

**CITY OF PEORIA, ARIZONA**

**PRINCIPLES OF SOUND  
FINANCIAL MANAGEMENT**

**Revised May 1, 2012**

## TABLE OF CONTENTS

Introduction.....	3
Policy 1 Fiscal Planning and Budgeting .....	4
Policy 2 Fund Balance .....	7
Policy 3 Expenditure Control .....	9
Policy 4 Revenues and Collections.....	10
Policy 5 Grants .....	11
Policy 6 Cost of Service and User Fees.....	12
Policy 7 Development Impact Fees .....	13
Policy 8 Capital Improvement Program .....	14
Policy 9 Capital Asset Accounting and Replacement .....	16
Policy 10 Cash Management and Investment.....	17
Policy 11 Debt Management .....	18
Policy 12 Utility Enterprise Funds.....	22
Policy 13 One Half-Cent Sales Tax.....	24
Policy 14 Economic Development .....	27
Policy 15 Risk Management.....	30
Policy 16 Accounting, Auditing and Financial Reporting.....	31
Policy 17 Policy Review.....	33
Appendix A Reporting of Significant Events .....	34
Appendix B Procedures for Tax-Advantaged Bonds .....	35
Appendix C Community Facilities District Guidelines & Procedures .....	47

Adoption Resolution

## Introduction

The city has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities. In these times of tight budgets, of major changes in federal and state policies toward local government, and of limited growth in the city's tax base, the city needs to ensure that it is capable of adequately funding and providing those government services desired by the community. Ultimately, the city's reputation and success will depend on the public's awareness and acceptability of the management and delivery of these services.

These adopted Principles of Sound Financial Management establish guidelines for the city's overall fiscal planning and management. These principles are intended to foster and support the continued financial strength and stability of the City of Peoria as reflected in its financial goals. The city's financial goals are broad, fairly timeless statements of the financial position the city seeks to attain:

- To deliver quality services in an affordable, efficient and cost-effective basis providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in the City of Peoria.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the city's residents.
- To maintain a high bond credit rating to ensure the city's access to the bond markets and to provide assurance to the city's taxpayers that the city government is well managed and financially sound.

Following these principles will enhance the city's financial health as well as its image and credibility with its citizens, the public in general, bond rating agencies and investors. To achieve these purposes as the City of Peoria continues to grow and develop, it is important to regularly engage in the process of financial planning including reaffirming and updating these financial guidelines. Policy changes will be needed as the city continues to grow and become more diverse and complex in the services it provides, as well as the organization under which it operates to provide these services to its citizens.

**Policy 1**  
**Fiscal Planning and Budgeting**

Fiscal planning refers to the process of identifying resources and allocating those resources among numerous and complex competing purposes. The primary vehicle for this planning is the preparation, monitoring and analysis of the city's budget. It is increasingly important to incorporate a long-term perspective and to monitor the performance of the programs competing to receive funding.

- 1.01 The City Manager shall submit to the City Council a proposed annual budget, based on Council's established goals, and shall execute the budget as finally adopted, pursuant to Title 42, Chapter 17, Article 3, Section 17105 of the Arizona Revised Statutes, as amended. The city will budget revenues and expenditures on the basis of a fiscal year which begins July 1 and ends on the following June 30. The City Council shall adopt the budget for the following fiscal year no later than June 30. If the budget is not adopted before June 30, the Council shall adopt a continuing resolution to allow the city to expend funds until the budget is adopted.
- 1.02 The city will prepare a five-year long-range financial forecast that will incorporate both revenue and expenditure estimates for the city's major operating funds. The five year revenue forecast will identify revenues that are anticipated to be sustainable over the five year period. The five-year long-range forecast will be updated annually and presented to the City Council during the city budget process.
- 1.03 The city will prepare a budget in accordance with Government Finance Officers Association policies and best practices and the Government Finance Officers Association in its Distinguished Budget Award Program. The proposed budget will contain the following:
  - a) Revenue estimates by major category, by fund;
  - b) Expenditure estimates by program levels and major expenditure category, by fund;
  - c) Estimated fund balance by fund;
  - d) Debt service, by issue, detailing principal and interest amounts.
  - e) Proposed personnel staffing levels;
  - f) A detailed schedule of capital projects;
  - g) Any additional information, data, or analysis requested of management by the City Council.
- 1.04 The city maintains its financial records in accordance with accounting principles generally accepted in the United States of America known as GAAP. Although the city's budget is prepared on a modified cash basis that differs from GAAP, the city will attempt to minimize these differences between the budget basis of accounting and GAAP.
- 1.05 The operating budget will be based on the principle that current operating expenditures, including debt service, will be funded with current revenues. Funds will pay the indirect cost charges for services provided by another fund. The budget will not use one-time

(non-recurring) sources to fund continuing (recurring) uses, postpone expenditures, or use external borrowing for operational requirements. The budget will incorporate the best available estimates of revenues and expenditures.

- 1.06 A system will be used to facilitate position control. The number of full-time and regular part-time employees on the payroll shall not exceed the total number of positions authorized by the City Council. Pursuant to Personnel Administrative Regulation 5.13.6 additional temporary appointment of employees can be made with the approval of the City Manager. The budget will identify the resources required to support the authorized staffing.
- 1.07 Performance management will be utilized in the budget process to insure alignment with Council goals and organization strategic efforts. Performance data will be used to support budgetary decisions. Measures will be developed regarding the city's efficiency and effectiveness. A system will be used to monitor and report on the progress of key performance measures.
- 1.08 Ideas for improving the efficiency and effectiveness of the city's programs and the productivity of its employees will be considered during the budget process.
- 1.09 Unspent appropriations for significant programs and major projects will be considered for reappropriation in the subsequent fiscal year. Such carryover of appropriation shall be included in the proposed budget.
- 1.10 The city's annual budget will include contingency appropriation to provide for unanticipated increases in service delivery costs, emergencies, and needs that may arise throughout the fiscal year. The contingency appropriation can only be expended upon separate Council action.
- 1.11 The city shall establish appropriate management controls to monitor expenditure budgets to ensure they do not exceed authorizations. For operating budgets, this control shall be exercised at the department/fund level. For capital budgets, this control shall be at the project level.
- 1.12 A quarterly report on the status of the General Fund budget and trends will be prepared and presented to the City Council within 60 days of the end of each quarter. The quarterly report shall include financial projections through the end of the fiscal year.
- 1.14 If a deficit is projected during the course of a fiscal year, the city will take steps to reduce expenditures, increase revenues or, if a deficit is caused by an emergency, consider using the Unassigned General Fund Balance. The City Manager may institute a cessation during the fiscal year on hirings, promotions, transfers, capital equipment purchases, and capital projects. Such action will not be taken arbitrarily or without knowledge of the City Council.

- 1.15 A policy will be maintained that provides for levels of approval by the City Manager and/or Council. The policy will address the transfer of expenditure authority between funds, transfer of expenditure authority over base amounts, transfer of expenditure authority to and from personnel, contractual, commodities or capital outlay accounts, transfer of expenditure authority between capital projects, transfer of expenditure authority to or from debt service accounts, and transfer of expenditure authority to or from contingency accounts.

## **Policy 2**

### **Fund Balance**

Fund balance is an important indicator of the city's financial position. Maintaining reserves is considered a prudent management practice. Adequate fund balances are maintained to allow the city to continue providing services to the community in case of unexpected emergencies or requirements and/or economic downturns.

- 2.01 In an effort to ensure the continuance of sound financial management of public resources, the City of Peoria's Unassigned General Fund Balance will be maintained to provide the city with sufficient working capital and a comfortable margin of safety to address emergencies, sudden loss of revenue or operating needs, and unexpected downturns without borrowing.

This policy establishes the amounts the city will strive to maintain in its General Fund balance, the conditions under which fund balance may be spent, and the method by which fund balances will be restored. These amounts are expressed as goals, recognizing that fund balance levels can fluctuate from year to year in the normal course of operations for any local government.

- 2.02 It is the intent of the city to limit use of Unassigned General Fund balances to address unanticipated, non-recurring needs or known and planned future obligations. Fund balances shall not normally be applied to recurring annual operating expenditures. Unassigned balances may, however, be used to allow time for the city to restructure its operations in a deliberate manner, but such use will only take place in the context of long-term financial planning.
- 2.03 The city will maintain an "Emergency Reserve" in the General Fund of ten percent (10%) of the average actual General Fund revenues for the preceding five fiscal years. The Emergency Reserve is for unexpected, large-scale events where damage in excess of \$250,000 is incurred and immediate, remedial action must be taken to protect the health and safety of residents (e.g. floods, fires, storm damage). Any usage of Emergency Reserves must be appropriated by the City Council. However, the City Manager may utilize these funds when immediate action must be taken to protect the health and safety of residents. When this occurs, the City Manager shall provide a summary report to the Council as soon as practical on the usage of these funds. In the event these "Emergency Reserve" funds are used, the city shall strive to restore the General Fund Emergency Reserve to the ten percent (10%) level within the next fiscal year following the fiscal year in which the event occurred.
- 2.04 The city will maintain an additional General Fund "Operating Reserve" with an upper goal of an additional fifteen percent (15%) of the average actual General Fund revenues for the preceding five fiscal years. The Operating Reserve is intended to be a reserve for unexpected events whose impact exceeds \$500,000 such as failure of the State to remit revenues to the city, unexpected mandates, unexpected loss of State Shared revenues,

continuance of critical city services due to unanticipated events, or to offset the unexpected loss of a significant funding source for the remainder of the fiscal year.

