

**RESOLUTION NO. 3018**

**A Resolution amending Appendix A, Exhibit 5 of Resolution No. 2783 to re-adopt the City's Fiscal Policies**

Findings:

- A. Resolution No. 2783 was adopted by the City Council on May 19, 2010. This resolution adopted a process for establishing and a mechanism for maintaining Council Policies.
- B. The City's Fiscal Policies were included as Appendix A, Exhibit 5 to Resolution No. 2783.
- C. The Fiscal Policies were later amended by adoption of Resolution No. 2893 on September 19, 2012 and Resolution No. 3008 on October 21, 2015.
- D. Updates to the Fiscal Policies are recommended to reflect industry best practices, Council priorities, and comply with certain laws. The changes proposed in Exhibit A reflect Council priorities related to future funding for street maintenance and preservation.

THE CITY COUNCIL OF THE CITY OF BEND RESOLVES AS FOLLOWS:

- 1. The City readopts the Fiscal Policies, with changes as shown on the attached Exhibit A.


Adopted by roll call vote of the Bend City Council on December 16, 2015.

Yes: Jim Clinton, Mayor  
Doug Knight  
Sally Russell  
Nathan Boddie  
Casey Roats  
Barb Campbell

No: None

Attest:

  
\_\_\_\_\_  
Robyn Christie, City Recorder

  
\_\_\_\_\_  
Jim Clinton, Mayor

Approved as to form:

  
\_\_\_\_\_  
Mary Winters, Legal Counsel

**CITY OF BEND  
BEND URBAN RENEWAL AGENCY  
FISCAL POLICIES**



**TABLE OF CONTENTS**

Purpose .....2

Revenue Policies .....3

Operating Budget Policies.....4

Expenditure Control Policies .....6

Capital Improvement Policies .....6

Financial Planning Policies .....8

Economic Development Funding Policies .....8

Pension and Retirement Funding Policies.....9

Cash Management and Investment Policies .....9

Accounting, Auditing, and Financial Reporting Policies .....10

Debt Management Policies .....11

Reserve Policies .....15

General Fund Stabilization Fund Policy.....16

## **PURPOSE**

The City of Bend and Bend Urban Renewal Agency (BURA) are committed to responsible fiscal management through financial integrity, prudent stewardship of public assets, planning, accountability and full disclosure. The broad purpose of the Fiscal Policies is to enable the City and BURA to achieve and maintain a long-term stable and positive financial condition. These policies are adopted by Council as the basic framework for overall financial management of the City and BURA. Any references to “the City” in this document shall also apply to BURA. The policies are designed to guide day-to-day and long-range fiscal planning and decision making, and to achieve the following general financial goals:

1. Provide an adequate financial base to sustain a sufficient level of municipal services to maintain the social well-being and physical conditions of the City.
2. Deliver cost effective and efficient services to citizens.
3. Provide and maintain essential public facilities, utilities, and capital equipment.
4. Protect and enhance the City's credit rating so as to obtain the lowest cost of borrowing and also to assure taxpayers and the financial community that the City is well managed and financially sound.
5. Provide the financial stability needed to navigate through economic downturns, adjust to changes in the service requirements of the community and respond to other changes as they affect the City's residents.
6. Adhere to the highest standards of financial management and reporting practices as set by the Government Finance Officers Association, the Governmental Accounting Standards Board and other related professional financial standards.
7. Fully comply with finance related legal mandates, laws and regulations.
8. Promote intergenerational equity for the City's taxpayers and ratepayers by spreading the cost of new or upgraded City infrastructure over time so that generations benefitting from such infrastructure contribute to its cost.

To achieve these goals, fiscal policies generally cover areas of revenue management, operating and capital budgeting, financial planning and forecasting, investment and asset management, debt management, accounting and financial reporting, reserves and internal controls. These policies are reviewed and updated every other year as part of the biennial budget preparation process.

