p>	 <p><b>CORVALLIS</b> ENHANCING COMMUNITY LIVABILITY</p>
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3. Primarily fee supported with little or no tax investment (tier 3 services are targeted to recover a minimum of 90 percent of direct costs, and some of these services may be appropriate for use of alternative funding sources such as grants, donations, and use of volunteers):
  - a. health services, wellness clinics, and therapeutic recreation
  - b. classes and programs – beginning/multi-ability
  - c. tournaments and leagues
  - d. rentals – non-profit/governmental agency
  - e. specialized events/activities
  - f. camps/after school care
  - g. leased services – affiliates
  - h. work study/internship/community service program
4. Partial tax investment with minimal to partial fee support (tier 2 services are targeted to recover a minimum of 45 percent of direct costs, and many of these services may be appropriate for use of alternative funding sources such as grants, donations and use of volunteers):
  - a. life/safety classes
  - b. rentals – affiliates
  - c. supervised park/facility
  - d. community-wide events
  - e. volunteer program
5. Full tax investment with little or no fee support (tier 1 services are targeted to recover zero percent of direct costs, although some of these services may be appropriate for use of alternative funding sources such as grants, donations, and volunteers):
  - a. non-supervised park/facility
  - b. inclusionary services
  - c. support services
- C. Setting Fees -- The Parks & Recreation Department Director shall set fees for programs and services in compliance with the targets listed above. Fees shall be adjusted during the course of each year as needed to ensure the cost recovery targets are achieved. The following pricing strategies will be used by the Parks & Recreation Director in setting fees:
  1. Market pricing: a fee based on demand for a service or facility or what the target market is willing to pay for a service. One consideration for establishing a market fee is determined by identifying all providers of identical service (i.e., private sector providers, municipalities), and setting the highest fee. Another consideration is setting the fee at the highest level the market will bear.
  2. Competitive pricing: a fee based on what similar service providers or close proximity competitors are charging for service. One consideration for establishing a competitive fee is determined by identifying all providers of an identical service (i.e., private sector providers, municipalities), and setting the mid-point or lowest fee.
  3. Cost recovery pricing: a fee based on cost recovery goals within market pricing ranges.
- D. Fee Review -- The Park and Recreation Department shall conduct an annual comprehensive review of cost recovery targets in compliance with these

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 2</p> <p><b>Financial Policies – Revenue</b></p>	
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policy targets; this review will be forwarded to the Parks, Natural Areas and Recreation Board which will forward their comments to the City Council via the Human Services Committee.

- E. Use of Volunteers -- Through an aggressive volunteer recruitment program, the Parks and Recreation Department shall seek to minimize the amount required for full tax investment with little to no fee support (tier 1 services) and partial tax investment with minimal to partial fee support (tier 2 services).
- F. Alternate Funding Sources -- Solicitation of funds through donations, fund raising events, nontraditional sources, and various other modes shall be encouraged by the Parks, Natural Areas and Recreation Board and other advisory committees. Funds collected for any special purpose shall be earmarked for that purpose.

### AMBULANCE FEES

It is the intent of the City to provide responsive, efficient and self funded emergency medical services as the Benton County designated service provider to the Benton County Ambulance Service Area, including all residents of the City.

Rate Changes -- Staff shall review ambulance rates annually no later than February 28 to ensure the rates reflect changes in the direct costs of service. In reviewing rates, staff will consider the historic and projected costs of service, service demands, changes in fixed and variable costs, market rates, and changes in service requirements or mandates. The City shall notify Benton County of proposed fee increases or decreases at the beginning of the City's formal budget review process.

1. Proposed rate changes will be submitted to the City Council via the Administrative Services Committee for review and recommendation to the full Council no later than April 1 of each year. If no rate change is recommended, staff will note the fact in a Council Report.
2. The Council shall adopt rate adjustments by resolution. Following Council adoption, the new rates will go into effect by July 1 of each fiscal year.
3. Notification will be issued to the public 30 days prior to the July 1 deadline. Customers will be notified of rate changes via advertisements in the local newspaper.

Special Rate Reviews -- If, at any time during the fiscal year, estimated costs of service exceed available revenue, the City Manager may conduct a special rate review. In conducting such reviews the City Manager would follow the above procedures. In this instance, rate adjustments could take place at any time within the fiscal year, with 30 days' public notice.

### GRANTS

Grant Opportunities -- The City shall aggressively pursue grant opportunities; however, before accepting grants, the City will consider the current and future implications of accepting the monies.



## City of Corvallis

Financial Policies - Council Policy

Policy # 10 - 2

### Financial Policies – Revenue



Federal Funds -- Federal funds shall be actively sought by the City. The City will use these funds to further the applicable national program goal. Because federal funds are not a guaranteed revenue source and are intended for a specific purpose, they will not be relied upon as an alternative source of capital improvement funds unless the federal grant is specifically for capital projects. Use of federal funds shall support City goals and services.

Grant Review -- In reviewing grants the department director and Finance Director shall evaluate each grant offer and make their recommendation to the City Manager after considering:

1. the amount of the matching funds required;
2. in kind services that are to be provided;
3. length of grant and consequential disposition of service (i.e., is the City obliged to continue the service after the grant has ended?); and,
4. the related expenditures including administration, record keeping, and auditing expenditures.

Single Audit -- The annual audit by the City's independent auditors will include all required audit procedures for grant compliance as specified in the federal government's Office of Management and Budget OMB Circular A-133.

### GIFTS, DONATIONS AND BEQUESTS

Use of Gifts, Donations & Bequests -- Gifts, donations and/or bequests given to, and accepted by, the City for the use of any of its departments or divisions shall be used solely for the purpose intended by the donor. Unrestricted gifts will be expended on the recommendation of the related advisory board.

Evaluation -- Gifts, donations, and bequests will be evaluated to determine what, if any, obligations are to be placed upon the City. Gifts, donations, and bequests will be considered as "over and above" basic City appropriations unless the gift, donation or bequest is for an already planned and budgeted service or program.

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**Purpose:** To provide direction for developing the annual budget, monitoring the City's financial status throughout the year, and ensuring that the City's monies are expended to provide services to citizens.

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**Scope:** The City expends a significant amount of money each year to provide services that are important to citizen's sense of well being and safety and to improve the livability of the community. The largest portion of expenditures is for the operating costs of the organization. These costs include all of the salaries/wages and related benefits for City staff, along with materials, services and capital outlays necessary to perform the basic functions of the City. Additional costs associated with capital projects (infrastructure investments) and debt service are part of the annual budget, based on specific plans for both.

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**Guidelines:**

OPERATING BUDGET PAY AS YOU GO

A. Pay-As-You-Go -- The City shall attempt to conduct its operations from existing or foreseeable revenue sources. Achieving pay as you go requires the following practices:

1. current direct and indirect costs for operations and maintenance will be controlled and will be funded with current revenues, and
2. revenue and expenditure forecasts will be prepared annually for all operating funds prior to budget discussions.

B. Cost Allocation Plan -- The Finance Director shall prepare a full cost allocation plan triennially to provide accurate, complete estimates of indirect service costs. The plan will be updated annually during budget development.

C. Mandated Costs -- Costs attributable to mandates of other government agencies shall be included in the annual budget.

BUDGET BALANCE

The City Manager will prepare a budget for each fund each year where resources on a modified accrual basis either equal or exceed all expenditures in compliance with Oregon Administrative Rule 150-294.352(1)-(B)

- A. Resources available include all revenue anticipated in the budget year, including taxes, fees, charges for service, fines, intergovernmental payments, miscellaneous revenue, transfers, other financing sources, expendable reserves, and beginning fund balances.
- B. Expenditures include all planned expenditures for operations, inter-fund transfers, capital budget, debt service, and contingencies.

BUDGET PERFORMANCE REPORTING

- A. Quarterly Reports -- The Finance Director shall submit a Quarterly Operating Report (QOR) to the Budget Commission within 45 days of the close of the fiscal quarter. The QOR will be published on the City's web site for public

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 3</p> <p><b>Financial Policies – Expenditures</b></p>	
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review. The QOR will be reviewed by the Administrative Services Committee and be accepted by the City Council. At a minimum, the QOR will include income statements developed on the modified accrual (budgetary) basis for all operating funds of the City, and may include other information such as the status of the City Council's Values and Goals and departmental performance information.

- B. Performance Indicators -- Where practical, the City shall develop and employ performance indicators that are tied to Council values and goals, as well as management objectives, to be included in the budget. Status of the measures will be reported in each QOR.

#### MAINTENANCE, REPAIR & REPLACEMENT

- A. Master Plans -- The City shall maintain master plans for all major infrastructure systems. Master plans provide direction about system needs (such as pipe size and reservoir locations) for predicted population build out of the community. Infrastructure master plans are required for Parks, Transportation, Water Plant, Water Distribution system, Wastewater Plant, Wastewater Collection system, Storm Water system, and the Airport. The master plans shall be adopted by the City Council as amendments to the City's Comprehensive Plan.
- B. Master Plan Projects -- Projects identified via an infrastructure master plan will be scheduled based on the priority of the project as identified in the master plan and will be budgeted in the Capital Improvement Program (CIP) when resources are available to implement the project and the project will result in the acquisition of a new or addition to an existing a capital asset; master plan projects that do not result in capital assets shall be included in the operating budget.
- C. Annual Inventory -- The City will conduct an inventory of all capital assets in conjunction with the annual audit. During the inventory, any excess wear and tear will be noted by staff and used to update replacement plans during the following budget preparation cycle.
- D. Equipment Replacement Plans -- Assets which are not part of a major infrastructure system or buildings and land, including vehicles, computers, and specialized equipment required for normal work (i.e., defibrillators, bullet proof vests), will be tracked by each department with replacement plans made for at least the financial planning period. These schedules will be updated annually in conjunction with the budget process.
- E. Stable Spending plans -- Every effort will be made to develop an equipment replacement schedule that results in a stable annual spending level. If spending levels cannot be stable and would result in a significant dollar amount variance year-over-year, staff will set aside in reserves an amount each year adequate to fully fund the project in the future. If monies are not set aside in reserves due to financial shortfalls:
1. reserves will be re-built within three fiscal years to the level required to meet future replacement plans; or
  2. staff will develop a plan to borrow monies for critical equipment replacement.