Any use of the Operating Reserve funds must be approved by the City Council and include a repayment plan that projects to restore the Operating Reserve to the fifteen percent (15%) level within two fiscal years following the fiscal year in which the event occurred.

- 2.05 The city will maintain an additional General Fund “Budget Stabilization Reserve” with an upper goal of an additional ten percent (10%) of the average actual General Fund revenues for the preceding five fiscal years. The Budget Stabilization Reserve may be used to provide funding to deal with fluctuations in fiscal cycles and operating requirements that exceed \$500,000. The reserve funds will provide time for the city to restructure its operations in a deliberate manner to ensure continuance of critical city activities.

Any use of the Budget Stabilization Reserve funds must be approved by the City Council and include a repayment plan, based on a multi-year financial projection, that plans to restore the Budget Stabilization Reserve to the ten percent (10%) level within the three fiscal years following the fiscal year in which the event occurred.

- 2.06 Funds in excess of the reserves described in the paragraphs above will be Unassigned General Fund Balance, unless otherwise assigned in accordance with GASB Statement #54, and may be considered to supplement “pay as you go” capital outlay and one-time operating expenditures, or may be used to prepay existing city debt. These funds may not be used to establish or support costs that are recurring in nature.
- 2.07 The Chief Financial Officer is authorized to classify available fund balance for specific purposes in accordance with Governmental Accounting Standards Board Statement #54. It is the policy of the city that expenditures for which more than one category of fund balance could be used, that the order of use is: Restricted Fund Balance, Committed Fund Balance, Assigned Fund Balance, and Unassigned Fund Balance.

### **Policy 3**

#### **Expenditure Control**

Management must ensure compliance with the legally adopted budget. In addition, purchases and expenditures must comply with legal requirements and policies and procedures set forth by the city.

- 3.01 Expenditures will be controlled by an annual appropriated budget at the department/fund level. The City Council shall establish appropriations through the budget process. The Council may transfer these appropriations as necessary through the budget amendment process. Written procedures will be maintained for administrative approval and processing of certain budget transfers within funds.
- 3.02 Department heads are responsible for monitoring expenditures to prevent exceeding their total departmental appropriation budget. It is the responsibility of these department heads to immediately notify the city's Management & Budget Department and the City Manager of any circumstances that could result in a departmental appropriation being exceeded.
- 3.03 The city will maintain a purchasing system that provides needed commodities and services in a timely manner to avoid interruptions in the delivery of services. All purchases shall be made in accordance with the city's procurement code, purchasing policies, guidelines and procedures and applicable state and federal laws. The city will endeavor to obtain supplies, equipment and services that provide the best value.
- 3.04 A system of appropriate internal controls and procedures using best practices shall be maintained for the procurement and payment processes.
- 3.05 The city will endeavor to make all payments within the established terms. The city shall pay applicable contractor invoices in accordance with the requirements of Arizona Revised Statutes 34-221.
- 3.06 The State of Arizona sets a limit on the expenditures of local jurisdictions. The city will comply with these expenditure limitations and will submit an audited expenditure limitation report as defined by the Uniform Expenditure Reporting System (A.R.S. Section 41-1279.07) along with audited financial statements to the State Auditor General within the prescribed timelines.
- 3.07 The City Council will pursue local override of the State expenditure limitation as provided by the State Constitution if the projected expenditures within two years are anticipated to exceed the expenditure limitation. This override will use one of the alternative expenditure options as defined in Article IX, Section 20 of Arizona law.

**Policy 4**  
**Revenues and Collections**

In order to provide funding for service delivery, the city must have reliable revenue sources. These revenues must be assessed and collected equitably, timely, and efficiently.

- 4.01 The city's goal is a diversified General Fund revenue base which includes sales taxes, state shared revenues, and other revenue sources.
- 4.02 The city will strive to maintain a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations by doing the following:
  - a) Periodically conducting a cost of service study to determine if all allowable fees are being properly calculated and set at an appropriate level.
  - b) Establishing new charges and fees as appropriate and as permitted by law.
  - c) Pursuing legislative change, when necessary, to permit changes or establishment of user charges and fees.
  - d) Aggressively collecting all revenues, late penalties and related interest as authorized by the Arizona Revised Statutes.
- 4.03 The city will establish a Revenue Committee to monitor significant revenues to insure they are received timely and reported accurately. The Revenue Committee will meet periodically and will prepare a report on revenue collections, trends and updated year-end estimates.

## **Policy 5 Grants**

Many grants require Council's appropriation of funds, either for the original grant or to continue programs after the grant funding has expired. Council should review these grant opportunities prior to determining whether application should be made for these grant funds.

- 5.01 The city shall apply for only those grants that are consistent with the objectives and high priority needs previously identified by Council. The potential for incurring ongoing costs, to include the assumption of support for grant-funded positions from local revenues, will be considered prior to applying for a grant.
- 5.02 The city shall attempt to recover all allowable costs – both direct and indirect – associated with the administration and implementation of programs funded through grants. The city may waive or reduce indirect costs if doing so will significantly increase the effectiveness of the grant.
- 5.03 All grant submittals shall be reviewed for their cash match requirements, their potential impact on the operating budget, and the extent to which they meet the city's policy objectives. When the potential for expenditures is \$20,000 or more, departments should seek Council approval prior to submission of the grant application. Should time constraints under the grant make this impossible, the department shall obtain written approval to submit the grant application from the City Manager and then, at the earliest feasible time, seek formal Council approval. Council will be informed of any financial obligations that will be incurred by the city. If there is a cash match requirement, the source of funding shall be identified prior to application.
- 5.04 The city shall terminate grant-funded programs and associated positions when the grant has expired and funds are no longer available unless alternate funding is identified.

**Policy 6**  
**Cost of Service and User Fees**

User fees and charges are payments for voluntarily purchased, publicly provided services that benefit specific individuals. The city relies on user fees and charges to supplement other revenue sources in order to provide public services.

Indirect cost charges will be assessed to reflect the full cost of identified services.

- 6.01 The city may establish user fees and charges for certain services provided to users receiving a specific benefit.
- 6.02 On a regular basis, the city will conduct a cost of service study to identify the full cost of providing a service for which fees are charged. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components.
- 6.03 User fees shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary. Competing policy objectives may result in reduced user fees and charges that recover only a portion of service costs.
- 6.04 The city shall establish cost allocation models to determine the administrative service charges due to the appropriate operating fund for overhead and staff support provided to another fund.

**Policy 7**  
**Development Impact Fees**

The Council’s policy is that to the extent reasonable, growth should pay for itself. As such, the Council has adopted a schedule of development impact fees. Development impact fees are one-time charges assessed against new customers to recover their proportional share of capital costs incurred to provide service capacity for new customers. Developer contributed assets will be considered for credits against the impact fee based on a modeled value. Appropriate development fees are an important component in the overall strategy for financing capital improvements.

- 7.01 The city’s objectives for development impact fees shall include the following:
  - a) Support the reasonable cost of growth.
  - b) Consider the impact of growth on existing residents.
  - c) Develop cost justified development fees.
  - d) Address infrastructure requirements.
  - e) Promote economic development.
  - f) Provide financial capacity.
  
- 7.02 In general, development impact fees must be based on a rational analysis. This analysis will include:
  - a) a reasonable assessment of the impacts of growth on the city’s capital needs as identified in an infrastructure improvement plan;
  - b) a determination that the amount of the fee does not exceed the reasonable cost to provide capacity to accommodate growth;
  - c) a separate accounting of funds collected; and
  - d) an identification of potential liabilities or offsets to recognize other financial commitments resulting from development.
  
- 7.03 The city will monitor the use of impact fee credits (both offsets and reimbursements) and will track and report liabilities associated with these credits on an annual basis.
  
- 7.04 Development impact fees may be assessed for a public purpose such as:
  - a) Libraries
  - b) Parks, recreation facilities, trails and open space
  - c) Law enforcement
  - d) Fire protection
  - e) General government
  - f) Transportation
  - g) Water
  - h) Water resources
  - i) Wastewater
  - j) Solid Waste
  
- 7.05 The city shall conduct a review of its development impact fees on a biennial basis.

## **Policy 8 Capital Improvement Program**

The purpose of the Capital Improvement Program is to systematically identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies.