## **REVENUE POLICIES**

1. The City will strive for and maintain a diversified and stable revenue system to prevent undue or unbalanced reliance on any one source of funds. This revenue diversity will shelter the City from short-run fluctuations in any one revenue source.
2. When evaluating new revenue sources, the following elements will be taken into consideration: sustainability of the revenues to the programs they are intended to support, administrative costs, operational and maintenance costs, acceptability to the community, and the impact on economic competitiveness relative to other communities.
3. One-time and non-recurring revenues will be used only for one-time expenditures. The City will avoid using temporary revenues to fund mainstream services or for budget balancing purposes.
4. User fees and charges will be established for services provided that benefit specific individuals or organizations. Cost of service analyses will be prepared so that user fees and charges can or will be set at a level sufficient to recover full cost of service whenever practical to minimize subsidization by taxpayers. The City will systematically review user fees and charges to take into account the number of customers served, changes in methods or levels of service delivery as well as changes in cost of living/inflationary increases.
5. Unless prohibited by law, certain fees may be deferred by Council action when it can be demonstrated that a direct public benefit will be obtained. In addition, the Council may direct that certain fees be paid on behalf of applicants and Council's action will include a determination of the source of funds to pay such fees.
6. All fees, charges or assessments that are deferred for later payment will be evidenced by a promissory note or agreement. The City may charge periodic interest, processing fees and additional interest and penalties for delinquencies as appropriate.
7. Water, Water Reclamation (Sewer) and Stormwater funds will be self-supporting through user fees. Fee adjustments will be based on long term financial plans that include a forecast period of no less than five years. The water and water reclamation utility rates should be set to yield a minimum 1.50 debt service coverage ratio or a debt service coverage ratio sufficient to maintain the credit rating of the Water and Water Reclamation systems.
8. To emphasize and facilitate long-range financial planning, the City will maintain current projections of revenues and expenditures in the General Fund and other major funds for the succeeding five years.
9. All potential grants shall be evaluated for matching requirements and on-going resource requirements and balanced with the benefits of the grant before acceptance. Grants may be rejected to avoid commitments beyond available funding.
10. The City will not respond to long-term revenue shortfalls with deficit financing and borrowing to support on-going operations. Expenses will be reduced to conform to the long-term revenue forecasts and/or revenue increases will be considered.

11. Revenues will be estimated realistically and prudently. Revenues of a volatile nature will be estimated conservatively; explanations of the underlying assumptions and risks to the forecast, including both upside and downside risks, will be provided. The City will estimate its revenues by an objective, analytical process using best practices as defined by the Government Finance Officers Association.
12. The cost of revenue collection efforts should not exceed the marginal additional revenue obtained and should not absorb a large percentage of the amount collected.
13. Use of General Fund revenues is at the City Council's discretion and unless otherwise noted, discretionary revenues are not earmarked for specific purposes. Exceptions include:
  - a. Grants or other revenues that are legally restricted for specific purposes.
  - b. Beginning in fiscal year 2017-18, 75% of General Fund franchise fee revenues will be dedicated to street maintenance and preservation and will be recorded directly in the Transportation Operations Fund.
14. Before the City sells any major asset or relinquishes any operating or capital arrangements that involved fixed revenue, the implications of such a sale or arrangements will be fully determined for impact on current and future year revenue estimates.

## **OPERATING BUDGET POLICIES**

1. The City will prepare a biennial budget with the participation of all Departments.
2. All budgetary procedures will conform to existing state and local regulations. Oregon budget law requires each local government to prepare a balanced budget and Oregon Administrative Rules state: 1) the budget must be constructed in such a manner that the total resources in a fund equal the total of expenditures and requirements for that fund, and 2) the total of all resources of the district must equal the total of all expenditures and all requirements for the district. Budgets for all City funds will be prepared on a modified accrual basis consistent with Generally Accepted Accounting Principles.
3. The budget process will allocate resources to achieve Council goals and city-wide strategic plans. Department goals and objectives will be identified and incorporated into the budget.
4. A cost allocation plan will be developed and incorporated into the City budget. The cost allocation plan will be the basis for distribution of general government and internal service costs to other funds and capital projects to reflect the full cost of providing services. The cost allocation plan will be submitted to the Department of Housing and Urban Development (or other designated agency) for review and approval.
5. A budget preparation calendar is crucial for successful budget preparation and execution. Finance department staff will prepare a detailed budget schedule for internal use that ensures the biennial budget is approved by the Budget Committee and adopted by the City Council no later than June 30 of odd numbered years. A summary of primary budget

## ***City of Bend and Bend Urban Renewal Agency Fiscal Policies***

---

milestones by month will be included in the proposed and adopted budget documents.