## City of Corvallis

Financial Policies - Council Policy

Policy # 10 - 3

### Financial Policies – Expenditures



- F. Equipment Replacement Budgeting -- Equipment to be replaced will be budgeted considering:
1. Age of the asset and its manufacturer's recommended useful life;
  2. Wear and tear on the asset;
  3. Environmental conditions which may shorten or lengthen the useful life of the asset;
  4. The cost/benefit to complete routine maintenance and delay replacement;
  5. Availability of service and/or parts; and
  6. The cost/benefit of early replacement with more efficient and/or less expensive technology.
- G. Facility Maintenance -- The facility maintenance schedule for major maintenance or replacement projects for all City-owned buildings will be updated annually. The primary goal of the plan is to complete maintenance projects prior to system failures that would cause a decrease in service levels to citizens. Criteria for including projects are the same as those identified above in F.
- H. Maintenance Costs from the CIP -- Projects included in the proposed CIP will identify the anticipated operating costs or savings associated with the project. Estimated operating costs from CIP projects will be included in all years of the financial plan for the appropriate fund prior to approval of the CIP by the CIP Commission, Budget Commission or City Council.

### PERSONNEL SERVICES

- A. Compensation -- The City Council has a separate policy on compensation that provides policy direction and guidelines for labor negotiations and for the City Manager as it relates to compensation for exempt employees.
- B. Compensation Budget -- total projected compensation shall be budgeted in compliance with approved bargaining unit agreements. Compensation for exempt employees shall be budgeted in compliance with the City Manager's recommendation for these positions.
- C. Changes in Full Time Equivalents (FTE) --Changes in the FTE shall be identified in the summary financial data in the Budget each year. This summary will include data by department, and a list of positions added, deleted, or approved but unbudgeted for the year.
- D. Vacant Positions -- The City shall not carry vacant budgeted positions for more than one fiscal year without the Department Director identifying a strategy for the position.

### TRANSFERS

- A. General Fund Transfers -- To the maximum extent feasible and appropriate, General Fund transfers to other funds shall be defined as payments intended for the support of specific programs or services. Amounts not needed to support such specific program or service expenditures shall be transferred back to the General Fund, unless Council directs the transfer to be used for other purposes.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 3</p> <p><b>Financial Policies – Expenditures</b></p>	
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- B. Transfer Reconciliation & Cash Flow -- Transfers for specific programs or projects, or to support special operations, should occur on the basis of cash flow needs of the program or service being supported. A reconciliation of actual transfers against budgeted transfers will be included in the year-end audit process.
- C. Advances -- Where it is necessary to make a one-time advance of General Fund monies to another fund, this action shall occur under the following conditions:
1. The advance is reviewed, prior to the transfer of funds, by the Administrative Service Committee.
  2. All excess cash balances in the fund receiving the advance shall be invested for the benefit of the General Fund, if allowed by federal and state law and regulations, as long as the advance is outstanding.
  3. Should the borrowing fund accumulate an unexpected unrestricted balance, this excess shall be used first to repay the advance.
  4. At the time of closing out the fund, assets net of liabilities of the fund equaling the unpaid portion of the advance revert to the General Fund, if allowed by federal, state or local law.
  5. For short term cash deficits in funds other than the General Fund during the course of the year, short term loans are preferred to advances, except in cases where the receiving fund is legally precluded from paying interest on loans, or where loan transactions would be too numerous and costly to be cost effective.

#### CONTINGENCY – NON-GENERAL FUND

- A. Contingency Amount -- To meet emergency conditions, the budget shall provide for an appropriated contingency in each fund other than the General Fund of at least 2% of estimated annual operating revenues. All governmental and enterprise funds shall maintain a contingency. The contingency shall be exclusive of all reserves.
- B. Contingency Use -- Use of the contingency should be infrequent and for unanticipated expenditures such as costs associated with a response to a disaster, or to meet unanticipated increases in service delivery costs. The City Council must authorize expenditure of any contingencies via a resolution.
- C. Contingency in Excess of 2% -- The Finance Director may recommend a contingency in excess of 2% of current revenue in specific funds to address specific needs. When this occurs, the Finance Director will provide the Budget Commission and City Council with information regarding the reasons for the recommendation.
- D. Contingency Below 2% -- Where correction of a fund balance deficit causes the contingency to be budgeted below 2% of operating revenue, a gradual correction of the problem over several years is preferable to a one time jump in rates, or substantial decreases in other expenditure plans.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 4</p> <p><b>Financial Policies – Accounting and Financial Reporting</b></p>	
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**Purpose:** To provide Council leadership for the organization by stating the importance of a system of internal controls to be implemented and maintained to meet the goals of providing accurate and timely financial reports to the community and financial markets.

**Scope:** Best practices state that the City Council must lead the organization’s commitment to excellence in financial management through the adoption of policies stating clear expectations. The City of Corvallis maintains a financial management system that ensures transactions are appropriately recorded, assets are managed for the benefit of the community, and risk of fraud or financial loss is identified and minimized through a set of internal controls designed to manage the risk. The financial markets and other interested parties rely on the City’s annual financial statements to ensure Corvallis bondholders the City’s financial condition will allow the City to continue to make all required debt payments and meet all covenants.

**Guidelines:** INTERNAL CONTROLS

A. Internal Control System -- The City shall establish and maintain a process that is designed to provide reasonable assurance that the City is achieving the following objectives:

1. effective and efficient operations,
2. reliable and accurate financial information,
3. compliance with applicable laws and regulations, and
4. safeguarding assets against unauthorized acquisition, use, or disposition.

B. Annual Audit -- The City shall hire an independent external auditor to perform an annual audit of the financial statements, including tests of the internal controls. It is the City’s objective that the financial statements receive an unqualified opinion, an opinion in which the auditor can state, without reservation, that the financial statements are fairly presented in conformity with Generally Accepted Accounting Principles (GAAP).

FINANCIAL SYSTEM

A. Purpose of the Financial System -- The financial system shall be used as the means of recording and reporting financial transactions in a way that will assist users in assessing the service efforts, costs and accomplishments of the City.

B. Financial System Characteristics -- The City’s accounting and reporting system shall demonstrate the following characteristics:

1. reliability,
2. accuracy,
3. consistency,

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 4</p> <p><b>Financial Policies – Accounting and Financial Reporting</b></p>	
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4. timeliness,
5. efficiency,
6. responsiveness,
7. compliance with legal requirements, and
8. conformance with GAAP.

C. Funds -- The City shall establish and maintain only those funds that are necessary by law and for sound financial administration. The funds shall be structured in a manner consistent with GAAP, to maximize the City's ability to audit, measure and evaluate financial performance. The fund structure will be reviewed annually and the Finance Director will recommend changes to improve compliance with Council policies, financial planning, resource allocation and service delivery will be made to the City Manager at the beginning of the annual budget process. Adding, closing, or making significant changes to a fund shall be done by the City Council by adopting a resolution.

#### EXTERNAL FINANCIAL REPORTING

- A. Comprehensive Annual Financial Report (CAFR) -- The City shall annually prepare and publish, by December 31st of each year, a CAFR in conformity with generally accepted accounting principles. The CAFR shall include but not be limited to:
1. an explanation of the nature of the reporting entity,
  2. the extent of activities conducted by the City,
  3. comparison of actual activity to adopted budget,
  4. an explanation of the City's fiscal capacity,
  5. disclosure of short and long term liabilities of the City,
  6. capital assets reporting,
  7. cash policies and compliance reporting,
  8. accounting policies, controls and management responsibilities, and
  9. all other disclosures required by GAAP.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 5</p> <p><b>Financial Policies – Capital Improvement Program (CIP)</b></p>	
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**Purpose:** To maintain the City's investment in infrastructure, this policy provides direction for the development and implementation of the annual CIP.

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**Scope:** The City has a significant investment in the infrastructure necessary for the general public's use. The infrastructure systems – streets, bikeways and sidewalks, water treatment plants and distribution system, wastewater treatment plants and collection system, storm water conveyance system, airport, parks, recreation facilities, open spaces, and municipal facilities – are important to the general well-being of the community. The City maintains and enhances the infrastructure systems by developing long-term plans and securing the funding necessary to implement the plans. The Capital Improvement Program is developed to advise the community of the plans for maintaining the public investment, and to ensure the resources are available to invest when the community requires them.