- 8.01 The City Manager will annually submit a financially balanced, multi-year Capital Improvement Program for review by the City Council pursuant to the timeline established in the annual budget preparation schedule. Submission of the Capital Improvement Program shall be consistent with the requirements of Title 42, Chapter 17, Article 3 of the Arizona Revised Statutes. The Capital Improvement Program will incorporate a methodology to determine a general sense of project priority according to developed criteria.
- 8.02 The Capital Improvement Program shall provide:
- a) A statement of the objectives of the Capital Improvement Program and the relationship with the city's General Plan, department master plans, necessary service levels, and expected facility needs.
  - b) An implementation program for each of the capital improvements that provides for the coordination and timing of project construction among various city departments.
  - c) An estimate of each project's costs, anticipated sources of revenue for financing the project, and an estimate of the impact of each project on city revenues and operating budgets. The operating impact information shall be provided for the period covered in the city's current ten year Capital Improvement Program. No capital project shall be funded unless operating impacts have been assessed and the necessary funds can be reasonably anticipated to be available when needed.
  - d) For the systematic improvement, maintenance, and replacement of the city's capital infrastructure as needed.
  - e) A schedule of proposed debt requirements.
- 8.03 The city will match programs and activities identified in the Capital Improvement Program with associated funding sources.
- 8.04 The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact service delivery and increase long term costs. As such, the city will periodically assess the condition of assets and infrastructure and appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in the multi-year capital plan and operating budgets for condition assessment, preventative and major maintenance, and repair and replacement of critical infrastructure assets.

- 8.05 The city's objective is to incorporate “Pay-As-You-Go” funding (using available cash resources) in the annual Capital Improvement Program. This will supplement funding from other sources such as IGAs, bonds, impact fees and grants.
- 8.06 When current revenues or resources are available for capital improvement projects, consideration will be given first to those capital assets with the shortest useful life and/or to those capital assets whose nature makes them comparatively more difficult to finance with bonds or lease financing. Using cash for projects with shorter lives and bonds for projects with longer lives facilitates “intergenerational equity”, wherein projects with long useful lives are paid over several generations using the project through debt service payments.
- 8.07 The first year of the adopted capital plan will be the capital budget for that fiscal year.
- 8.08 Staff will monitor projects in progress to insure their timely completion or the adjustment of the Capital Improvement Program as approved by Council if a project is delayed or deferred. Periodic status reports will be presented to City Council to share project progress and identify significant issues associated with a project.
- 8.09 Within 90 days of the completion of a capital project any remaining appropriated funds for the project will revert to the fund balance of the funding source.
- 8.10 The Capital Improvement Program will be updated annually as a multi-departmental effort.

**Policy 9**  
**Capital Asset Accounting and Replacement**

An effective capital asset accounting system is important in managing the city's capital asset investment.

- 9.01 The city will maintain a schedule of individual capital assets with values in excess of \$5,000 and an estimated useful life in excess of one year. All items with an original value of less than \$5,000, or with an estimated useful life of one year or less, will be recorded as operating expenditures.
- 9.02 The city will provide replacement funding for fleet vehicles and certain computer equipment. The replacement schedule will be updated as part of the annual budget process.
- 9.03 The city shall maintain a listing, outside of the capital asset system, of all computers and shall conduct a periodic physical inventory of those computers.
- 9.04 The city's Fleet Management Division shall maintain a Fleet Master Listing of all vehicles and other large motorized equipment (road graders, backhoes, etc.). The capital asset listing for vehicles shall be reconciled to the Fleet Master Listing at least annually. Inventory control of the city's vehicles shall be maintained through the fleet maintenance program.
- 9.05 Other non-infrastructure capital assets of the city shall be reviewed on a three year cycle through sampling of the capital asset listing.

**Policy 10**  
**Cash Management and Investment**

Cash management includes the activities undertaken to ensure maximum cash availability and reasonable investment yield on a government's idle cash, and the cash collection function.

- 10.01 The city shall maintain and comply with a written Investment Policy that has been approved by the City Council. The Chief Financial Officer, as Chief Investment Officer, or his designee shall invest all funds of the city according to the approved Investment Policy.
- 10.02 The city will collect, deposit and disburse all funds on a schedule that insures optimum cash availability for investment.
- 10.03 In order to obtain higher yields from its overall portfolio, the city will consolidate cash balances from various funds for investment purposes, and will allocate investment earnings to each participating fund.
- 10.04 Bond funds will be segregated from all other funds for arbitrage and accounting purposes.
- 10.05 The city will project the cash needs of the city to optimize the efficiency of the city's investment and cash management program.
- 10.06 The city will conduct its treasury activities with financial institution(s) based upon written contracts.
- 10.07 Ownership of the city's investment securities will be protected through third party custodial safekeeping.
- 10.08 All city bank accounts shall be reconciled and reviewed on a monthly basis.
- 10.09 Investment performance will be measured using standard indices specified in the city's written investment policy. The Chief Financial Officer shall provide the City Council with a quarterly investment reports.
- 10.10 The city's Cash Management and Investment processes will be in accordance with written internal controls and procedures.
- 10.11 The city will provide a cash collection, handling, training and procedures program.

## **Policy 11**

### **Debt Management**

The city utilizes long term debt to finance capital projects with long useful lives. Financing capital projects with debt provides for an “intergenerational equity”, as the actual users of the capital asset pay for its cost over time, rather than one group of users paying in advance for the costs of the asset.

The purpose of this debt management policy is to provide for the preservation and eventual enhancement of the city’s bond ratings, the maintenance of adequate debt service reserves, compliance with debt instrument covenants and provisions, compliance with Internal Revenue Service Regulations, and required disclosures to investors, underwriters and rating agencies. These policy guidelines will also be used when evaluating the purpose, necessity and condition under which debt will be issued. These policies are meant to supplement the legal framework of public debt laws provided by the Arizona Constitution, State Statutes, City Charter, federal tax laws and the city’s current bond resolutions and covenants.

The Arizona Constitution limits a city’s bonded debt capacity (outstanding principal) to certain percentages of the city’s secondary assessed valuation by the type of project to be constructed. There is a limit of 20% of secondary assessed valuation for projects involving water, sewer, streets, transportation, public safety, artificial lighting, parks, open space, and recreational facility improvements. There is a limit of 6% of secondary assessed valuation for any other general-purpose project.

- 11.01 All projects funded with city general obligation bonds or revenue bonds will only be undertaken with voter approval as required through a city bond election.
- 11.02 The overall debt management policy of the city will ensure that financial resources of the city are adequate in any general economic situation to not preclude the city’s ability to pay its debt when due.
- 11.03 The city will not use long-term debt to fund current operations or smaller projects that can be financed from current revenues or resources. The city will first attempt to utilize "pay as you go" capital financing and/or the use of operating funds or impact fees where applicable.
- 11.04 The city does not intend to issue commercial paper (CP) or bond anticipation notes (BANs) for periods longer than two years or for the term of a construction project. If CP or a BAN is issued for a capital project, it will be converted to a long-term bond or redeemed at its maturity.
- 11.05 The issuance of variable rate debt by the city will be subject to the most careful review and will be issued only in a prudent and fiscally responsible manner.
- 11.06 The city shall attempt to combine debt issuances in order to minimize issuance costs.

11.07 Whenever the city finds it necessary to issue property tax-supported bonds, the following policy will be adhered to:

- a) Tax supported bonds are bonds for which funds used to make annual debt service expenditures are derived from ad valorem (property) tax revenue of the city.
- b) The target for the maturity of general obligation bonds will typically be between twenty and thirty years. The target for the “average weighted maturities” for general obligation bonds of the city will be twelve and one half (12 ½) years.
- c) Generally, the city will structure general obligation bond issues to create level debt service payments over the life of the issue.
- d) Debt supported by the city’s General Fund will not exceed 10% of the annual General Fund revenues.
- e) Secondary property tax rates will be determined each year as part of the budgetary process (pursuant to State law) to pay the necessary debt service payments of general obligation bonds currently outstanding or expected to be issued within the fiscal year.
- f) In accordance with requirements of the State of Arizona Constitution, total bonded debt will not exceed the 20% limitation and 6% limitation of the total secondary assessed valuation of taxable property in the city.
- g) Reserve funds, when required, will be provided to adequately meet debt service requirements in subsequent years.
- h) Interest earnings on bond fund balances will only be used to pay debt service on the bonds unless otherwise committed for other uses or purposes of the project.
- i) The term of any bond will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.

11.08 Revenue bonds are defined as a bond on which the debt service is payable from the revenue generated from the operation of the project being financed or a category of facilities, from other non-tax sources of the city, or from other designated taxes such as highway user’s revenues, excise tax, or special fees or taxes. For any bonds or lease-purchase obligations in which the debt service is paid from revenue generated by the project and/or partially paid from non-property tax sources, that debt service is deemed to be revenue bonds and are excluded from the calculation of the annual debt service limitation. Whenever the city finds it necessary to issue revenue bonds, the following guidelines will be adhered to:

- a) Revenue bonds of the city will be analyzed carefully by the Finance Department for fiscal soundness. Part of this analysis shall include a feasibility report prepared by an independent consultant prior to the issuance of utility supported revenue bonds to ensure the generation of sufficient revenues to meet debt service requirements, compliance with existing bond covenants and to protect the bondholders.
- b) Revenue bonds should typically be structured to provide level annual debt service over the life of the issue.