6. The biennial budget will be constrained to the total amount approved by the Budget Committee and as adjusted, adopted, and amended by the City Council.
7. The City Council shall adopt the budget for each fund or program as required by budget law.
8. Performance measures will be used and reported in department budgets. The City will prepare trends, comparisons to other cities, and/or other financial management tools to monitor and improve service delivery in City programs.
9. Essential services will receive first priority for funding. The City will attempt to maintain current service levels for all essential services. The quality of existing core services will be maintained before the City adds new services unless there is an explicit decision to lower the quality of existing services in favor of providing a new service. Essential services for the City are defined as follows (based on ORS 221.760 which determines if a city is eligible to receive state shared revenues):
  - a. Police protection
  - b. Fire protection
  - c. Street construction, maintenance, and lighting
  - d. Sewer
  - e. Stormwater
  - f. Water utility
  - g. Planning, zoning, and subdivision control
10. The summary of full time equivalents (FTE), which includes regular and limited term employees (LTE) for each operating fund or department, shall be brought before City Council for adoption with the budget, and any mid-budget cycle increases to the total number of positions must be approved by City Council by resolution. The City Manager may reassign positions among departments, restructure departments, and convert LTEs to FTEs without Council approval, so long as the total number of positions adopted on the FTE schedule is not increased.
11. All supplemental appropriations for programs requested after the original budget is approved will be analyzed by the City Manager's Office and Finance Department and will only be presented to Council for approval after consideration of availability of revenues.
12. Oregon budget law provides a means to adjust the budget for emergency expenditures or unforeseen circumstances. All resolutions adjusting the budget will be prepared by the Finance Department, at the direction of the City Manager's Office, for Council approval to ensure compliance with budget laws.
13. A mid-biennial review process will be conducted by the City Manager in order to make any necessary adjustments to the adopted biennial budget.
14. The City will submit the Adopted Budget Document to obtain the Award for Distinguished Budget Presentation from the Government Finance Officers Association (GFOA).
15. Monthly reports comparing actual to budgeted expenditures will be prepared by the

Finance Department and distributed to the City Manager and City Council. Significant budget to actual variances will be investigated and explained.

## **EXPENDITURE CONTROL POLICIES**

1. Expenditures will be controlled through appropriate internal controls and procedures. Management must ensure expenditures comply with the legally adopted budget. Each Department or Division Manager or Director will be responsible for the administration of his/her department/division/program budget. This includes accomplishing the goals and objectives incorporated into the budget and monitoring each department/division/program budget for compliance with spending limitations.
2. The City Council will adopt the budget by fund at the category or program level. Expenditures anticipated to be in excess of these levels require approval of a Council resolution.
3. All purchases of goods and services must comply with the City's Purchasing Policies, guidelines and procedures and with State and Federal laws and regulations.
4. Before the City purchases any major asset or undertakes any operating or capital arrangements that create fixed costs or ongoing operational expenses, the implications of such purchases or arrangements will be fully determined for current and future years.
5. All compensation planning and collective bargaining will include analyses of total cost of compensation which includes analysis of salary increases, health benefits, pension contributions, fringe benefits and other personnel costs. The City will only propose operating personnel costs which can be supported by on-going operating revenues.
6. The City will make every effort to control expenditures to ensure City services and programs provided to its citizens and taxpayers are cost effective and efficient.

## **CAPITAL IMPROVEMENT POLICIES**

1. A five year Capital Improvement Program (CIP) encompassing all City facilities shall be prepared and updated annually. A public hearing will be held to provide for public input on the CIP. The five year CIP will be incorporated into the City's budget and long range financial planning processes. The CIP will be balanced; estimated resources will be available for capital spending identified in the five year plan.
2. Projects included in the CIP shall have complete information on the need for the project, description and scope of work, total cost estimates, future operating and maintenance costs and how the project will be funded.
3. An objective process for evaluating CIP projects with respect to the overall needs of the City will be established through a ranking of CIP projects. The ranking of projects will be used to allocate resources to ensure priority projects are completed effectively and efficiently. CIP master plans will be created consistent with Oregon Land Use Laws.



Twenty year master plans will be prepared for the water, sewer and stormwater utilities as well as the transportation system. The priorities and timelines established in those master plans will guide updates of the five year CIP. Public involvement is encouraged during project prioritization and at a minimum, is required during the master planning process.