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**Guidelines:** CAPITAL IMPROVEMENT PROGRAM

- A. Definition of a Capital Project -- A capital project must:
  1. cost more than \$25,000, and
  2. be a permanent addition to the capital assets of the City, and
  3. purchase land, or
  4. construct a new building, or
  5. remodel or add to an existing building, or
  6. construct/install public infrastructure, or
  7. replace existing infrastructure.
- B. Full Costs Included -- For any project which meets the definition of a capital project, all costs for the project, including design, land or right-of-way acquisition, appraisals, construction, construction management, furnishings, and legal or administrative costs will be included in the project budget.
- C. Five-year CIP -- A five-year Capital Improvement Program (CIP) shall be developed and presented annually by staff to the CIP Commission, reviewed by the Planning Commission for compliance with the comprehensive plan, reviewed by the Budget Commission for compliance with long-term financial plans, and approved by the City Council. This plan shall contain all capital improvements from all funds and departments of the City. The first year of the plan shall constitute the next year's capital budget.
- D. Existing Assets -- A high priority shall be placed on repair or replacement of capital assets when such assets have deteriorated to the point of becoming hazardous, incur high maintenance costs, are negatively affecting property values, and/or are no longer functionally serving their intended purposes.
- E. Construction Standards -- Capital improvements constructed in the City shall be designed and built based on published construction standards which shall be periodically updated by the City Engineer. The construction standards will assure projects are built with an acceptable useful life and minimum maintenance costs.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 5</p> <p><b>Financial Policies – Capital Improvement Program (CIP)</b></p>	
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### CAPITAL IMPROVEMENT MAINTENANCE

- A. Maintenance Standards -- Standards of maintenance to adequately protect the City's capital investments shall be developed and periodically updated. The annual budget will be prepared to meet established maintenance schedules.
- B. Operating Budget Impacts -- Future operating budget impacts for new capital facilities will be analyzed and estimates included in all years of the financial plans as part of considering a proposed capital project.

### CAPITAL IMPROVEMENT FINANCING

- A. Appropriate Funding -- Within the limitation of existing law, various funding sources may be used for capital improvements. When capital projects are proposed, appropriate funding will be identified.
- B. Unspent Funds -- Upon completion of capital projects, the Finance Director shall certify any unspent funds from the project. The most restrictive project revenues shall be used first so that unused funds will have the fewest restrictions on future use. Unspent capital project funds, except bond funds, shall be returned to their original source. If there are unspent funds from a bond issue, those monies will be allocated according to stipulations in the bond indenture. In no case shall projects incur a funding deficit without the express approval of the City Council.
- C. Interest Earnings in the Capital Construction Fund (governmental fund) -- Interest earnings shall be allocated to each project based on the project's proportion of the cash balance in the fund. Projects which have a negative cash balance due to timing of reimbursements of grants or loans will not accrue interest revenue or an interest expense.
  - 1. Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions.
  - 2. Interest earnings not otherwise limited will be considered the most restricted City funds in the project and will be spent first in compliance with section 10.5 on unspent funds.
- D. Interest Earnings in the Proprietary Fund Construction Components -- Interest earnings which are restricted due to the funding source (i.e., grant, bond issue) shall be spent in compliance with those restrictions. All non-restricted interest earnings will be accrued to the operating fund and will be available to spend on either operations or future capital projects.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 – 6</p> <p><b>Financial Policies – Debt</b></p>	
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**Purpose:** To proactively manage the City's existing and future debt issues in compliance with state and federal laws in order to maintain the City's capacity for future debt issues that may be required for infrastructure investment.

**Scope:** The City of Corvallis operates on a pay-as-you go basis for most capital investment, matching resources with appropriate uses. Systems Development Charge revenue is used to fund capital investments that are required to increase the capacity of the City's infrastructure. Operating monies are used to pay for maintenance of existing infrastructure, and as leverage for grant monies to fund projects that may otherwise be unattainable. If necessary for some projects, reserves are built over time, or grants are sought to fund some capital investments. From time-to-time the City plans for a capital improvement project or a significant long-term operating expenditure (such as pension obligations) which is too expensive to finance with cash reserves or which needs to be completed before reserves can be developed. When this occurs, the City borrows monies. The City is conservative in its borrowing practices, and strives to maintain low debt-per-capita ratios when compared to similar sized cities.

**Guidelines:** USE OF DEBT FINANCING

A. Long-term Debt -- The City of Corvallis shall only use long-term debt for capital projects that cannot be financed out of current revenues within the Revenue Policy guidelines for rate increases. Debt financing shall generally be limited to one time capital improvement projects or to leverage a future significant cost the City must bear (such as pension obligations) and only under the following circumstances:

1. when the project's useful life is greater than or equal to the term of the financing;
2. when project revenue or specific resources will be sufficient to service the debt; and,
3. when analysis demonstrates that the debt will smooth or reduce costs over multiple years or the project is expected to benefit the citizens of Corvallis.

B. Use of Debt Financing -- Debt financing shall not be considered appropriate for:

1. Current operating and maintenance expenses (except for issuing short term instruments such as revenue anticipation notes or tax anticipation notes or interfund loans as per State law limitations); and
2. Any recurring purpose (except as indicated above).

C. Tax/Revenue/Bond Anticipation Notes -- Tax and revenue anticipation debt will be retired within the fiscal year issued, and bond anticipation notes will be retired no later than six months after the completion of the project.

D. Short-term Debt -- Debt issued with a final maturity of one year or less from the time of issuance, which is outstanding at the end of the year, will not exceed 5% of net operating revenues (including tax anticipation notes but excluding bond anticipation notes.)

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 – 6</p> <p><b>Financial Policies – Debt</b></p>	
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### LIMITS ON DEBT ISSUANCE

- A. Vote to Issue General Obligation Debt -- General obligation bonds require an affirmative vote prior to issuance. Constitutional limitations require a simple majority of votes for elections in May or November; for all other elections, a simple majority of registered voters must vote in the election, and of those voting a simple majority must vote affirmatively.
- B. Statutory General Obligation Bond Debt Limits -- Oregon Revised Statutes chapters 287 and 288 limit the outstanding general obligation principal indebtedness of the City other than bonds issued for water, sanitary or storm sewers to 3% of the true cash value of the taxable property within the City.
- C. Council Imposed Debt Limits -- The annual general obligation debt service for long-term issues (greater than five years), where the debt service is paid from property tax sources, shall not exceed 15% of the combined operating and capital budgets in the Governmental funds.
- D. ~~Limited Tax General Obligation~~ General Fund Backed Obligations/Bonds -- The outstanding principal debt for Limited Tax General Obligation Bonds (LTGO), Full-Faith and Credit Obligations/Bonds (FFC), non-self-supporting leases, and full faith and credit lease purchases, is limited to 1% of the true cash value of the taxable property in the City. Furthermore, annual debt payments for General Fund supported LTGO and FFC debt shall not exceed 5% of the combined operating and capital budgets in the Governmental Funds.
- E. Revenue Bonds -- Revenue secured debt obligations will be undertaken only after a study of the projected operating, maintenance, debt service and coverage requirements and the impact of these requirements on user rates have been completed. The outcome of the study will be shared with the City Council prior to issuing the debt.

### DEBT ISSUANCE

- A. Timing of Debt Issuance -- The timing for each debt issue in association with the construction schedule will be carefully considered, using the following criteria:
  1. Projected cash flow requirements for the capital project;
  2. Cash reserves on hand to temporarily fund preliminary project expenses;
  3. Spend down schedules identified by the IRS to meet arbitrage limitations; and
  4. Market conditions.
- B. Competitive Sale -- All bonds will be sold at competitive sale unless it is in the City's best interest to sell at a negotiated sale. The City reserves the right to reject any and all bids at a competitive sale and sell the bonds at a negotiated sale if it is in the best interest of the City of Corvallis to do so.
- C. Refunding Bonds -- Refunding or advanced refunding bonds may be authorized by the City Council providing the issuance complies with the rules adopted by the State Treasurer and outlined in Oregon Revised Statutes.
- D. Annual Debt Payment Limits -- To maintain the City's credit rating and expenditure flexibility, the annual debt service payments the City must make



## City of Corvallis

Financial Policies - Council Policy

Policy # 10 – 6

### Financial Policies – Debt



on net direct long term general obligation debt shall not exceed 10% of operating revenue. To achieve this goal, on a per issue basis, the City will structure its debt to pay no less than 33% of the principal on bonds sold during the first half of the repayment term.

- E. Overlapping Debt -- City staff shall endeavor to notify the City Council of the debt issuance plans of the City's overlapping taxing jurisdictions and the possible impact such debt plans may have on the City's debt capacity.
- F. Investment of Bond Proceeds -- Receipt of bond proceeds will be timed to occur in conjunction with construction. However, it is acknowledged that in most cases bond proceeds will not be fully expended as soon as they are received. The City shall invest the proceeds from debt issuance in the legally authorized investment instruments for local governments in Oregon to maximize interest earnings available for the capital project. Prior to choosing an investment instrument, staff will take into consideration projected cash flow of the project and the likelihood that Internal Revenue Service (IRS) spend down targets will be met or exceeded. The investment instrument(s) shall be chosen to maximize interest earnings and minimize any arbitrage penalties which may accrue within the established IRS regulations.

### LEASING

Lease purchase financing shall be considered only when the useful life of the item is equal to or greater than the length of the lease, and a lease purchase is the most economical method of purchasing available. If the item may become technologically obsolete or is likely to require major repair during the lease purchase period, then the item should be either purchased with cash or placed on an operating lease.

### CREDIT RATINGS AGENCY RELATIONSHIP AND COMPLIANCE

- A. Reporting -- The City shall maintain good communication with bond rating agencies about concerning its financial condition. The City will follow a policy of full disclosure on every financial report and bond prospectus.
- B. Compliance with Securities and Exchange Commission (SEC) and Municipal Securities Rulemaking Board (MSRB) Rules -- The City will comply with all aspects of the Securities and Exchange Commission SEC rule 15c2-12 pertaining to secondary market disclosure, and with MSRB regulations regarding maintaining disclosures and professional advisor relationships.
- ~~B.C.~~ Post Issuance Compliance -- City staff will adhere to Administrative Procedure 5.09 which outlines the current compliance requirements and which will be updated anytime the SEC or MSRB change these regulations.