- c) Debt Service Reserve Funds should be provided when required by rating agencies, bond insurers or existing bond covenants.
- d) Interest earnings on the reserve fund balances will be used to pay debt service on the bonds unless otherwise committed for other uses or purposes of the project.
- e) The term of any revenue bond or lease obligation issue will not exceed the useful life of the capital project/facility or equipment for which the borrowing is intended.
- f) The target for the term of revenue bonds will typically be between twenty and thirty years. The target for the “average weighted maturities” for revenue bonds of the city will be twelve and one half (12 ½) years.

11.09 Improvement District (ID) and Community Facility District (CFD) Bonds shall be issued only when the formation of the district demonstrates a clear and significant purpose for the city. It is intended that Improvement District and Community Facility District bonds will be primarily issued for neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, street lights, and drainage. The District must provide a specific benefit to the property owner(s). The city will review each project through active involvement of city staff and/or selected consultants to prepare projections, review pro-forma information and business plans, perform engineering studies, analyze minimum debt coverage and value to debt ratios, and conduct other analyses necessary to consider the proposal against specified criteria. Both ID and CFD bonds will be utilized only when it is expected that they will be outstanding for their full term.

An expanded policy will be maintained detailing the policy and procedures of the city related to any future consideration of the formation of a Community Facilities District. Use of a CFD would require compliance with the new guidelines and procedures and specific Council approval.

11.10 Refunding bonds will be measured against a standard of the net present value debt service savings exceeding 5% of the debt service amount of the bonds being refunded, or if savings exceed \$750,000, or for the purposes of modifying restrictive covenants or to modify the existing debt structure to the benefit of the city.

11.11 The investment of bond proceeds shall at all times be in compliance with the city’s Investment and Portfolio Policies and meet all requirements of bond covenants.

11.12 The city shall comply with all U.S. Internal Revenue Service arbitrage rebate requirements for bonded indebtedness and will follow the written procedures for tax-advantaged bonds as outlined in Appendix B.

11.13 The city shall comply with Arizona Revised Statutes and all other legal requirements regarding the issuance of bonds and certificates of the city or its debt issuing authorities.

- 11.14 The city will maintain regular contact with rating agencies through telephonic conferences, meetings, or visits on and off-site. The city will secure ratings on all bonds issued when economically feasible.
- 11.15 The city's Finance Department shall maintain a debt profile for all bonds issued and update the profile on an annual basis. The debt profile shall include specific information regarding the size and type of debt issued, projects financed by the bonds, debt service schedules and other pertinent information related to each specific bond issue.

## **Policy 12**

### **Utility Enterprise Funds**

Government utility enterprises generate revenue to recover the cost of providing water, wastewater, and solid waste services. User charges are established to recover the cost of providing these services.

- 12.01 Separate funds will be established and maintained to properly account for each utility operation. Utility funds will not be used to subsidize the operations of other non-utility funds. Interfund charges will be assessed for the administrative support of the enterprise activity.
- 12.02 The city will establish rates and fees at levels that recover the total direct and indirect costs, including operations, capital outlay, unrestricted cash reserve requirements, debt service and debt coverage requirements for water, wastewater, and solid waste services. Rates will be reviewed in conjunction with the city's annual capital planning and budgeting processes.
- 12.03 All existing water and sewer rates and charges will be reviewed periodically to recommend necessary rate adjustments. Bond covenants may exist that require maintaining a minimum debt coverage ratio of at least 1.25 times. In order to help maintain the city's high bond rating, the recommended rates will be based on a model that projects achieving a target debt coverage ratio of 2.0 times. For financial planning purposes, the debt coverage ratios will be calculated without consideration of expansion fee revenue.
- 12.04 The City of Peoria's Enterprise Operating Fund working capital will be maintained to provide the city with a comfortable margin of safety to address emergencies and unexpected declines in revenue without borrowing. The cash reserve balance (working capital) goal for the water and wastewater enterprise operating funds will be at least twenty-five percent (25%) of the actual operating expenditures for the fiscal year.
- 12.05 The city will maintain a "Rate Stabilization Fund" in Water and Wastewater Funds of five percent (5%) of the average actual revenues for the preceding three fiscal years. The Rate Stabilization Fund can be used to moderate significant rate increases. In the event the "Rate Stabilization Fund" is used, the city shall strive to restore the Fund to the five percent (5%) level within the next three fiscal years following the fiscal year in which the fund was used.
- 12.06 The city will maintain an additional "Debt Stabilization Fund" with an upper goal of approximately fifty percent (50%) of the maximum annual debt service payment in the following five years. The Debt Stabilization Fund is intended to provide additional security to insure the city's ability to meet debt service obligations. In the event the Debt Stabilization Fund is used, the city shall strive to restore the fund to the defined level within the next three fiscal years following the fiscal year in which the fund was used.

- 12.07 The city will maintain an additional “Asset Maintenance Fund” with an upper goal equal to two percent (2%) of the enterprise fund infrastructure assets. The Asset Maintenance Fund may be used to provide funding for the repair and maintenance of critical infrastructure. In the event the Asset Maintenance Fund is used, the city shall strive to restore the fund to the defined level within the next three fiscal years following the fiscal year in which the fund was used.
- 12.08 Funds in excess of the reserves described in the paragraphs above may be considered to supplement "pay as you go" capital outlay and one-time operating expenditures, or may be used to prepay existing city debt. These funds may not be used to establish or support costs that are recurring in nature.
- 12.09 A rate stabilization fund will be established for the water and wastewater funds if the city issues variable rate debt. The goal of the stabilization fund will be to be sufficient to support the use of variable rate debt within these enterprise operations.
- 12.10 Solid waste rates and charges will be established and reviewed periodically to ensure costs are allocated appropriately between residential and commercial solid waste services. Both the residential and commercial programs will independently support themselves, creating sufficient revenues to recover expenditures and maintain specified cash balances (working capital). The working capital goal for the residential and commercial solid waste enterprise funds is twenty percent (20%) of the actual operating expenditures for the current fiscal year.

**Policy 13**  
**One Half-Cent Sales Tax**

The Council has established a special one-half cent sales tax designated primarily for debt service, reserves, and capital needs. These funds will be recorded and expended separately.

13.01 The city maintains a separate One Half-Cent Sales Tax Fund. It is important that the revenues and expenditures be budgeted and accounted for separately for the additional one-half (½) cent included in the city's sales tax.

13.02 Revenues from the city's total sales tax shall be presented in the budget in a manner that a distinction is made between the one (1) cent sales tax and the one-half (½) cent sales tax. In addition, a tracking system will be maintained for the expenditures of the one-half (½) cent sales tax.

13.03 Definitions

- a) Capital Expenditures – The cost of an acquisition or repair to property where the property or improvements have a useful life extending substantially beyond one year.
- b) Economic Development Expenditures – Costs associated with promoting revenue-generating activities, quality job creation, vital economic development projects, and other efforts consistent with Policy #14 – Economic Development.
- c) Community Promotions Expenditures – Costs associated with enhancing the image of the community, including special cultural and community events that encourage revenue-producing activities.
- d) Municipal Development Authority – The Peoria Municipal Development Authority (MDA) and the Peoria Municipal Sports Complex Authority (MSCA) are non-profit municipal property corporations organized to issue bonds and to enter into lease agreements with the city. Agreements with the MDA and MSCA require the city secure the lease (debt service) payments on bonds with the city's excise taxes.
- e) Debt Service – The payment on a semi-annual or other basis of lease payments under a lease between the city and a municipal property corporation (MDA or MSCA), wherein the lease payments equal the debt service payments on bonds issued by the MDA or MSCA.

#### 13.04 One-Half Cent Expenditures & Reserves

Use of One-Half Cent Sales Tax funds shall be prioritized as follows:

##### First Priority – Debt Service

The debt service for those MDA bonds for which the payment source is one-half (½) cent sales tax revenues including administrative, accounting and legal costs connected with the bond payment.

##### Second Priority – Fund Balance

The One-Half (½) Cent Sales Tax Fund balance will include the following:

a) One-Half (½) Cents Sales Tax Debt Service Reserve

This reserve should be \$1 million for outstanding bonds being paid from the one-half (½) cent sales tax.

b) One-Half (½) Cents Sales Tax Reserve

An additional reserve goal for the fund is thirty-five percent (35%) of the average actual revenues for preceding five fiscal years. The reserve shall not normally be applied to recurring needs or known and planned future obligations. Rather, this reserve may be used to fund temporary needs in an emergency, to maintain critical city services due to unanticipated events or unexpected loss of revenues, or to provide funding to deal with fluctuations in fiscal cycles and operating requirements. Use of these reserve funds must be approved by the City Council. To the extent these reserves are expended, the city will make every effort to decrease its Half-Cent expenditures as necessary to prevent the continued use of reserves. Additionally, the city will, through multi-year financial projections, prepare a plan to restore this reserve within the three fiscal years following the fiscal year in which the use of reserves occurred.

##### Third Priority – Capital, Economic Development and Community Promotions

Remaining funds from the one-half (½) cent sales tax not utilized for debt service or in reserves can be used for capital, economic development, and community promotions expenditures.