4. Changes to the CIP such as addition of new projects, project goals, changes in scope and costs of a project or reprioritization of projects will require City Council or City Manager approval. Furthermore, City staff will provide master plan and CIP updates to Council annually at a minimum with information about new projects that have emerged as well as changes to scope, estimated costs and/or schedule of projects already on the list with estimated impacts on user charges and fees.
5. Every CIP project will have a project manager who will prepare the project proposals, coordinate as necessary with operations and maintenance staff, ensure that required phases are completed on schedule, authorize project expenditures, ensure that all regulations and laws are observed, and periodically report project status.
6. The City will maintain its physical assets at a level adequate to protect the City's capital investment, meet any and all regulatory requirements and minimize future operating maintenance and replacement costs. The City recognizes that deferred maintenance increases future capital costs, thus placing a burden on future residents. Therefore, the budget will provide for adequate maintenance and the orderly replacement of capital plant and equipment from the appropriate combination of current revenues, cash reserves, and debt.
7. If project costs at the time of the bid award for construction are less than the budgeted amount the balance will be unappropriated and returned to reserves for future capital projects or allocated to another project. If project costs at the time of bid award are greater than budgeted amounts, the following options will be considered:
  - a. Re-scope or change the phasing of the project to come within existing budget amounts
  - b. Transfer funding from another, lower priority project
  - c. Decrease reserves for future capital projects to provide for an increase in budget appropriations
  - d. Defer the project to the next biennial budget period
  - e. Eliminate the project
8. The City will determine the least costly funding method for its capital projects and will obtain grants, contributions and low cost state or federal loans whenever possible.
9. The City will establish capital equipment reserves to provide for funding of vehicles and equipment. The City will also establish major repairs and replacement (R&R) reserves to provide for funding of major repairs and replacements. R&R reserves will be used for significant system or facility repairs, replacement or maintenance costs that are unanticipated and exceed ongoing repair and maintenance expenditures in the fund's operating budget. Long term forecasts will be used to determine available capacity to fund repair and replacement of capital assets and infrastructure and avoid a significant unfunded liability from deferred maintenance. If resources are not sufficient to fully fund R&R reserves without program impacts, alternatives will be presented to the City Council during the budget process.

10. The City will utilize “pay-as-you-go” funding for capital improvement expenditures considered recurring, operating or maintenance in nature. The City may also utilize “pay-as-you-go” funding for capital improvements when current revenues and adequate fund balances are available, when issuing debt would unduly affect the City’s credit rating, or when market conditions are unstable or suggest difficulties in marketing a debt.
11. The City will consider the use of debt financing for capital projects under the following circumstances:
  - a. When the project’s expected useful life is sufficient to warrant long term debt financing and comply with the internal revenue code requirements for tax-exempt financing
  - b. When projected annual revenues are deemed sufficient and reliable to service the long-term debt
  - c. When market conditions present favorable interest rates for City financing
  - d. When the issuance of debt will not unduly affect the City’s credit rating and debt service coverage ratios
  - e. When a project is mandated by state or federal government and current revenues or fund balances are insufficient to pay project costs

## **FINANCIAL PLANNING POLICIES**

1. The City will prepare a long term financial plan to promote responsible planning for the use of resources. The long term financial plan will include projected revenues, expenditures and reserve balances for a minimum of the next five years. Financial plans will extend beyond five years when specific issues call for a longer time horizon. Financial challenges and possible solutions will be identified, if not implemented, with structural balance as a goal.
2. The City’s financial plan should be strategic, meeting regulatory requirements and reflecting the Council’s and the community’s priorities for service while providing resources that realistically fund routine operations.

## **ECONOMIC DEVELOPMENT FUNDING POLICIES**

1. The City may employ economic development incentives to encourage value-added development and accrue public benefits to the City of Bend. Public benefits may include but not limited to, the following:
  - a. A benefit that increases the City’s employment base or materially enhances the financial position of the City by increasing assessed valuation.
  - b. A contribution to the basic infrastructure of the City that is greater than that which would be required of the development alone
  - c. A benefit that increases access to other public services
2. Economic development incentives may include formation of improvement or redevelopment districts, reimbursement, exemption or deferral of certain fees and

charges, use of discount lease rates or other forms of financial incentives. All such incentives will be fully evaluated by the Finance Department and Economic Development Department as to the costs, risks and level of benefit as well as the financial impact of such incentives on the City's operating and capital budgets.

3. The fiscal impact evaluation will be presented to Council along with City Manager's recommendation. The City Council shall make the final decision concerning proposed economic development incentives including any repayment of incentives if performance requirements are not met.
4. Funding for economic development incentives must be identified before approval of all such incentives.
5. A development incentive shall not be provided if the development does not provide sufficient public benefit or if the cost and risks to the City will have a materially adverse impact on the City's finances or operations.

## **PENSION AND RETIREMENT FUNDING POLICIES**

1. The City is an employer-participant in the State of Oregon Public Employees Retirement System (PERS). Actuarial valuations of PERS are performed for the Public Employees Retirement Board (PERB) to evaluate PERS' assets and liabilities and indicate its current and prospective financial condition. The PERB determines employer-participant contribution rates, which are then used to calculate each employer-participant's annual required contribution. It is the City's policy to make contributions at no less than the rate established by PERB and required by ORS 238.225. All current pension liabilities shall be funded on an annual basis.
2. In addition to providing pension benefits, the City provides certain health and dental care benefits for retired employees. Funding the liability for future retiree benefits will be determined by City Council action.