### DEBT MANAGEMENT PLAN

- A. Debt Management Plan Analysis -- A Debt Management Plan shall be staff memo shall be developed and updated prior to the issuance of any additional debt. The Debt Management Plan and shall encompass a review of all debt

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 – 6</p> <p><b>Financial Policies – Debt</b></p>	
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of the City which draws on the same financial resources, including, but not limited to:

1. detail of the sources of funding for all debt;
2. current and future debt capacity analysis;
3. issues to be addressed for sound debt management;
4. a contingency debt plan should any of the funding sources become unavailable in the foreseeable future; and
5. reporting as to the City's compliance with its debt policies.

4.1. Advisors/Counsel – For bonded debt, City staff will work with a contracted Municipal Advisor (MA) and Bond Counsel (BC) to ensure current market knowledge is applied consistently for documentation facilitation, optimizing rates and issuance costs, and other related matters. Staff, the MA and BC must comply with this Debt Policy and the Administrative Procedure for Debt Post-Issuance for implementing this policy. The MA may only act on a non-discretionary basis. Therefore, the MA must present debt recommendations and receive approval to execute such recommendations from the Finance Director, or designee, prior to transacting with other entities as related to City debt issuance.

4.2. Review -- The Administrative Services Committee shall review the above Debt Management Plan Analysis prior to the issuance of new debt and any recommendations made therein.

	<p><b>City of Corvallis</b></p> <p>Financial Policies - Council Policy</p> <p>Policy # 10 - 7</p> <p><b>Financial Policies – Risk Management</b></p>	
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**Purpose:** These policies set forth the over-arching guidance for the City's risk management program which is designed to ~~minimize~~ identify risk of incidents where damage could occur to citizens, employees, or the City's infrastructure or assets. Anticipating, Managing and mitigating these risks is critical to protecting the community's assets and the organization's financial position.

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**Scope:** The City of Corvallis' basic operations have certain risks associated with them, which could have a significant financial impact if the risks were not managed. Risk Management policies are designed to identify and assess the risks, influence variables ~~change factors~~ that can be controlled to reduce risks, ensure that risk is transferred to others when appropriate, and provide insurance coverage to mitigate against losses. The Risk Management program is comprehensive and addresses risks to City employees through appropriate training, and risks to staff and the general public through proactive maintenance and insurance coverage as well as holding adequate reserves for uninsured losses and programs designed to reduce factors associated with claims.

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**Guidelines:** RISK MANAGEMENT REPORT

- A. Annual Report -- The City Manager shall annually prepare a Comprehensive Risk Management Report, including but not limited to:
1. a summary of the past year's risk management claims,
  2. an identification of current and potential liability risks or activities potentially impacting the City's finances,
  3. specific strategies to address the risks identified, and
  4. a summary of the past year's safety and violence in the workplace activities/trainings.

RISK MANAGEMENT PROGRAM

- A. Program -- The City shall implement and maintain a Risk Management program designed to decrease exposure to risk. At a minimum, the program shall include:
1. a safety program that emphasizes reducing risks through training and safe work habits,
  2. an annual examination of the City's insurance program to evaluate how much risk the City should assume, and
  3. other risk management activities, including review of all City contracts with respect to indemnification and insurance provisions.

RISK MANAGEMENT FUND

- A. Purpose -- The Risk Management Fund shall be used to provide for insurance coverage, uninsured losses in excess of deductible amounts, safety program expenses, and prudent reserves, contingencies and fund balances.

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- B. Catastrophic Reserves -- The targeted balance for unappropriated catastrophic reserves shall be \$500,000 each year. Appropriated catastrophic reserves which are drawn down will be rebuilt ~~the following fiscal year~~ within two years, or sooner if practical. Unappropriated catastrophic reserves which are drawn down below the recommended target will be re-built at the rate of a minimum of 33% of the deficit balance per year over three years, or sooner if practical.
- C. Unreserved Fund Balance Target -- The unreserved fund balance target for the Risk Management Fund shall be \$4060,000. Should the ending fund balance drop below \$4060,000 in any fiscal year, it will be re-built the following year. Ending unreserved balances in excess of \$4060,000 will be used as a dividend to departments if the catastrophic reserves are fully funded or can be used as funding for additional expenditures in the safety program as directed by the City Manager and appropriated within the following budget year. If the excess is used as a dividend to departments, the funds will be returned to departments based on the prior year's experience.

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**Purpose:** To minimize risk associated with investing the City’s monies and ensure the availability of cash to meet expenditures, while maximizing earnings opportunities and minimizing idle funds. These policies provide direction for managing the City’s investments.

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**Scope:** The City holds cash balances as part of its operations. The City invests balances in excess of daily needs in a variety of investment instruments as authorized by Oregon Revised Statutes on local government investments. Investing monies has inherent risks; these risks are managed through the application of appropriate risk assessments and diversification, and following prudent rules for investing governmental funds. These policies establish and provide guidelines for the safe and efficient management of City funds, and the purchase and sale of investment instruments.

These investment policies apply to all cash-related assets within the scope of the City’s audited financial statements and held directly by the City. Funds held and invested by trustees or fiscal agents are excluded from these policies; however, such funds are subject to regulations established by the State of Oregon for public funds.

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**Guidelines:** OBJECTIVES  
 The City’s investment objectives are listed below, and can be summarized as primarily concerned with safety, legality and liquidity, with a secondary objective of return:

- A. Safety: Preserve capital and protect investment principal, by implementing diversification and risk management practices;
- B. Legality: Conform with federal, state and other legal requirements,
- C. Liquidity: Maintain sufficient liquidity to meet operating needs by managing cash flow requirements.
- D. Return: Attain a market rate of return throughout budgetary and economic cycles by implementing an investment strategy.

RESPONSIBILITY

- A. Governing Body – The City Council has a fiduciary responsibility for invested City funds. The City Council’s standing Administrative Services Committee (ASC) shall serve as the oversight body. Formal review of this investment policy and investment activity shall be conducted at ASC meetings at least quarterly. On an ad hoc basis, a citizen of the City of proven integrity and business ability may be invited to attend ASC meetings to provide additional, local, unbiased expertise. The City Council, via ASC, will receive reports with sufficient detail to comply with ORS Chapter 294 requirements.
- B. Delegation of Authority - The authority for investing City funds is vested with the City Manager, who, in turn, may designate the Finance Director as Treasurer to manage the day to day operations of the City’s investment

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portfolio, place purchase and sell orders with dealers and financial institutions, and prepare reports as required. The Finance Director may choose to use the services of a professional investment advisor if he/she believes that is most beneficial to the organization.

- C. Investment Adviser -- The City may enter into contracts with third-party investment advisory firms when such services are deemed to be beneficial to the City. The advisor must comply with this Investment Policy and the City Manager's Investment Administrative Procedures for implementing this policy, and may have authority to transact investments on behalf of the City. The advisor may only act on a non-discretionary basis. Therefore, the advisor must present investment recommendations and receive approval to execute the recommendation from the Finance Director, or designee, prior to making buys or sells on behalf of the City. The following items are required minimum criteria for the approved Investment Advisors:
1. The Investment Advisor firm must be registered with the Securities and Exchange Commission (SEC) or licensed by the state of Oregon;
  2. All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be registered representatives with Financial Industry Regulatory Authority (FINRA);
  3. All Investment Advisor firm representatives conducting investment transactions on behalf of the City must be licensed to do business/trades in the state of Oregon;
  4. An engaged Investment Advisor must provide notification within 30 days of any formal investigation or disciplinary action initiated by Federal or State regulators.
  5. Investment Advisor services will be sought through the City's normal competitive procurement process.
- D. Governing Authority -- Funds of the City will be deposited and invested in accordance with statutes, ordinances, and policies governing the City of Corvallis and will be in compliance with the provisions of Oregon Revised Statutes (ORS) 294, and other applicable statutes. Investments will be in accordance with these policies and written administrative procedures. Investment of any tax-exempt borrowing proceeds and of any debt service funds will comply with the relevant provisions of the Internal Revenue Code of 1986, as amended.

#### STANDARDS OF CARE

Investments shall be made with judgment and care – under circumstances then prevailing – which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, as well as the probable income to be derived. Investment decisions shall be made within the objectives outlined in this investment administrative procedure.

The standard of prudence to be used by investment officials shall be the "prudent person," as described above, and shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written

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procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's performance, provided that deviations from expectations are reported in a timely fashion, and appropriate action is taken to control adverse developments.

ADMINISTRATION AND OPERATIONS

A. Safekeeping and Collateralization

Safekeeping Custodial Bank: Investment securities purchased by the City will be delivered by book entry and held in a segregated account for the City's benefit by one financial institution designated as custodian. The purchase and sale of all securities will be on a delivery-versus-payment basis.

Collateralization of Re-purchase Agreements: Re-purchase agreement collateral is limited in maturity to three years by ORS and should be priced according to the adopted policy of the Oregon Investment Council:

United States Treasury Securities	102%
United States Agency Discount and Coupon Securities	102%

The City further limits the allowable collateral to only US Treasury securities and US Agency securities. Mortgage Backed and other securities are not allowed. All re-purchase agreements require a master re-purchase contract with the approved broker dealers.

Collateralization of Certificates of Deposits and Bank Deposits: At a minimum, time deposit open accounts, Certificates of Deposit and savings accounts shall be collateralized through the state collateral pool for any excess over the amount insured by an agency of the United States government in accordance with ORS 295. All depositories must be on the State of Oregon's qualified list. Additional collateral may be required if staff deems increased collateral is beneficial to the protection of the monies under the City's management. The City will report annually to the Oregon State Treasury the financial institutions that are transacting business with the City as required by ORS.