##### Fourth Priority – Specific City Operational Expenditures

Certain specific operational expenditures may be identified by Council through the annual budget process to be funded through the one-half (½) cent sales tax revenues.

13.05 The following criteria will be used in evaluating Capital, Economic Development, and Community Promotions projects for which one-half (½) cent sales tax revenue can be used.

- a) Projects where a city match is needed to obtain outside funds.

- b) Projects which construct infrastructure, assemble land, or expend funds as investment in development or community promotions that will serve as a catalyst for, or assist in the creation of, revenue producing economic development for the city.
- c) Projects which have a community wide or area wide benefit.
- d) Projects which save General Fund expenditures normally used for operations.
- e) Projects which would result in the city not having to sell bonds in order to finance such projects.

13.06 Any Utility Enterprise Fund projects funded from the one-half (½) cent sales tax would have to be repaid to the One-Half Cent Sales Tax Fund from the particular utility enterprise fund. An annual accounting of the expenditures and repayments from the utility enterprise funds will be presented to Council as part of the annual budget process.

## **Policy 14**

### **Economic Development**

The Council has established economic development objectives that support encouraging, initiating, and participating in certain types of economic development efforts that create job opportunities and diversify and strengthen the local economy.

- 14.01 The city will expand and diversify its economic base by attracting and expanding targeted industries to the city identified in the city's economic development implementation strategy. Special emphasis will be given to targeted industries that will employ the local labor force in professional, technical and skilled labor positions. Such business and industry will be sited and developed in accordance with the plans, policies and ordinances of the city.
- 14.02 The objective of the city's economic development implementation strategy is to encourage value-added development and accrue public benefits to the City of Peoria. A public benefit may include:
- a) Enhancing the financial position of the city by increasing the targeted employment base, creating quality jobs, and increasing property assessed valuation or general and special use tax revenues.
  - b) Constructing capital improvements that enhance the basic infrastructure of the city
  - c) Growing and/or expanding targeted industries in the city that create jobs.
  - d) Encouraging the redevelopment of unused or underutilized properties into targeted development classes, possibly through the use of public/private partnerships.
- 14.03 An important city goal is to create value added, higher pay employment opportunities for its residents by recruiting businesses in the city.
- 14.04 The city will endeavor to achieve a 25% non-residential property tax base by increasing the number of commercial/industrial businesses in the city.
- 14.05 Development incentives for non-residential projects shall be applied consistent with State law and prove to have public benefits consistent with the city's economic development goals and implementation strategy.
- 14.06 Targeted industries, as identified in the city's economic development implementation strategy, may be considered for special emphasis when the project demonstrates at least one of the following:
- a) Provides quality direct employment opportunities for Peoria citizens.
  - b) Provides additional indirect employment opportunities through primary and secondary employment generation to Peoria residents.
  - c) Results in significant increase in property tax revenues accruing to the city.
  - d) Results in goods and/or services being purchased within Peoria.

- e) Expands the labor base with jobs tied to targeted industries.
- f) Provides needed public infrastructure.
- g) Offers unique recreational opportunities or cultural enhancements for the residents of Peoria.
- h) Expands the economic base of the city by locating new targeted industries within the city.

14.07 The city may consider a variety of development incentives that clearly benefit the city. Incentives to pursue economic development objectives and implementation strategies may include, but are not limited to, one or more of the following:

- a) Formation of improvement districts.
- b) Formation of Community Facilities Districts.
- c) Intergovernmental Agreements (IGAs) with other agencies for projects which will provide benefit to multiple jurisdictions.
- d) Use of Industrial Development Authority Bonds.
- e) Use of development mechanisms available to the city in redevelopment districts, including funding opportunities where appropriate.
- f) Use of State of Arizona Enterprise Zone Tax Credits.
- g) Reimbursement, deferral and/or waiver of certain fees and charges.
- h) Use of Enterprise Zones, Foreign Trade Zones, or other incentive based zones as approved by City Council.
- i) Provision for allowing credits for off-site public infrastructure development costs against future city transaction privilege tax revenues.
- j) Direct financial assistance to a private for profit or non-profit entity or business.
- k) Lease or acquisition of real property to facilitate economic development or redevelopment.
- l) Lease or acquisition of personal property for economic development.
- m) Work force training assistance to a business or company.
- n) Provision of expedited plan review, development agreement processing, and permit processing.

Business assistance incentives will be focused primarily on targeted industries. Real estate investments will be focused primarily in targeted investment zones.

14.09 Economic Development incentives shall typically be “performance based” so that the recipient only receives the incentive if its performance meets selected criteria set forth in the development agreement. Other guidelines may apply to a project, which contributes to the overall benefit of the city in other ways, (e.g. downtown revitalization or development in specific target areas).

14.10 The best returns on public investment through economic development incentives are those that have been examined carefully against the cost of public expenditure. To ensure government accountability and thoughtful long-term policymaking, an examination of the benefit to the city must be compared to the offered incentives, the need for those

incentives, and the public cost. As such, the city will conduct a fiscal impact and legal analysis of any proposed projects. The city will evaluate items such as economic costs, economic benefits, tax base impact, intrinsic benefits and levels of each type of risk that are associated with the project requesting an economic development incentive, as well as the legal compliance and financial impact of all such incentives on the city's operating and capital budgets.

- 14.11 The fiscal impact evaluation shall be presented to the City Council by staff. The City Council shall make the final decision concerning proposed economic development incentives, including the terms and conditions contained within any proposed memorandum of understanding or development agreement.
- 14.12 Certain exclusions, limitations, disclosure, and collateral requirements apply to these incentives.
  - a) Development incentives shall not normally be provided to offset buy-out fees to obtain release from the Certificate of Convenience and Necessity for a private water company.
  - b) Under current practice, future transaction privilege tax reimbursement will generally be limited to one-half (1/2) of one percent of privilege tax generated and the duration to a maximum of five to seven years.
  - c) Failure to operate facilities developed under a development incentive plan will require the developer to repay the city for certain amounts that may have been advanced.
  - d) Residential development normally will not be provided any incentive package unless a clear net benefit to the city can be demonstrated or some other public purpose is served (e.g., in-fill projects in a maturing area of the city to retain existing businesses, etc.).
- 14.13 The city may establish an economic development reserve fund to provide a source of funding to offset certain economic development incentives. To the extent that these reserves are expended, the city will attempt to restore the reserve fund to the established amount. These funds may not be used to support costs that are recurring in nature.

**Policy 15**  
**Risk Management**

Risk management has become increasingly important in guarding against economic loss and in ensuring public safety in a time of increasing public liability and litigation. Risk management is involved in the identification, evaluation, and treatment of the city's risk.

- 15.01 The city shall make diligent efforts to prevent or mitigate the loss of city assets and to reduce the city's exposure to liability through training, safety, risk financing and the transfer of risk when cost effective.
- 15.02 When cost effective, the city shall manage its exposure to risk through self-insurance or through the purchase of traditional third-party insurance in the following areas: general liability, automobile liability, public officials' errors and omissions, police professional liability, and property loss.
- 15.03 When cost effective, the city will further control its exposure to risk through the use of "hold harmless" agreements in city contracts and by requiring contractors to carry liability insurance, including errors and omissions coverage for architectural, engineering, and other applicable professional firms.
- 15.04 Insurance reserves shall be maintained at a level which, together with any purchased insurance, will adequately indemnify the city's assets and its elected officials, officers and directors against loss. A regular study will be conducted for potential liability areas and shall be used as a basis for determining self-insurance reserves based on historical loss data. The city will strive to fully fund actual and estimated liabilities including reserves for incurred-but-not-reported (IBNR) claims.
- 15.05 The city will identify and disclose material contingent liabilities in the city's Comprehensive Annual Financial Report (CAFR).
- 15.06 Cost allocations to various funds will be based on an analysis of contributing factors.

## **Policy 16**

### **Accounting, Auditing and Financial Reporting**

Accounting, auditing and financial reporting form the informational infrastructure for public finance. Internal and external financial reports provide important information to the city's legislative body, management, citizens, investors and creditors.

- 16.01 The city will comply with accounting principles generally accepted in the United States (GAAP), as well as Generally Accepted Auditing Standards (GAAS) and Generally Accepted Governmental Auditing Standards (GAGAS) in its accounting and financial reporting, as contained in the following publications:
- a) Codification of Governmental Accounting and Financial Reporting Standards, issued by the Governmental Accounting Standard Board (GASB) as well as earlier standard setting boards.
  - b) Pronouncements of the Financial Accounting Standards Board, (FASB) issued prior to December 1, 1989.
  - c) Governmental Accounting, Auditing, and Financial Reporting (GAAFR), issued by the Government Finance Officers Association (GFOA) of the United States and Canada.
  - d) Municipal Budget and Finance Manual, prepared by the League of Arizona Cities and Towns.
  - e) Audits of State and Local Governmental Units, an industry audit guide published by the American Institute of Certified Public Accounts (AICPA) and any applicable Statements of Position (SOPs) and Statements of Auditing Standards (SASs) issued by the AICPA.
  - f) Government Auditing Standards (also know as the Yellow Book), issued by the Controller General of the United States.
  - g) Circular A-133, issued by the U.S. Office of Management and Budget (OMB).
- 16.02 Monthly financial reports will be made available to all departments summarizing financial activity and comparing actual revenues and expenditures with budgeted amounts.
- 16.03 A system of internal accounting controls and procedures will be maintained to provide reasonable assurance of the safeguarding of assets, the proper recording of financial transactions of the city, and compliance with applicable laws and regulations.
- 16.04 In accordance with State law and City Charter requirements, a comprehensive financial audit, including an audit of federal grants according to the Single Audit Act and the OMB Circular A-133, will be performed annually by an independent public accounting firm, with the objective of expressing an opinion on the city's financial statements. The city will prepare its financial statements in accordance with applicable standards and will account for its operations in a manner consistent with the goal of obtaining an unqualified opinion from its auditors.