## **CASH MANAGEMENT AND INVESTMENT POLICIES**

1. The Finance Director or designee shall invest all City funds according to four criteria, in order of their importance: (1) legality, (2) safety, (3) liquidity, and (4) yield.
2. The City shall maintain and comply with a written Investment Policy that has been approved by City Council. The Investment Policy is a standalone document from these fiscal policies.
3. The City will consolidate or pool cash balances from various funds for investment purposes and will allocate investment earnings to each participating fund.
4. The City's investment securities will be held by a third party for custodial safekeeping.
5. Quarterly investment reports summarizing investment holdings and compliance with the

City's Investment Policy will be provided to City Council.

## **ACCOUNTING, AUDITING, AND FINANCIAL REPORTING POLICIES**

1. The City will comply with the following accounting and reporting standards:
  - a. Generally Accepted Accounting Principles (GAAP) developed by Governmental Accounting Standards Board,
  - b. Government Accounting, Auditing and Financial Reporting standards prescribed by the Government Finance Officers Association (GFOA),
  - c. Government Accounting Standards, issued by the Comptroller General of the United States,
  - d. Oregon Revised Statutes relating to Municipal finance and
  - e. U.S. Office of Management and Budget (OMB) Circular A-133.
2. The primary responsibility for the City's financial reporting and internal controls rests with senior management as overseen by the City Council. The Council shall appoint three members to serve on an Audit Committee. The purpose of the Audit Committee is to provide oversight of the City's audit functions as well as other investigations. The Audit Committee's authority includes retention of the City's external auditors, investigation of any matter brought to its attention with complete and unrestricted access to all books, records, documents, facilities, and personnel of the City, and retention of outside counsel, auditors, investigators, or other experts in the fulfillment of its responsibilities.
3. Monthly financial reports summarizing financial activity by fund will be presented to the City Manager and City Council.
4. A system of internal controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets and proper recording of financial transactions and compliance with applicable laws and regulations.
5. In accordance with State law, a comprehensive financial audit including an audit of federal grants will be performed annually by an independent public accounting firm with the objective of expressing an opinion on the City's financial statements and assessing the accounting principles used and evaluating the internal controls in place.
6. The City will prepare its financial statements and maintain its accounting and internal control systems in accordance with applicable standards with the goal of obtaining an unqualified opinion from its auditors.
7. The Finance Department will prepare a Comprehensive Annual Financial Report (CAFR) and submit its CAFR to the GFOA's "Certificate of Achievement for Excellence in Financial Reporting" program.
8. All departments will provide notice of all significant events and financial and related matters to the Finance Director for the City's annual disclosures to the municipal markets as required by SEC Regulation 15-C-2-12. Full disclosure will be provided in the financial statements and bond representations. Significant events include delinquencies and defaults related to the City's bonds, adverse tax opinions or events affecting the tax exempt status of bonds, the release, substitutions or sale of property securing repayment

of bonds and other events having a significant impact on the City's finances and outstanding bonds. The Finance Director will notify the Municipal Securities Rulemaking Board's Electronic Municipal Market Access (EMMA) database of these significant events.

9. The City's asset capitalization policy is to capitalize and depreciate assets greater than \$5,000 with a useful life beyond one year. Capital assets costing less than \$5,000 or having a useful life of one year or less will be treated as operating expenditures. The asset capitalization threshold will be applied to individual assets rather than to groups of assets (i.e. office furniture, computer equipment, radio equipment, etc.)