B. Internal Controls

The Finance Director shall maintain a system of written internal controls, which shall be reviewed by the independent auditor, who shall provide an annual review to assure compliance with ORS and the City's policies and procedures. The controls shall be designed to prevent loss of public funds due to fraud, error, misrepresentation, or imprudent actions. The internal controls will be updated at a minimum biennially or as necessitated by system changes.

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### QUALIFIED INSTITUTIONS

The City shall maintain a listing of authorized broker/dealers and financial institutions which are approved for investment purposes. The list will be shared with the ASC when changes are made. Approval of Qualified Institutions can occur in one of the following three circumstances:

- A. Investment Advisor Approved List -- If the City has an Investment Advisor, the Advisor shall provide a list of brokers/dealers which the Advisor has vetted for meeting ORS standards for local government investments.
- B. City-Approved Broker/Dealer List -- If the City does not have an Investment Advisor, the Finance Director may create and maintain a broker/dealer list using the following criteria:
  1. Broker/dealers must have a branch located in Oregon.
  2. The broker/dealer must routinely provide services to public entities in Oregon and be knowledgeable of Oregon governmental investments statutes and the City Council's Investment Policy as well as the City Manager's Investment Administrative Procedures.
  3. Brokers/dealers must complete the Broker/Dealers Questionnaire and Certification.
  4. Broker/dealers must be approved by the City of Corvallis Administrative Services Committee at the next quarterly meeting before conducting investment business with the City.
  5. An updated Broker/Dealer Questionnaire will be mailed to each firm annually and should be completed and returned with audited annual financials. Failure to complete the updated questionnaire in a timely manner will lead to removal from the approved list.
  6. Any broker/dealer that is on the City's authorized list may be removed from said list if the City has not purchased from that broker/dealer during a period of three years.
  7. Any broker/dealer may be removed from the approved list at any time by the Finance Director based upon news or knowledge of inappropriate behavior by said dealer, or for any other reason with which a quorum of Council members concur.
- C. Financial Institution -- The State of Oregon Treasurer's Office maintains a list of all financial institutions for deposits and certificates of deposits, which are approved for local government investment purposes. Any financial institution on the Treasurer's list shall be acceptable for City investment purposes.

### AUTHORIZED AND SUITABLE INVESTMENTS

- A. Legal Investments
  1. All investments of the City shall be made in accordance with Oregon Revised Statutes Chapter 294. Any revisions or extensions of this chapter of the ORS shall be assumed to be part of this Investment Policy immediately upon being enacted, and will be formally incorporated at the next annual update of this policy.

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B. Suitable Investments (Specific Types)

Type	Definition
U. S. Treasury Obligation	Direct Obligations of the United States Treasury whose payment is guaranteed by the United States. (ORS 294.035(3)(a))
Government Sponsored Enterprise or US Agency Obligations	US Government Agencies, Government Sponsored Enterprises (GSE's) Corporations or Instrumentalities of the US Government – Federal Instrumentality Securities include, but are not limited, to Federal National Mortgage Association (FNMA), the Federal Home Loan Mortgage Corporation (FHLMC), Federal Home Loan Banks (FHLB), and the Federal Farm Credit Banks (FFCB). (ORS 294.035(3)(a))
Commercial Paper	Commercial Paper that is rated A1/P1 and has long-term bonds which have a minimum rating of AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing.
Corporate Obligations	Corporate domestic bonds issued by a commercial, industrial, or financial institution registered with the Securities and Exchange Commission. Authorized corporate bonds shall be limited to obligations of the United States dollar-denominated corporations organized and operating within the United States. The debt must be rated at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. A list of approved corporate issuers for purchases will be maintained and updated under the same mechanism as the Broker/Dealer list herein.
Municipal Obligations	Lawfully issued debt obligations of the State of Oregon and its agencies or instrumentalities of the State of Oregon and its political subdivisions that have a AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch. In the case of a split rating, (more than one rating provider), the lowest rating will be used as the criteria for investing. (ORS 294.035(3)(b))
Bankers Acceptance	A short-term credit investment created by a non-financial firm and guaranteed by a qualified financial institution whose long-term letter of credit rating is at least AA- by Standard and Poors or Aa3 by Moody's or AA- by Fitch at the time of purchase. (ORS 294.035(3)(h)(A))

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Type	Definition
Certificates of Deposit/Bank Deposit/Savings Accounts	Time-deposit open accounts, certificates of deposit, and savings accounts in insured institutions as defined in ORS 706.008, in credit unions as defined in ORS 723.006 or in federal credit unions, if the institution or credit union maintains a head office or a branch in this state. (ORS 294.035(3)(d))
Local Government Investment Pool (LGIP)	State Treasurer's local short-term investment fund up to the statutory limit, per ORS 294.810.

C. Investment Parameters

1. Investment Diversification

- a. The City will diversify the portfolio to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions, or maturities. Diversification to avoid undue risk is achieved by varying the type of investment to ensure liquidity, investing in securities from several different financial institutions to reduce the chance of loss, and varying maturity length to ensure availability of funds to meet cash needs.

Issuer Type	Maximum Holdings	Maximum per Issuer
U.S. Treasury Obligation	100%	None
GSE's Agency Securities	100%	FHLB,FFCB, FHLMC, FNMA – 40%, other names – 10%
Commercial Paper	10%	5%
Corporate Bonds	10%	5%
Municipal Bonds	10%	5%
Banker's Acceptance	10%	5%
Certificates of Deposit/Bank Deposit/Savings Accounts	25%	15%
OSTF LGIP Fund	ORS 294 limit	

2. Investment Maturity

- a. The City will not directly invest in securities maturing more than five (5) years from the date of purchase.
- b. The maximum weighted maturity of the total portfolio shall not exceed 18 months. This maximum is established to limit the portfolio to excessive price change exposure.
- c. Liquidity funds will be held in the LGIP or in money market instruments maturing one year and shorter.
- d. Core investment funds will be defined as the funds in excess of liquidity requirements. The investments in this portion of the portfolio will have maturities between one day and five years and will be only invested in higher-quality and liquid securities that meet suitable investment criteria outlined above.

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e. Total Portfolio Maturity Constraints:

Maturity Constraints	Minimum % of Total Portfolio
Under 30 days	10%
Under 1 year	25%
Under 5 years	100%
WAM (weighted average maturity)	1.5 years

- f. Exception to the five-year maturity maximum: Reserve or Capital Improvement Project monies may be invested in securities exceeding five (5) years if the maturities of such investments are made to coincide as nearly as practicable with the expected use of the funds.
- 3. Competitive Selection and Pricing -- The City shall seek competitive pricing when buying or selling investments, and will buy or sell the offer that provides the optimal price for the risk of the term/instrument.
- 4. Securities shall generally be held until maturity with the following exceptions:
  - a. A security with declining credit may be sold early to minimize loss of principal.
  - b. A security exchange that would improve the quality, yield, or target duration in the portfolio.
  - c. Liquidity needs of the portfolio require that the security be sold.
  - d. As needed for S.10.8 Guideline Compliance below.

PROHIBITED INVESTMENTS:

Oregon Revised Statutes allow several other investment types for municipalities that are not appropriate for the City's portfolio and are not included within the scope of these administrative procedures, including: general obligation securities of the states of Idaho and California, share accounts and saving accounts in credit unions for a deferred compensation plan, life insurance and annuity contracts with insurance companies for funding deferred compensation, and trusts for deferred compensation.

- A. The City prohibits mortgage-backed securities in the portfolio.
- B. Securities lending is prohibited in the City's portfolio.
- C. Private Placement or "144A" Securities.

INVESTMENT OF PROCEEDS FROM DEBT ISSUANCE:

- A. Investments of bond proceeds are restricted under bond covenants that may be more restrictive than the investment parameters included in this Policy. Bond proceeds shall be invested in accordance with the parameters of this Policy and the applicable bond covenants and tax laws.
- B. Funds from bond proceeds and amounts held in a bond payment reserve or proceeds fund may be invested pursuant to ORS 294.052. Investments of bond proceeds are typically not invested for re-sale and are maturity matched with outflows. Consequently, surplus funds within the scope of ORS 294.052 are not subject to this Policy's liquidity risk constraints within S.10.6.

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### MONITORING; GUIDELINE MEASUREMENT AND ADHERENCE

- A. Monitoring -- The Finance Director shall routinely monitor the contents of the portfolio, the available markets, and the relative value of competing instruments and will adjust the portfolio accordingly.
- B. Guideline Measurement -- Guideline measurements will be market value of the investments.
- C. Guideline Compliance
  1. If the portfolio falls outside of compliance with adopted investment policy guidelines or is being managed inconsistently with this Policy, the Investment Officer shall bring the portfolio back into compliance in a prudent manner and as soon as prudently feasible.
  2. Violations of portfolio guidelines as a result of transactions; actions to bring the portfolio back into compliance, and reasoning for actions taken to bring the portfolio back into compliance shall be documented and reported to the Administrative Services Committee (ASC).
  3. Due to fluctuations in the aggregate surplus funds balance, maximum percentages for a particular issuer or investment type may be exceeded at a point in time. Securities need not be liquidated to realign the portfolio; however, consideration should be given to this matter when future purchases are made to ensure that appropriate diversification is maintained.
- D. If a corporate bond is downgraded below corporate rating criteria established at purchase, the Finance Director will immediately notify the ASC members of the downgrade and provide an analysis and recommendation. The analysis will be reviewed at the next quarterly ASC meeting to document the decision in the meeting minutes.