- 16.05 The city will prepare a Comprehensive Annual Financial Report (CAFR) in accordance with the principles and guidelines established by the Government Finance Officers Association “Certificate of Achievement for Excellence in Financial Reporting” program. Staff will endeavor to provide the CAFR, the Single Audit, and the Management Letter to the City Council for a November Council meeting each year for the preceding fiscal year or as required by the Arizona Revised Statutes or City Charter. Staff will endeavor to provide the CAFR to the Government Finance Officers Association by December 31 of each year for review in the Certificate program.
- 16.06 All departments will provide notice of all significant events and financial and related matters to the Chief Financial Officer for the city’s annual disclosures, as required by the SEC Rule 15c2-12, for the municipal markets, financial statements and bond representations. A listing of significant events is included in Appendix A to this document. The Chief Financial Officer will notify all Nationally Recognized Municipal Securities Information Repositories of these significant events.
- 16.07 The city’s Comprehensive Annual Financial Report (CAFR) will include the bond related on-going disclosure requirements and will fully disclose all significant events and financial and related issues. The city will provide the CAFR to the bond rating agencies, municipal bond insurers, national bond disclosure repositories and other interested parties.

**Policy 17**  
**Policy Review**

By their nature policies must change and evolve over time. As with any other policies, these financial policies should be subject to periodic review and revision.

17.01 The City Council will periodically review and affirm the financial policies contained in this document.

## **Appendix A**

### **Reporting of Significant Events (Continuing Disclosure Requirements)**

If knowledge of the occurrence of a listed event would be material to the city, the city shall promptly file a “Notice of Material Event” with the Municipal Securities Rulemaking Board and with each depository. The following events are defined as significant events with respect to municipal securities.

- 1) Principal and interest payment delinquencies;
- 2) Non-payment related defaults, if material;
- 3) Unscheduled draws on debt service reserves reflecting financial difficulties;
- 4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- 5) Substitution of credit or liquidity providers or their failure to perform;
- 6) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determination with respect to the tax status of the security, or other material events affecting the tax-exempt status of the securities;
- 7) Modifications to rights of holders (i.e. owners), if material;
- 8) Bond calls (which are other than mandatory or scheduled redemptions, not otherwise contingent upon the occurrence of an event are optional or unscheduled) and tender offers;
- 9) Defeasances;
- 10) Release, substitution, or sale of property securing repayment of the securities (including property leased, mortgaged or pledged as such security), if material;
- 11) Bond rating changes;
- 12) Bankruptcy, insolvency, receivership or similar event;
- 13) Merger, consolidation, acquisition, or the sale of all or substantially all of the assets, other than in the ordinary course of business, if material;
- 14) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

## **Appendix B**

### **Written Procedures for Tax-Advantaged Bonds**

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

The Issuer has established the policies and procedures contained herein (the “Procedures”) as of May 1, 2012 in order to ensure that the Issuer complies with the requirements of the Code that are applicable to its tax-advantaged bonds. These Procedures, coupled with requirements contained in the Arbitrage and Tax Certificate (the “Tax Certificate”) or other operative documents executed at the time of issuance of the tax-advantaged bonds, are intended to constitute written procedures for ongoing compliance with the Federal tax requirements applicable to the bonds and for timely identification and remediation of violations of such requirements.

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

#### **A. GENERAL MATTERS.**

1. Responsible Officer. The Chief Financial Officer will have overall responsibility for ensuring that the ongoing requirements described in these Procedures are met with respect to tax-advantaged bonds (the “Responsible Officer”).
2. Establishment of Procedures. The Procedures established herein will be referenced as such in the Debt Management Policy section of the city’s adopted Principles of Sound Financial Management and set forth in an appendix to those adopted financial policies.
3. Identify Additional Responsible Employees. The Responsible Officer shall identify any additional persons who will be responsible for each section of the Procedures, notify the current holder of that office of the responsibilities, and provide that person a copy of the Procedures. (For each section of the Procedures, this may be the Responsible Officer or another person who is assigned the particular responsibility.)

- a. Upon employee or officer transitions, new personnel should be advised of responsibilities under the Procedures and ensure they understand the importance of the Procedures.
  - b. If employee or officer positions are restructured or eliminated, responsibilities should be reassigned as necessary to ensure that all Procedures have been appropriately assigned.
4. Training Required. The Responsible Officer and other responsible persons shall receive appropriate training that includes the review of and familiarity with the contents of these Procedures, review of the requirements contained in the Code applicable to each tax-advantaged bond, identification of all tax-advantaged bonds that must be monitored, identification of all facilities (or portions thereof) financed with proceeds of tax-advantaged bonds, familiarity with the requirements contained in the Tax Certificate or other operative documents contained in the transcript, and familiarity with the procedures that must be taken in order to correct noncompliance with the requirements of the Code in a timely manner.
  5. Periodic Review. The Responsible Officer or other responsible person shall periodically review compliance with the Procedures and with the terms of the Tax Certificate to determine whether any violations have occurred so that such violations can be timely remedied through the “remedial action” regulations (Treasury Regulation §1.141-12, §1.142-2, §1.144-2, §1.145-2 or §1.147-2, as applicable) or the Voluntary Closing Agreement Program described in Internal Revenue Service (“IRS”) Notice 2008-31 (or successor guidance) and related sections of the Internal Revenue Manual. Such periodic review shall occur at least annually.
  6. Change in Bond Terms. If any changes to the terms of the bonds are contemplated, bond counsel should be consulted. Such modifications could result in a reissuance, i.e., a deemed refunding, of the bonds which could jeopardize the status of tax-advantaged bonds, including Direct-Pay Bonds (and thereby affect the continued receipt of the Subsidy for Direct-Pay Bonds).

**B. ISSUE PRICE FOR TAX-ADVANTAGED BONDS; PREMIUM LIMIT FOR DIRECT-PAY BONDS.**

1. Issue Price. In order to document the issue price of tax-advantaged bonds, the Responsible Officer shall consult with bond counsel and obtain a written certification from the underwriter, placement agent or other purchaser of the bonds as to the offering price of the bonds that is in form and substance acceptable to the Issuer and bond counsel.
2. Premium Limit for Direct Pay-Bonds. Prior to issuing Direct-Pay Bonds, the Responsible Officer shall consult with bond counsel and the Issuer’s financial advisors to assure that the premium on each maturity of the Direct-Pay Bonds

(stated as a percentage of principal amount) does not exceed one-quarter of one-percent (0.25%) multiplied by the number of complete years to the earlier of the final maturity of the bonds or, generally, the earliest call date of the bonds, and that the excess of the issue price of the bonds over the price at which the bonds are sold to the underwriter or placement agent, when combined with other issuance costs paid from proceeds of the bonds, does not exceed 2% of the sale proceeds of the bonds.

**C. IRS INFORMATION RETURN FILING.**

1. Filing of Applicable Form 8038. The Responsible Officer will confirm that bond counsel has filed the applicable information reports (such as Forms 8038, 8038-G, 8038-B or 8038-TC) for such bond issue with the IRS on a timely basis, and maintain copies of such form including evidence of timely filing as part of the transcript of the bond issue.
2. Filing of Form 8038-CP. For Direct-Pay Bonds, the Responsible Officer shall review the IRS Form 8038-CP in order to ensure that the proper amount of interest is being reported and the proper amount of Subsidy is being requested with respect to each interest payment date. The Responsible Officer shall ensure that the IRS Form 8038-CP is filed on a timely basis with respect to each interest payment date in order to receive timely payment of the Subsidy. If the Subsidy is to be paid to a person other than the Issuer (i.e., the bond trustee), the Responsible Officer shall obtain and record the contact information of that person, and ensure that it is properly shown on Form 8038-CP so that the direct payment will be made to the proper person.
3. Filing of Forms 8038-T or 8038-R. The Responsible Officer shall file the IRS Form 8038-T relating to the payment of rebate or yield reduction payments in a timely manner as discussed in Section I.12. below. The Responsible Officer shall also monitor the extent to which the Issuer is eligible to receive a refund of prior rebate payments and provide for the timely filing for such refunds using an IRS Form 8038-R.