## **DEBT MANAGEMENT POLICIES**

1. The debt management policy sets forth comprehensive guidelines for the financing of capital expenditures. It is the objective of the policies that:
  - a. The City obtain financing only when prudent,
  - b. The process for identifying the timing and amount of debt or other financing be as efficient as possible,
  - c. The most favorable interest rate and other related costs be obtained,
  - d. When appropriate, future financial flexibility be maintained.
2. In conjunction with the City's debt financing team including but not limited to bond counsel and financial advisors, the Finance Director structures and recommends to the City Manager and City Council all debt issuances and oversees the on-going management of all City debt. Debt includes voter approved general obligation bonds, tax increment financing, full faith and credit bonds, lease purchase obligations, revenue bonds, special assessment obligations, promissory notes, lines and letter of credit, interfund borrowings, variable rate debt, equipment financing agreements and any other contractual arrangements that obligate the City to make future principal and interest payments.
3. No debt shall be issued for which the City is not confident that a sufficient specifically identified revenue source is available for repayment. The Finance Director shall prepare an analysis of the source of repayment prior to issuance of any debt.
4. The City will not use long-term debt to fund current operations, to balance the budget or to fund projects that are more appropriately funded from current resources.
5. The City will issue advance refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent and when the net present value savings is a minimum of three percent of the purchase price of the refunding bonds (defined as the par amount of the refunding bonds, plus net original issue premium, or less net original issue discount). The City will issue current refunding bonds (as defined by federal tax law) when advantageous, legally permissible, prudent and when the net present value savings exceed \$100,000. Refundings may also be undertaken for other reasons when legally permissible, prudent and when in the best interests of the City.
6. The City may utilize short-term debt or interfund loans as permitted, to cover temporary shortage due to timing of cash flows which may result from delay in receiving grant proceeds or other revenues and delay in issuance of long term debt.
7. When issuing long-term debt, the City will ensure that the debt is soundly financed by:

- a. Incurring debt only when necessary for capital improvements not appropriate to be financed from current available resources
  - b. Insuring that capital projects financed through long term debt shall be financed for a period not to exceed the useful life of the project. This precludes future generations of rate payers or taxpayers from paying debt service on an asset that no longer provides benefit and prevents debt capacity from being tied up servicing a defunct asset in the event the asset needs replacing.
  - c. Determining that the benefits of financing exceeds the cost of financing
  - d. Analyzing source of repayment, debt service coverage ratios and the impact of debt service on annual fixed costs prior to issuance of long term debt.
  - e. Amortizing debt on a level payment plan to the extent practical considering the forecasted available pledged revenues and impact on the City's aggregate overall debt payment schedules.
8. The City may issue debt on either a competitive or negotiated basis. Bank placements and other private offerings are authorized under circumstances such as interim financings or to avoid the cost of a public sale for smaller issuances. The Finance Director will recommend the most appropriate method of sale in light of financial, market, transaction specific, and issuer-related conditions. If a negotiated public sale is determined to be in the City's best interest, the underwriter should typically be selected through a request for proposal (RFP) process.
  9. All bond issuances and promissory notes will be authorized by resolution of the City Council.
  10. The City will comply with all statutory debt limitations imposed by the Oregon Revised Statutes.
  11. ORS 287A.050 establishes a limitation on the amount of general obligation bonds the City may issue. This limitation is 3% of the City's Real Market Value as certified by the Deschutes County Assessor. "General obligation bonds" are defined by ORS 287A.010(10) to mean exempt bonded indebtedness, as defined in ORS 310.140, that is secured by a commitment to levy ad valorem taxes outside the limits of sections 11 and 11b, Article XI, of the Oregon Constitution (i.e., voter approved, unlimited tax general obligation bonds). Additionally, ORS 287A.050(3) excludes certain types of general obligation bonded indebtedness from being included in the limitation, including for example general obligation bonds issued for water supply, treatment or distribution or sanitary or storm sewage collection or treatment. The City is not required to include full faith and credit obligations when computing its statutory general obligation bond debt limit. However the City's policy is to limit full faith and credit obligations to 3% of Real Market Value as certified by the Deschutes County Assessor.
  12. The City will strive to maintain its current credit ratings which are (as provided by Moody's Investor Services): Aa2 for General Obligation Bonds, Aa3 for Full Faith and Credit Obligations, Aa2 for Water Revenue Bonds, and Aa2 for Sewer Revenue Bonds.
  13. The City will strive to maintain debt service coverage ratios and percentages that uphold the City's credit rating. Water and Water Reclamation (Sewer) debt coverage ratios should be maintained at a minimum of 1.50 or at a level sufficient to protect the credit rating of the Water and Water Reclamation systems.

14. The City will comply with all bond covenants, arbitrage requirements, disclosure and other requirements specified by law.

a. Post Debt Issuance Tax Compliance

- i. External Advisors and Documentation—The City shall consult with bond counsel and other legal counsel and advisors, as needed, throughout the Bond issuance process to identify requirements and to establish procedures necessary or appropriate so that the Bonds will continue to qualify for tax-exempt status. Those requirements and procedures shall be documented in the tax certificate and agreement (“Tax Certificate”) and/or other documents finalized at or before issuance of the Bonds. Those requirements and procedures shall include future compliance with applicable arbitrage rebate requirements and certain other applicable post-issuance requirements of federal tax law throughout (and in some cases beyond) the term of the Bonds. This shall include, without limitation, consultation in connection with any potential changes in use of Bond-financed or refinanced assets.