### REPORTING REQUIREMENTS

- A. Annual Reports -- The Finance Director shall submit an annual statement certifying compliance with this Investment Policy to the ASC, noting compliance throughout the most recently completed fiscal year. This statement shall be filed as soon as practical, but no later than August 31 of each year.
- B. Quarterly Reports -- The ASC shall at a regular meeting, review the quarterly operating report (QOR) section on the investment portfolio as submitted by the Finance Director reflecting investment activity for each of the immediately preceding three months, using the objectives outlined above. Should the report not be accepted, the report shall be revised accordingly by the Finance Director and resubmitted to the ASC at its next regularly scheduled meeting or sooner if requested.
- C. Monthly Reports -- The Finance Director shall provide a Monthly Investment Report reviewing the compliance with this Investment Policy and providing data on investment instruments being held, as well as any narrative necessary for clarification. The Monthly Investment Report shall include summary information about all investments held in the City's portfolio as of the end of the month, and shall be issued and posted on the City's web site within 21 days after the end of the monthly reporting period.

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**Definitions:**

*Accrual Basis of Accounting* - The basis of accounting under which transactions are recognized when they occur, regardless of the timing of related cash flows.

*Appropriation* - Legal authorization granted by City Council to make expenditures and incur obligations.

*Assessed Value* - The value set by the County assessor on real and personal taxable property as a basis for levying taxes.

*Assessments* - An amount levied against a property for improvements specifically benefiting that property.

*Balanced Budget* - A budget in which the resources are equal to or greater than the requirements in each/every fund.

*Benefits* - Employee benefits mandated by state and federal law, union contracts, and/or Council policy. The most common forms of fringe benefits are pension plans, health and life insurance, vacation, sick and holiday leave, deferred compensation, automobile allowances, disability insurance, and educational and incentive pay.

*Bonds* - A written promise to pay a sum of money (principal or face value) at a future date (maturity date) along with periodic interest paid at a specified percentage of the principal (interest rate). Bonds are typically used to finance long-term capital improvements.

*Budget* - A plan of financial operation, embodying an estimate of proposed expenditures for a given period (typically a fiscal year) and the proposed means of financing them (revenue estimates). Upon approval by the City Council, the budget appropriation resolution is the legal basis for expenditures in the budget year.

*CAFR (Comprehensive Annual Financial Report)* - Prepared at the close of each fiscal year and published no later than December 31 of each year to show the actual audited condition of the City's funds and serves as the official public record of the City's financial status and activities.

*Capital Budget* - A plan of proposed capital expenditures and the means of financing them. The capital budget is usually enacted as part of the complete annual budget which includes both operating and capital outlays. The capital budget should be based on a capital improvement program.

*Capital Improvement Program (CIP)* - A plan for capital expenditures to be incurred each year over a fixed period of several future years, setting forth each capital project, identifying the expected beginning and ending date for each project, the amount to be expended in each year, and the method of financing those expenditures.

*Capital Outlay* - Expenditures for operating equipment drawn from the operating budget. Capital outlay items normally include equipment that will last longer than one year and having an initial cost above \$5,000. Capital outlay does not include capital budget expenditures for construction of infrastructure such as streets, buildings, or bridges.

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*Contingencies* - An appropriation of funds to cover unforeseen events which occur during the budget year. City Council must authorize the use of any contingency appropriations (not to be confused with Reserves).

*Cost Allocation* - A costing of local government services to identify the full cost of municipal services.

*Council Goals* - Broad goals established by the City Council at the outset of each two-year term to guide the organization in its activities and focus.

*Debt Service* - The amount of principal and interest that a local government must pay each year on net, direct-bonded, long-term debt plus the interest it must pay on direct short-term debt.

*Deficit* - (1) The excess of an entity's liabilities over its assets (see Fund Balance).

(2) The excess of expenditures or expenses over revenues during a single accounting period.

*Direct Cost* - A cost directly related to producing and/or providing related services. Direct costs consist chiefly of the identifiable expenses such as materials and supplies used to provide a service, the wages and salaries of personnel working to provide a service, and facility costs. These expenses would not exist without the program or service.

*Equipment Replacement Schedule* - A schedule of annual purchases to replace major equipment and vehicles that have met or exceeded their useful life to the City.

*Expenditure* - Total amount incurred if accounts are kept on an accrual basis; total amount paid if accounts are kept on a cash basis.

*Financial Audit* - A systematic examination of resource utilization concluding in a written report. It is a test of management's internal accounting controls and is intended to:

- Ascertain whether financial statements fairly present financial position and results of operations,
- Test whether transactions have been legally performed,
- Identify areas for possible improvements in accounting practices and procedures,
- Ascertain whether transactions have been recorded accurately and consistently, and
- Ascertain the stewardship of officials responsible for governmental resources.

*Financial Condition* - The City's ability to pay all costs of doing business and to provide services at the level and quality that are required for the health, safety, and welfare of the community, and that its citizens desire.

*Financial Plans* - A schedule that provides information about the expected future fiscal stability of City operations. The projections are for the operating funds of the City. Each financial plan, or proforma, includes a discussion about issues

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that are addressed in the proforma, as well as assumptions made about both revenues and expenditures for each fund.

*Financial Policies* - Administrative and Council policies established to govern the City's financial operations.

*Fixed or Mandated Costs* - These include expenditures to which the government is legally committed (such as debt service and pension benefits), as well as expenditures imposed by higher levels of government (such as for wastewater treatment facilities).

*Fund* - An independent fiscal and accounting entity with a self-balancing set of accounts, recording cash and/or resources together with all related liabilities, obligations, reserves, and equities, which are segregated for the purpose of carrying on specific activities or attaining certain objectives.

*Fund Balance* - The difference between fund assets and fund liabilities of governmental and similar trust funds. The equivalent terminology within proprietary funds is Retained Earnings. (When the term "Fund Balance" is used in reference to Proprietary Funds, it is normally referring to the estimated budgetary-basis amount available for appropriations for budgeting purposes.) The City of Corvallis will use the Government Accounting Standards Board's (GASB) definitions of Fund Balance for the CAFR and for all other financial reporting. For all financial planning purposes, the term Budgetary Fund Balance will be used and will include any portion of the fund balance that is available for appropriation. The portion of the fund balance that is not available for appropriation will be identified as a Reserved Balance. The GASB has defined fund balance segments as follows:

- A. Non-spendable: Amounts inherently non-spendable or that must remain intact according to legal or contractual restrictions.
- B. Restricted: Amounts constrained to specific purposes by externally enforceable legal restrictions, such as those provided by creditors, grantors, higher levels of government, through constitutional provisions, or by enabling legislation.
- C. Committed: Amounts constrained by the City Council via a resolution or ordinance.
- D. Assigned: Amounts the City intends to use for a specific purpose. The authority to assign resources lies with the City's Finance Director.
- E. Unassigned: Amounts that are not categorized into one of the aforementioned classifications; these resources may be used for anything. Only the General Fund should show a positive unassigned fund balance. For other funds, a negative unassigned balance should be reported if more resources are used than are available in the fund.

*GAAP* - Generally Accepted Accounting Principles.

*General Obligation Bonds* - When a government pledges its full faith and credit to the repayment of the bonds it issues, then those bonds are general obligation (GO) bonds. Sometimes the term is also used to refer to bonds which are to be repaid from taxes and other general revenues.

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*Government Funds* - These funds subscribe to the modified accrual basis of accounting and include the following types of funds:

- A. *General Fund* - The major source of revenue for this fund is taxes. There are no restrictions as to the purposes in which the revenues in this fund can be used
- B. *Special Revenue Funds* - The resources received by these funds are limited to a defined use, such as the Street Fund.
- C. *Debt Service Funds* - Funds used for paying principal and interest of debt on non-enterprise funds.
- D. *Capital Project Funds* - Resources from these funds are used for purchase or construction of long-term fixed assets.
- E. *Permanent Funds* - The resources received by these funds are limited to a defined use and only earnings may be spent. The Davidson Fund is the city's only permanent fund.

*Grant* - A contribution of assets by one entity to another. Grants are generally designated for a specific expenditure.

*HNA* – The Historic Norming Adjustment is the factor in each fund that results from actual experience that is usually better than projected, either because revenues perform better than expected, and/or expenditure budgets are not fully expended due to unpredictable events such as employee turnover. The HNA is trended over a period of time and projected in future years in the financial plans to give a more likely projection of fund balance than otherwise would be visible.

*Indirect Cost* - A cost incurred in the production and/or provision of related services that usually cannot be directly associated with any one particular good or service. Indirect costs encompass overhead including administrative costs such as wages of supervisory and administrative personnel, occupancy and maintenance of buildings, and utility costs. These costs would exist without the specific program or service.

*Investment* - Cash balances, securities and real estate purchased and held for the production of income in the form of interest, dividends, rentals, or base payments.

*Liabilities* - The sum of all amounts that are owed at the end of the fiscal year, including all accounts payable, accrued liabilities, and debt.

*Long-Term Debt* - Present obligations that are not payable within a year. Bonds payable, long-term notes payable, and lease obligations are examples of long-term debt.

*Master Plan* - A comprehensive plan, normally covering a 5-10 year period, developed to guide delivery of specific services, identify future needs and challenges, and identify future infrastructure needs.

*Modified Accrual Basis of Accounting* - The accrual basis of accounting adapted to the governmental fund type under which revenues are recognized when they become both "measurable" and "available to finance expenditures of the current period." Expenditures are generally recognized when the related fund liability is incurred.

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*One-Time Revenue* - Revenue that cannot reasonably be expected to continue, such as a single-purpose federal grant, an interfund transfer, or use of a reserve. Also referred to as a non-recurring revenue.

*Operating Budget* - The appropriated budget supporting current operations. Most operations are found in the General, Special Revenue, Permanent, Enterprise, and Internal Service Funds.