**D. USE OF PROCEEDS.** The Responsible Officer or other responsible person shall:

1. Consistent Accounting Procedures. Maintain clear and consistent accounting procedures for tracking the investment and expenditures of bond proceeds, including investment earnings on bond proceeds.
2. Reimbursement Allocations at Closing. At or shortly after closing of a bond issue, ensure that any allocations for reimbursement expenditures comply with the Tax Certificate.

3. Timely Expenditure of Bond Proceeds. Monitor that sale proceeds and investment earnings on sale proceeds of tax-advantaged bonds are spent in a timely fashion consistent with the requirements of the Tax Certificate.
4. Costs of Issuance. With respect to Direct-Pay Bonds and qualified private activity bonds, monitor that no more than 2% of the sale proceeds are used to pay costs of issuance.
5. Qualified Use of Proceeds of Direct-Pay Build America Bonds. With respect to Build America Bonds, determine the correct amount of available project proceeds and monitor that 100% of all sale proceeds and investment earnings on sale proceeds (other than proceeds used to pay costs of issuance or deposited in a reasonably required reserve fund) are allocated to capital expenditures in a timely fashion consistent with the requirements of the Tax Certificate.
6. Qualified Use of Proceeds of Recovery Zone Economic Development Bonds. With respect to Recovery Zone Economic Development Bonds, determine the correct amount of available project proceeds and monitor that 100% of all sale proceeds and investment earnings on sale proceeds (other than proceeds used to pay costs of issuance or deposited in a reasonably required reserve fund) are allocated to expenditures for qualified economic development purposes within the recovery zone in a timely fashion consistent with the requirements of the Tax Certificate. Ensure compliance with the “Davis Bacon” requirements described in Section H.1. below.
7. Qualified Use of Proceeds of Specified Tax Credit Bonds. With respect to Specified Tax Credit Bonds, determine the correct amount of available project proceeds and monitor that 100% of all sale proceeds and investment earnings on sale proceeds (other than proceeds used to pay costs of issuance) are allocated to qualifying expenditures that are permitted for each type of Specified Tax Credit Bond in a timely fashion consistent with the requirements of the Tax Certificate. If proceeds are not spent by the end of the “expenditure period” as defined in Section H.2. below, redeem bonds in accordance with the requirements of the Code as further described in Section H.2. below.
8. Qualified Use of Proceeds of Qualified Private Activity Bonds. With respect to qualified bonds, including exempt facility bonds, monitor that sale proceeds and investment earnings on sale proceeds are allocated to qualifying expenditures permitted for each type of qualified bond in a timely fashion consistent with the requirements of the Tax Certificate. If an exempt facility or other applicable facility will not be completed, or the facility has been placed in service, and there are remaining unspent bond proceeds, immediately consult with bond counsel to determine whether bonds are required to be redeemed under Treasury Regulation §1.142-2. If exempt facility bonds are required to be redeemed or defeased in order to comply with the remedial action rules under Treasury Regulation §1.142-

2, such redemption or defeasance must occur within 90 days of the date an action is taken that causes the bonds to not be used for the qualifying purpose for which the bonds were issued.

9. Requisitions. Utilize requisitions to draw down bond proceeds, and ensure that each requisition contains (or has attached to it) detailed information in order to establish when and how bond proceeds were spent; review requisitions carefully before submission to ensure proper use of bond proceeds to minimize the need for reallocations.
10. Final Allocation. Ensure that a final allocation of bond proceeds (including investment earnings) to qualifying expenditures is made if bond proceeds are to be allocated to project expenditures on a basis other than “direct tracing” (direct tracing means treating the bond proceeds as spent as shown in the accounting records for bond draws and project expenditures). An allocation other than on the basis of “direct tracing” is often made to reduce the private business use of bond proceeds that would otherwise result from “direct tracing” of proceeds to project expenditures. *This allocation must be made within 18 months after the later of the date the expenditure was made or the date the project was placed in service, but not later than five years and 60 days after the date the bonds are issued (or 60 days after the bond issue is retired, if earlier)*. Bond counsel can assist with the final allocation of bond proceeds to project costs. Maintain a copy of the final allocation in the records for the tax-advantaged bond.
11. Maintenance and Retention of Records Relating to Proceeds. Maintain careful records of all project and other costs (e.g., costs of issuance, credit enhancement and capitalized interest) and uses (e.g., deposits to a reserve fund) for which bond proceeds were spent or used. These records should be maintained separately for each issue of bonds for the period indicated under Section J. below.

**E. MONITORING PRIVATE BUSINESS USE.** With respect to tax-advantaged bonds that are subject to the private activity bond limitations provided in the Code (e.g., governmental bonds and qualified 501(c)(3) bonds), the Responsible Officer or other responsible person shall:

1. Identify Bond-Financed Facilities. Identify or “map” which outstanding bond issues financed which facilities and in what amounts.
2. Review of Contracts with Private Persons. Review all of the following contracts or arrangements with non-governmental persons or organizations or the federal government (collectively referred to as “private persons”) with respect to the bond-financed facilities which could result in private business use of the facilities:
  - a. Sales of bond-financed facilities;

- b. Leases of bond-financed facilities;
  - c. Management or service contracts relating to bond-financed facilities;
  - d. Research contracts under which a private person sponsors research in bond-financed facilities; and
  - e. Any other contracts involving “special legal entitlements” (such as naming rights or exclusive provider arrangements) granted to a private person with respect to bond-financed facilities.
3. Bond Counsel Review of New Contracts or Amendments. Before amending an existing agreement with a private person or entering into any new lease, management, service, or research agreement with a private person, consult bond counsel to review such amendment or agreement to determine whether it results in private business use.
  4. Establish Procedures to Ensure Proper Use and Ownership. Establish procedures to ensure that bond-financed facilities are not used for private use without written approval of the Responsible Officer or other responsible person. For qualified 501(c)(3) bonds, establish procedures to ensure that the bond-financed facilities continue to be owned by a qualified 501(c)(3) organization or a governmental unit.
  5. Analyze Use. Analyze any private business use of bond-financed facilities and, for each issue of bonds, determine whether the 10% limit on private business use (5% in the case of qualified 501(c)(3) bonds or “unrelated or disproportionate” private business use) is exceeded, and contact bond counsel or other tax advisors if either of these limits appears to be exceeded.
  6. Remediation if Limits Exceeded. If it appears that private business use limits are exceeded, immediately consult with bond counsel to determine if a remedial action is required with respect to nonqualified bonds of the issue under Treasury Regulation §1.141-12, or if the IRS should be contacted under its Voluntary Closing Agreement Program. If tax-advantaged bonds are required to be redeemed or defeased in order to comply with the remedial action rules under Treasury Regulation §1.141-12, such redemption or defeasance must occur within 90 days of the date a deliberate action is taken that results in a violation of the private business use limits.
  7. Maintenance and Retention of Records Relating to Private Use. Retain copies of all of the above contracts or arrangements (or, if no written contract exists, detailed records of the contracts or arrangements) with private persons for the period indicated under Section J. below.

- F. MONITORING USE OF FACILITIES FINANCED WITH QUALIFIED PRIVATE ACTIVITY BONDS.** With respect to tax-advantaged bonds that are not subject to the private activity bond limitations, but are subject to the limitations provided in the Code as to the qualifying use of proceeds and qualifying use of bond-financed facilities (e.g., exempt facility bonds, qualified small issue bonds and qualified redevelopment bonds), the Responsible Officer or other responsible person shall:
1. Identify Bond-Financed Facilities. Identify or “map” facilities that have been bond-financed and assure that use is for an appropriate purpose (e.g., airport facilities are being used for airport purposes).
  2. Review of Contracts with Private Persons. If the bond-financed facilities are required to be governmentally owned, examine all leases, management contracts or other contracts with private persons to assure compliance with applicable safe-harbors for governmental ownership provided in the Code. Before amending an existing agreement or entering into any new lease, management or other contract, consult bond counsel to review such amendment or agreement to determine whether it complies with applicable safe harbors.
  3. Establish Procedures to Monitor Use. Establish procedures to monitor that bond-financed facilities are not used for nonqualifying purposes. Require users of facilities to immediately notify the Responsible Officer or other responsible person if a change in use of the facilities is contemplated or occurs.
  4. Remediation if Limitations Exceeded. If qualified use of facilities financed with tax-advantaged bonds changes to a non-qualified use (e.g., use of airport facilities that is not for airport purposes), immediately consult with bond counsel to determine if a remedial action is required with respect to nonqualified bonds of the issue under Treasury Regulation §1.142-2, or if the IRS should be contacted under its Voluntary Closing Agreement Program. If tax-advantaged bonds are required to be redeemed or defeased in order to comply with the remedial action rules under Treasury Regulation §1.142-2, such redemption or defeasance must occur within 90 days of the date an action is taken that causes the bonds to not be used for the qualifying purpose for which the bonds were issued.
  5. Maintenance and Retention of Records Relating to Qualifying Use. Retain copies of all of the above contracts or arrangements (or, if no written contract exists, detailed records of the contracts or arrangements) with private persons for the period indicated under Section J. below.
- G. LOAN OF BOND PROCEEDS.** Consult bond counsel if a loan of proceeds of tax-advantaged bonds is contemplated. If proceeds of tax-advantaged bonds are permitted under the Code to be loaned to other entities and are in fact so loaned, require that the entities receiving a loan of bond proceeds institute policies and procedures similar to the Procedures to ensure that the proceeds of the loan and the facilities financed with

proceeds of the loan comply with the limitations provided in the Code. Require the recipients of such loans to annually report to the Issuer ongoing compliance with the Procedures and the requirements of the Code.