The City shall engage expert advisors (each a “Rebate Service Provider”) to assist in the calculation of arbitrage rebate payable in respect of the investment of Bond proceeds, unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of Bonds.

Unless otherwise provided by the transaction documentation relating to the Bonds, unexpended Bond proceeds shall be segregated from other funds of the City, and the investment of Bond proceeds shall be managed by the City. The City shall prepare (or cause to be prepared) regular, periodic statements regarding the investments and transactions involving Bond proceeds.

- ii. Arbitrage Rebate and Yield—Unless the Tax Certificate documents that arbitrage rebate will not be applicable to an issue of Bonds, the Finance Director, or persons reporting to the Finance Director shall be responsible for:
- either (a) engaging the services of a Rebate Service Provider and, prior to each rebate calculation date, causing the trustee or other financial institution to deliver periodic statements concerning the investment of Bond proceeds to the Rebate Service Provider, or (b) undertaking rebate calculations itself and retaining or obtaining periodic statements concerning the investment of Bond proceeds;
  - providing to the Rebate Service Provider additional documents and information reasonably requested by the Rebate Service Provider;
  - monitoring efforts of the Rebate Service Provider;
  - assuring payment of required rebate amounts, if any, no later than 60 days after each 5-year anniversary of the issue date of the Bonds, and no later than 60 days after the last Bond of each issue is redeemed;
  - during the construction period of each capital project financed in whole or in part by Bonds, monitoring the investment and expenditure of Bond proceeds and consulting with the Rebate Service Provider to determine compliance with any applicable exceptions from the arbitrage rebate

- requirements during each 6-month spending period up to 6 months or 18 months, as applicable, following the issue date of the Bonds; and
  - retaining copies of all arbitrage reports, investment records and trustee statements.
- iii. Use of Bond Proceeds and Bond-Financed or Refinanced Assets—The City’s Finance Director, or persons under the supervision of the Finance Director, shall be responsible for:
- monitoring the use of Bond proceeds (including investment earnings and including reimbursement of expenditures made before bond issuance) and the use of the financed asset throughout the term of the Bonds to ensure compliance with covenants and restrictions set forth in the Tax Certificate relating to the Bonds;
  - maintaining records identifying the assets or portion of assets that are financed or refinanced with proceeds of each issue of Bonds (including investment earnings and including reimbursement of expenditures made before bond issuance), including a final allocation of Bond;
  - consulting with bond counsel, City’s counsel and other legal counsel and advisers in the review of any change in use or transfer of Bond-financed or refinanced assets to ensure compliance with all covenants and restrictions set forth in the Tax Certificate relating to the Bonds;
  - to the extent that the City discovers that any applicable tax restrictions regarding use of Bond proceeds and Bond-financed or refinanced assets will or may be violated, consulting promptly with bond counsel and other legal counsel and advisers to determine a course of action to preserve the tax-exempt status of the bonds.
- b. Continuing Disclosure Policies
- i. The Finance Director, or persons under the supervision of the Finance Director, shall have a clear understanding of the continuing disclosure requirements for each bond transaction.
  - ii. Internal procedures shall be developed that identify the information that is obligated to be submitted in an annual filing, disclose the dates on which filings are to be made, list the material events as stated by the Securities and Exchange Commission (SEC) and the continuing disclosure agreement, and identify the person responsible for making the filings.
  - iii. The Comprehensive Annual Financial Report (CAFR) may fulfill annual financial information obligations. The information provided in a CAFR does not have to be replicated when filing with Electronic Municipal Market Access (EMMA) portal. If the City agrees to furnish information that is outside the scope of its CAFR, that information may be included as a supplement to the CAFR when filing with EMMA.
  - iv. As recommended in the Government Finance Officers Association (GFOA) Certificate of Achievement for Excellence in Financial Reporting program, the City should complete its audited annual financial information within 180 days of the end of its fiscal year. Upon its completion, the CAFR should immediately be submitted to EMMA.
  - v. Material event notices will be filed within 10 business days of the event.