*Overlapping Debt* - The net direct bonded debt of another jurisdiction that is issued against a tax base within part or all of the boundaries of the community.

*Pay-As-You-Go Basis* - A term used to describe the financial policy of a government which finances all of its capital outlays and/or improvements from current revenues rather than by borrowing.

*Personnel Services* - A category encompassing all salaries, fringe benefits, and miscellaneous costs associated with employee expenditures. Budget law also refers to this category as personnel services.

*Proprietary Funds* - These funds subscribe to an accrual basis of accounting and include the following types of funds:

- A. *Enterprise Funds* - Account for distinct, self-sustaining activities that derive the major portion of their revenue from user fees.
- B. *Internal Service Funds* - Account for goods and/or services provided to other funds or departments within the organization. Examples include the Vehicle and Equipment Maintenance and Data Processing Funds.

*Reserved Balance* - For budgetary purposes, this is the amount of fund balance that is not available for appropriation except for the uses defined for the specific reserve.

*Resolutions* - A legal document adopted by the City Council that directs a course of action. In relationship to the budget, resolution refers to the document that levies taxes and sets legal appropriation levels.

*Restricted Revenue* - Legally earmarked for a specific use, as may be required by state law, bond covenants, or grant requirements. For example, many states require that gas tax revenues be used only for street maintenance or street construction.

*Revenue* - Monies received or anticipated by a local government from either tax or non-tax sources.

*System Development Charge (SDC)* - A charge levied on new construction to help pay for additional expenses created by growth or to compensate for already existing capacity in key facilities and systems already in place which support the new development.

*Transfer* - Amounts distributed from one fund to finance activities in another fund. Shown as an expenditure in the originating fund and a revenue in the receiving fund.

*Unfunded Liability* - A liability that has been incurred during the current or a prior year, that does not have to be paid until a future year, and for which reserves

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have not been set aside. It is similar to long-term debt in that it represents a legal commitment to pay at some time in the future.

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**Review/Update:**

The Finance Director will prepare this Council Policy review every year for City Council approval.

Rev #	Name	Change Date	Character of Change
0		November 1989	Adopted
23	N. Brewer	February 2012	Create Fund Balance Reserve equal to 3 months payroll and build over five years.
24	N. Brewer	March 2013	Consolidate property tax funds into one General Fund.
25	N. Brewer	April 2014	Update Investment Policy section for sunset of Investment Council
26	J. Chenard	March 2015	Update Risk and Debt Policy sections

	<p><b>City of Corvallis</b></p> <p>Administrative Policy – Financial Matters</p> <p>Policy # 5.09</p> <p><b>Debt Post-Issuance Compliance</b></p>	
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**Purpose:** To establish the requirements and procedures for ensuring compliance with federal laws relating to the issuance and post-issuance monitoring of tax-exempt bonds and taxable Direct Pay Bonds.

**Scope:** This procedure statement represents the objectives of the City of Corvallis and will be adhered to by all employees, officials, and financial representatives affiliated with the City. The City shall comply with all federal tax laws related to tax-exempt bonds, Direct Pay bonds, and bond financed facilities prior to and after issuance. The City shall monitor the requirements of section 148. The Finance Director of the City is assigned the primary responsibility to monitor compliance with federal tax requirements for the City's bond programs. The Finance Director will monitor compliance with the guidelines contained in this procedure as well as any other covenants not specifically included herein. The Finance Director may assign staff responsibility for certain components of this procedure.

**Procedures:**

1. Bond Issuances

With respect to all bond issues, the Finance Director of the City of Corvallis, or his/her delegate, shall monitor and control the receipt, investment, expenditure and use of all bond proceeds and will take or omit to take any actions to cause interest on tax-exempt bonds to remain excludable from the gross income of bondholders. (United States Internal Revenue Code (the "Code"), §103 and 141 through 150).

2. Direct Pay Bond Issuances

Unless legislation, regulations or rulings provide otherwise (in which case such legislation, regulations or rulings will control) the following provisions will apply in the event Congress enacts legislation which permits the City to obtain certain tax advantages when issuing taxable obligations for capital projects that meet certain requirements of the Code and Treasury regulations. Such bonds are referred to as "Direct Pay Bonds (DPB's)."

- A. DPB's election - upon issuance, the City of Corvallis will make the irrevocable election to have the special rule for qualified bonds apply. Interest on qualified DPB's is included in bond holder's gross income for federal income tax purposes and owners of the bonds will not receive any tax credits as a result of ownership.
- B. Investor information – representatives of the City, including its Municipal Advisors, if any, will not make statements to investors or other interested parties that imply any tax credits or income exclusions will apply.
- C. Available Project Proceeds – 100% of available project proceeds must be used only for capital expenditures. Available project proceeds are the proceeds the City receives from the bonds minus proceeds it is allowed to

spend on costs of issuance, minus proceeds allowed to fund a reasonably required reserve (up to 10%), if allowed under the Code and Treasury regulations, plus earnings from investments.

- D. 2% Cost of Issuance limitation – the City, through its Municipal Advisors, will ensure the financed portion of costs to issue the bonds do not exceed 2% of the proceeds of the sale.
- E. De minimis premium - the City, with the guidance of Municipal Advisors and underwriters, will ensure that no maturities are issued with more than the de minimis amount of premium as required by the Code and Treasury regulations.
- F. Secondary market trading - the City, through its Municipal Advisors, will review secondary market trading activity for Direct Pay bonds for the period between the sale date and the delivery date (date of issue) to determine if any of the bonds traded at a price greater than the issue price.
- G. Timely expenditure – expenditure of bond proceeds shall be reviewed by the City no less than annually, to ensure (a) proceeds are spent for the purpose stated in the authorizing resolution and as described in the tax documents and (b) proceeds, together with investment earnings on such proceeds, are spent within the timeframes described in the Tax Documents.

### 3. Private Activity Limitation

Section 141 of the Code sets forth private activity tests for the purpose of limiting the volume of tax-exempt bonds that finance activities of persons other than state and local governmental entities. These tests serve to identify arrangements that actually or reasonably expect to transfer the benefits of tax-exempt financing to non-governmental persons, including the federal government. Following the issuance of bonds for the financing of property, the Finance Director, or his/her delegate, shall provide to the users of the property a copy of this Compliance Procedure and other appropriate written guidance advising that:

- A. No more that 10% of the proceeds of any tax-exempt bond issue (including the property financed with the bonds) may be used for private business use, of which no more than 5% of the proceeds of the tax-exempt bond issue (including the property financed with the bonds) may be used for any “unrelated” private business use – that is, generally, a private business use that is not functionally related to the government’s purposes of the bonds; and no more than the lesser of \$5,000,000 or 5% of the proceeds of a tax-exempt bond issue may be used to make or finance a loan to any person other than a state or local government unit;
- B. Before entering into any special use arrangement with a non-governmental person that involves the use of bond financed property, the user must consult with the Finance Director, provide the Finance Director with a description of the proposed non-governmental use arrangement, and determine whether that use arrangement, if put into effect, will be consistent with the restrictions on private business use of the bond financed property;
- C. In connection with the evaluation of any proposed non-governmental use arrangement, the Finance Director will consult with bond counsel to obtain federal tax advice in whether that use arrangement, if put into effect, will be consistent with the restrictions on private business use of the bond financed property, and, if not, whether any “remedial action” permitted under §141 of the Code and applicable regulations may be taken as means of enabling that use arrangement to be put into effect without adversely affecting the tax-exempt status of the bonds.

#### 4. Information Filing and Monitoring

At the time of issuance and throughout the bond life, issuers of governmental bonds must comply with certain information filing requirements under §149(e) of the Code:

- A. Tax-exempt bonds: IRS Form 8038-G (Information Return for Tax-Exempt Governmental Obligations) must be filed by the 15th day of the second calendar month following the quarter in which the bonds were issued. For example, the due date of Form 8038-G for bonds issued on February 15th is May 15th.
- B. Direct Pay (DPB's) bonds: IRS Form 8038-B (Information Return for Build America Bonds) or Form 8038-TC (Information Return for Tax Credit Bonds), as applicable, must be filed by the 15th day of the second calendar month following the quarter in which the bonds were issued.
- C. The Finance Director works with the City's bond counsel to complete and file each applicable Form 8038-G, 8038-B 8038-TC or other required form by the required due date after each bond issue.
- D. Refundable Credit on Direct Pay (DPB's) bonds: IRS Form 8038-CP (Return for Credit Payment for Qualified Bonds) must be filed no later than 45 days before the related interest payment date, but no earlier than 90 days before the payment date. The Finance Director will verify bond interest payable semi-annually 90 days before debt service payments are due and determine the refundable credit allowed for the interest portion of the payment. Federal rebates are payable only to the Issuer and will be credited to the related debt service fund.
- E. IRS Form 8038-T (Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate) must be filed within 60 days after each five year period reporting deadline or within 60 days after the debt is retired, if arbitrage rebate applies (See Section 5).

#### 5. Arbitrage Rebate

Tax-exempt obligations and DPBs provide a less expensive means of financing than other conventional approaches, resulting in a significant interest savings benefit. The federal government has imposed a variety of rules to restrict the use of tax-exempt financing and DPBs to prevent potential abuse. It is the City's procedure to minimize the cost of arbitrage rebate and yield restriction while strictly complying with the law.

- A. Timeline – an arbitrage rebate installment payment is required to be paid no later than 60 days after the end of every 5th bond year throughout the term of a bond issue and within 60 days of retirement of the bonds.
- B. Exceptions – there are exceptions to the general rebate requirements applicable to government bond proceeds: the most common being the small issuer exception and spending exceptions. The Finance Director shall consult with the City's bond counsel to determine if any exceptions to rebate apply.
- C. Monitoring – the Finance Director will monitor ongoing compliance with regards to arbitrage liabilities and will monitor expenditures prior to semi-annual target dates for six-month, 18-month, or 24 month spending exceptions.
- D. "Bona fide" debt service funds – when possible, debt service funds will be accounted for and funded to achieve a proper matching of revenues with

principal and interest payments within each bond year so the earnings are exempt from arbitrage.