**RESERVE POLICIES**

1. The City will maintain sufficient contingency and reserves in each fund for the ability to:
  - a. Mitigate short-term volatility in revenues and makeup the temporary shortfall in revenue
  - b. Mitigate short-term economic downturns (2 years or less)
  - c. Absorb unanticipated operating needs that arise during the fiscal year but were not anticipated during the budget process
  - d. Sustain city services in the event of an emergency
  - e. Meet operating cash flow requirements before the collection of property taxes, grant proceeds and other operating revenues
  - f. Absorb minor claim or litigation settlements
  - g. Purchase vehicle and equipment without the need to finance such purchases
  - h. Meet routine facility and equipment repair needs
  - i. Meet requirements for debt service reserves
  - j. Maintain good standing with rating agencies
  
2. General Fund Reserves – the City will maintain General Fund unassigned reserves of at least 20% of the operating budget of the General Fund. Reserve balances in the General Fund Stabilization Fund will be considered when evaluating total General Fund reserve levels. Funding of General Fund reserves will generally come from excess revenues over expenditures or one-time revenues. Ending reserve levels will be evaluated annually and undesignated reserve balances in excess of the 20% target will be dedicated to improving the condition of the City’s street and transportation system.
  
3. Development Funds – The City will maintain undesignated reserves of at least 50% (or 6 months) of the operating budget for development related funds.
  
4. Insurance Fund – The City will maintain reserves in its Insurance Fund for self-insurance and major accidents, disasters and catastrophic events. Use of such reserves will be limited to significant expenditures not covered by the City’s insurance and that are too large to be absorbed in the department or fund’s operating budget or reserves.
  
5. Water, Water Reclamation and Stormwater Funds – The City will maintain undesignated reserves of at least 25% (or 3 months) of the operating budget for its utility funds. The Water and Water Reclamation Funds will also have rate stabilization reserves no less than \$1.5 million and \$1 million respectively to protect against volatility of revenues. Ending fund balance and reserves in the Water and Water Reclamation utility funds will be prioritized as follows:
  - a. Required debt service reserves
  - b. Operating reserves
  - c. Rate stabilization reserves
  - d. Repair & replacement (R&R) reserves which have been identified as a minimum of \$5 million for both the Water and Water Reclamation funds. Refer to the Capital

Improvement Policies section for more information on R&R reserves.

6. All Other Operating Funds – The City will maintain undesignated reserves of at least 16% (or 2 months) of the operating budget in all other operating funds unless it can be demonstrated that less than 16% is adequate to meet the needs of the operation.
7. The City will use reserves on a one-time or temporary basis for purposes described above. In the event that reserve funds decrease to levels below the levels established by this policy, the City will develop a plan to restore reserves to the required levels. If feasible, minimum reserve balances shall be replenished in the following year of use and no longer than within five years.

### **GENERAL FUND STABILIZATION FUND POLICY**

1. The City will maintain and manage a General Fund Stabilization Fund in accordance with this policy.
2. The purpose of the General Fund Stabilization Fund will be to provide for severe economic downturns or major unforeseen events (as determined by Council action) where a significant portion of revenues supporting critical basic operations are projected to decline for more than 2 years or permanently, and such decline cannot be absorbed by the department or fund. In these events, the City will need time to affect reductions, consolidate operations, reprioritize critical programs or implement an alternate revenue source. The General Fund Stabilization Fund will provide temporary support to minimize the impacts to citizens who rely on these critical operations.
3. The General Fund Stabilization Fund will also be maintained to protect and enhance the City's credit rating. In the event that the City's General Fund Reserves temporarily fall below desired levels, the General Fund Stabilization Fund will serve to ensure that the City's credit rating is not adversely affected.
4. The General Fund Stabilization Fund will be funded annually as follows:
  - a. 50% of investment earnings of the General Fund
  - b. 50% of investment earnings of all other funds except as prohibited by law
  - c. Excess revenues and/or additional allocations from the General Fund as recommended by the Finance Director and/or City Manager and approved by City Council. Examples of excess revenues include one-time payments from franchisees as a result of an audit, refunds or other one-time discretionary payments not anticipated to be needed for current operations.
5. The General Fund Stabilization Fund will only be used to provide temporary support for critical basic services and operations meeting the criteria established by this policy. In no event will the General Fund Stabilization Fund be used to fund new programs or to fund expenditures that should otherwise be funded with operating revenues, contingencies and reserves.
6. All request for use of the General Fund Stabilization Fund will include the following:

- a. Projection of revenues indicating decline for more than 2 years or permanent decline as a result of economic downturn or unforeseen event
  - b. Analysis that revenue decline is so significant that it cannot be absorbed in the department or fund's operating budget through increases in other revenues or reduction of current expenditures
  - c. Determination that critical basic services and operations will be affected and citizens will be negatively impacted
  - d. Determination that request meets any other criteria determined by Council
  - e. Plan of action and long term financial solution to address the revenue shortfall
7. All requests for use of the General Fund Stabilization Fund will be presented to Council along with City Manager's recommendation. The City Council shall make the final decisions concerning appropriation of funds from the General Fund Stabilization Fund.