- E. Schedule – the Finance Director will maintain a schedule of each bond issue and the 5th bond year. The Finance Director reviews the schedule no less than annually to determine when a 5th bond year is approaching. Arbitrage rebate calculations on outstanding bond issues may be performed as often as annually or in alternating years, but never longer than the 5th year.
- F. Calculations – the City has the option to perform arbitrage calculations internally or to contract with a 3rd party provider for arbitrage rebate calculations and preparation of IRS Form 8038-T (Arbitrage Rebate, Yield Reduction and Penalty in Lieu of Arbitrage Rebate). Third-party providers shall be requested to maintain a list of the City's bond issues and scheduled 5th anniversary bond years.
- G. Procedures – the City will either complete the calculations internally or provide a 3rd party provider with copies of all applicable records 30 to 60 days before the reporting deadline for the 3rd party provider to prepare the arbitrage calculations and submit a report and IRS Form 8038-T, if applicable, to the City as issuer.
- H. Yield Restriction – The Finance Director will monitor ongoing compliance with regards to yield restriction. Interim arbitrage calculations will be used to evaluate investment strategies or optional elections that may reduce future rebate liabilities.
- I. Payment – if positive arbitrage exists at the end of a 5th year bond period, the City will prepare payment to submit with IRS Form 8038-T. Payment must equal at least 90% of the amount due as of the end of that 5th bond year.
- J. Redemption – upon redemption of a bond issue, a payment of 100% of the amount due must be paid no later than 60 days after the discharge date.
- K. Advance Refunding Escrows – State and Local Government Securities (SLGs) are commonly used for refunding escrows to yield restrict the investments. The City works with its Municipal Advisor to ensure SLGS for a refunding escrow account meet the yield restriction requirement.

#### 6. Records Retention

- A. This procedure supersedes any other general document retention procedure with respect to the retention of documents related to bonds and bond financed facilities.
- B. The City shall maintain all material records and information necessary to support a municipal bond issue's compliance with §103 of the Code.
- C. All records should be kept in a manner that ensures their complete access for so long as they are material. Electronic media is the preferred method for storage of all documents required under this procedure directive.
- D. Except as stated in E. below, material records should generally be kept for as long as the bonds are outstanding, plus 3 years after the final redemption date of the bonds.
- E. For certain federal tax purposes, a refunding bond issue is treated as replacing the original new money issue. To this end, the tax-exempt status of a refunding issue is dependent upon the tax-exempt status of the refunded bonds. Thus, certain material records relating to the original new money issue and all material records relating to the refunding issue should be maintained until 3 years after the final redemption of both bond issues.
- F. State record retention policies should also be considered, but in the event of a discrepancy, the guidelines established by the IRS shall prevail.

G. Although the required records to be retained depend on the transaction and the requirements imposed by the Code and the regulations, records common to most transactions include:

- Basic records relating to the bond transaction (including the Official Statement, Board minutes and resolutions authorizing issuance, trustee statements, and bond counsel opinion);
- Documentation directing, authorizing and showing expenditure of bond proceeds, including purchase contracts, construction contracts, progress payments, invoices, cancelled checks, and payment of bond issuance costs;
- Documentation evidencing use of bond-financed property by public and private sources (i.e., copies of management contracts);
- Documentation evidencing all sources of payment or security for the bonds;
- Documentation pertaining to any investment of bond proceeds (including the purchase and sale of securities, SLGs subscriptions, yield calculations for each class of investments, actual investment income received, the investment of proceeds, guaranteed investment contracts, and rebate calculations).
- Information, records and calculations showing that, with respect to each bond issue, the City was eligible for the “small issuer” exception or one of the spending exceptions to the arbitrage rebate requirements.
- All tax returns and other communication related to the bonds such as IRS Forms 8038-G, 8038-T 8038-TC and 8038-R.
- Any other documentation that is material to the bonds or the bond financed facilities based on particular facts.

The list above is general and only highlights the basic records that are typically material to many types of tax-exempt bond financings. Each transaction is unique and may, accordingly, have other records that are material to the requirements applicable to that financing. The decision as to whether any particular record is material must be made on a case-by-case basis and could take into account a number of factors, including, for instance, the various expenditure exceptions.

#### 6. Reimbursement Resolutions

The Finance Director is responsible for ensuring that Reimbursement Resolutions are prepared in accordance with §1.150-2 of the U.S. Treasury regulations for projects the City intends to finance with bonds.

#### 7. Bond Proceed Expenditures

Expenditures from bond proceeds will be in accordance with the City’s prevailing expenditure and delegation of City policies.

#### 8. Bond Proceed Investments

Bond proceeds will be invested in accordance with the City’s prevailing Investment Procedure.

#### 9. Education and Training

The Finance Director and his or her designated staff are responsible for staying current with any changes in the rules for tax-exempt and Direct Pay bonds. The City recognizes that such education and training is vital as a means of helping to ensure compliance with federal tax requirements in respect of its bonds. The Finance Director may rely upon outside advisors for assistance and guidance with these matters.

#### 10. Material Event Disclosure (SEC, MSRB)

The City as issuer will comply with all continuing disclosure requirements under SEC Rule 15c2-12. The Rule prohibits any broker, dealer, or municipal securities dealer from acting as an underwriter in a primary offering of municipal securities unless the issuer promises in writing to provide certain ongoing information. The annual financial information is to be sent to the MSRB as designated by the SEC. The Finance Director will make notification in a timely manner, of any events described in the Continuing Disclosure Certificate entered into in connection with a series of bonds.

#### 11. Due Diligence & Remedial Actions

In all activities related to bonds issued by or on behalf of the City, staff will exercise due diligence to comply with IRS Code governing tax-exempt and Direct Pay Bonds. The City is aware of (a) the Voluntary Closing Agreement Program (known as "VCAP") operated by the Internal Revenue Service which allows issuers to voluntarily enter into a closing agreement in the event of certain non-compliance with Federal tax requirements and (b) the remedial actions available under Section 1.141-12 of the Income Tax Regulations for private use of bond financed property which was not expected at the time the bonds were issued.

### Definitions:

**Arbitrage:** The ability to obtain tax-exempt and DPB proceeds and invest those funds in higher yielding securities, resulting in a profit to the issuer. Arbitrage is the difference (profit) earned.

**Bond Counsel:** The attorney, typically expert in the area of taxable and non-taxable debt issuance, that prepare the legal opinion for the issuance of a municipal bond.

**Code:** United States Internal Revenue Code – particularly for the purposes of this procedure as pertains to the sections related to municipal bond issuance.

**De Minimis:** Latin for "of minimum importance" or "trifling." Essentially it refers to something or a difference that is so little, small, minuscule, or tiny that the law does not refer to it and will not consider it. (i.e., in a million dollar deal, a \$10 mistake is de minimis.)

**Issuer:** The entity which is borrowing funds via selling bonds to investors, usually through an underwriter.

**MSRB:** Municipal Securities Rulemaking Board. The MSRB is a self-regulatory organization created under the Securities Acts Amendments of 1975 for the purpose of protecting investors, municipal entities and the public interest by promoting a fair and efficient municipal market, regulating firms that engage in municipal securities and advisory activities, and promoting market transparency.

**Municipal Advisor:** A person or entity (with certain exceptions) that (a) provides advice to or on behalf of a municipal entity or obligated person with respect to municipal financial products or the issuance of municipal securities, including advice with respect to the structure, timing, terms, and other similar matters concerning such financial products or issues, or (b) solicits a municipal entity, for compensation, on behalf of an unaffiliated municipal securities dealer, municipal advisor, or investment adviser to engage such party in connection with municipal financial products, the issuance of municipal securities, or investment advisory services (per MSRB)

**Premium/Discount:** The difference between a bond's coupon value(s) and its value at issuance date. A premium bond sells at a higher value than its face; a discounted bond sells at a lower value.

**Private business use:** means use by any person other than the Issuer, including business corporations, partnerships, limited liability companies, associations, non-profit corporations, natural persons engaged in trade or business activity, and the United States of America and any federal agency, as a result of ownership of the property or use of the property under a lease, management or service contract (except for certain "qualified" management or service contracts), "naming rights" contract, "public-private partnership" arrangement, or any similar use arrangement that provides special legal entitlements for the use of the bond finance property.

**Proceeds:** The inflow of cash from a debt issuance, usually net of the premium or discount.

**SEC:** The Securities and Exchange Commission is a federal agency responsible for regulating the securities industry and for enforcing federal securities law. It is meant to protect the public against fraudulent and manipulative practices in the securities markets.

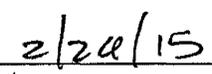
**Review/Update:** This Procedure will be reviewed at minimum every four years in October by the Finance Director and updated as appropriate.

**Review and Authorization:**

  
 \_\_\_\_\_  
 Finance Director

  
 \_\_\_\_\_  
 Date

  
 \_\_\_\_\_  
 City Manager *Pro Tem*

  
 \_\_\_\_\_  
 Date

Rev #	Name	Change Date	Character of Change
0	J. Chenard	Oct 2012	Initial Release
1	J. Chenard	Feb 2015	Convert to formal AP and put in new format.

Administrative Policy # 5.09

1. Form or worksheet revision related to this document? No  Yes

If yes, attach a copy of the revised form or worksheet.

2. Training required? No  Yes