**H. SPECIAL REQUIREMENTS APPLICABLE TO SPECIFIED TAX CREDIT BONDS.** The Code imposes certain additional special requirements that apply to the issuance of Specified Tax Credit Bonds. For Specified Tax Credit Bonds, ensure that the following are met:

1. Davis-Bacon. Pursuant to the terms of Section 1701 of the American Recovery and Reinvestment Tax Act of 2009, projects financed with Specified Tax Credit Bonds are subject to the prevailing wage requirements of Subchapter IV of Chapter 31 of Title 40, United States Code. Note that these requirements also apply to the issuance of Recovery Zone Economic Development Bonds.
2. Spending Requirements. Although these may seem similar to “temporary period requirements,” the “spending requirements” applicable to Specified Tax Credit Bonds are hard and fast rules that if not met may cause payments of the Subsidy on some or all of the Specified Tax Credit Bonds to be lost or revoked and will require redemption of such bonds. The spending requirements are as follows:
  - a. 100% of the sale proceeds and investment proceeds must be spent within the 3 year period beginning on the date of issuance (unless such period is extended as described below) (the “expenditure period”);
  - b. a binding commitment with a third party to spend at least 10 percent of the sale proceeds and investment proceeds (other than the amount spent on costs of issuance) (“available project proceeds”) will be incurred within the six month period beginning on the date of issuance;
  - c. to the extent less than 100% of available project proceeds are not spent by the end of the expenditure period for qualified purposes, the Issuer must redeem all of the “nonqualified bonds”) within 90 days after the end of the expenditure period (this should be done with the assistance of bond counsel);
  - d. the expenditure period may be extended beyond the initial three year period only by the U.S. Treasury upon the request of the Issuer, which request must establish that the failure to spend the available project proceeds within three years was due to a reasonable cause and that spending will continue with due diligence.
3. Sinking Funds. Special rules permit Specified Tax Credit Bonds to be structured with sinking funds that will not be subject to rebate. These sinking funds must be structured as follows:

- a. the sinking fund may not be funded more rapidly than in equal monthly installments;
  - b. the sinking fund may only be funded in a manner reasonably expected to result in an amount not greater than the amount necessary to repay the bond issue; and
  - c. the yield on the investments in the sinking fund may not exceed the published permitted sinking fund yield for the sale date (which is set forth in the Tax Certificate).
4. Prohibition on Financial Conflicts of Interest. Upon the issuance of Specified Tax Credit Bonds, the Issuer certified that applicable State and local laws governing conflicts of interest were followed with respect to the bonds. If the U.S. Treasury prescribes additional conflicts of interest rules with respect to the Specified Tax Credit Bonds, such rules must also be satisfied.
  5. Additional Rules Applicable to Specified Tax Credit Bonds. New clean renewable energy bonds, energy conservation bonds, qualified school construction bonds and qualified zone academy bonds each have their own set of specific and unique requirements that are applicable to the use of proceeds or eligibility as a Specified Tax Credit Bond. The Responsible Officer should consult the Tax Certificate and establish procedures for monitoring compliance with such specific requirements that are applicable to the Specified Tax Credit Bonds of the Issuer.

**I. ARBITRAGE AND REBATE COMPLIANCE.** The Responsible Officer or other responsible person shall:

1. Review Tax Certificate. Review each Tax Certificate to understand the specific requirements that are applicable to each tax-advantaged bond issue.
2. Arbitrage Yield. Record the arbitrage yield of the bond issue, as shown on IRS Form 8038-G, 8038-B, 8038-TC or other applicable form. If the bonds are variable rate bonds, yield must be determined on an ongoing basis over the life of the bonds as described in the Tax Certificate.
3. Temporary Periods. Review the Tax Certificate to determine the “temporary periods” for each bond issue, which are the periods during which proceeds of bonds may be invested without yield restriction.
4. Post-Temporary Period Investments. Ensure that any investment of bond proceeds after applicable temporary periods is at a yield that does not exceed the applicable bond yield, unless yield reduction payments can be made pursuant to the Tax Certificate.

5. Monitor Temporary Period Compliance. Monitor that bond proceeds (including investment earnings) are expended promptly after the bonds are issued in accordance with the expectations for satisfaction of three-year or five-year temporary periods for investment of bond proceeds and to avoid “hedge bond” status.
6. Monitor Yield Restriction Limitations. Identify situations in which compliance with applicable yield restrictions depends upon later investments (e.g., the purchase of 0% State and Local Government Securities from the U.S. Treasury for an advance refunding escrow). Monitor and verify that these purchases are made as contemplated.
7. Establish Fair Market Value of Investments. Ensure that investments acquired with bond proceeds satisfy IRS regulatory safe harbors for establishing fair market value (e.g., through the use of bidding procedures), and maintaining records to demonstrate satisfaction of such safe harbors. Consult the Tax Certificate for a description of applicable rules.
8. Credit Enhancement, Hedging and Sinking Funds. Consult with bond counsel before engaging in credit enhancement or hedging transactions relating to a bond issue, and before creating separate funds that are reasonably expected to be used to pay debt service on bonds. Maintain copies of all contracts and certificates relating to credit enhancement and hedging transactions that are entered into relating to a bond issue.
9. Grants/Donations to Governmental Entities. Before beginning a capital campaign or grant application that may result in gifts that are restricted to bond-financed projects (or, in the absence of such a campaign, upon the receipt of such restricted gifts), consult bond counsel to determine whether replacement proceeds may result that are required to be yield restricted.
10. Bona Fide Debt Service Fund. Even after all proceeds of a given bond issue have been spent, ensure that the debt service fund meets the requirements of a “bona fide debt service fund,” i.e., one used primarily to achieve a proper matching of revenues with debt service that is depleted at least once each bond year, except for a reasonable carryover amount not to exceed the greater of: (i) the earnings on the fund for the immediately preceding bond year; or (ii) one-twelfth of the debt service on the issue for the immediately preceding bond year. To the extent that a debt service fund qualifies as a bona fide debt service fund for a given bond year, the investment of amounts held in that fund is not subject to yield restriction for that year.
11. Debt Service Reserve Funds. Ensure that amounts invested in any reasonably required debt service reserve fund do not exceed the least of: (i) 10% of the stated principal amount of the bonds (or the sale proceeds of the bond issue if the bond

issue has original issue discount or original issue premium that exceeds 2% of the stated principal amount of the bond issue plus, in the case of premium, reasonable underwriter's compensation); (ii) maximum annual debt service on the bond issue; or (iii) 125% of average annual debt service on the bond issue.

12. Rebate and Yield Reduction Payment Compliance. Review the Arbitrage Rebate covenants contained in the Tax Certificate. Subject to certain rebate exceptions described below, investment earnings on bond proceeds at a yield in excess of the bond yield (i.e., positive arbitrage) generally must be rebated to the U.S. Treasury, even if a temporary period exception from yield restriction allowed the earning of positive arbitrage.
  - a. Ensure that rebate and yield reduction payment calculations will be timely performed and payment of such amounts, if any, will be timely made. Such payments are generally due 60 days after the fifth anniversary of the date of issue of the bonds, then in succeeding installments every five years. The final rebate payment for a bond issue is due 60 days after retirement of the last bond of the issue. The Issuer should hire a rebate consultant if necessary.
  - b. Review the rebate section of the Tax Certificate to determine whether the "small issuer" rebate exception applies to the bond issue.
  - c. If the 6-month, 18-month, or 24-month spending exceptions from the rebate requirement (as described in the Tax Certificate) may apply to the bonds, ensure that the spending of proceeds is monitored prior to semi-annual spending dates for the applicable exception.
  - d. Make rebate and yield reduction payments and file Form 8038-T in a timely manner.
  - e. Even after all other proceeds of a given bond issue have been spent, ensure compliance with rebate requirements for any debt service reserve fund and any debt service fund that is not exempt from the rebate requirement (see the Arbitrage Rebate covenants contained in the Tax Certificate).
13. Maintenance and Retention of Arbitrage and Rebate Records. Maintain records of investments and expenditures of proceeds, rebate exception analyses, rebate calculations, Forms 8038-T, and rebate and yield reduction payments, and any other records relevant to compliance with the arbitrage restrictions for the period indicated in Section J. below.

**J. RECORD RETENTION.** The Responsible Officer or other responsible person shall ensure that for each issue of bonds, the transcript and all records and documents described in these Procedures will be maintained while any of the bonds are outstanding and during

the three-year period following the final maturity or redemption of that bond issue, or if the bonds are refunded (or re-refunded), while any of the refunding bonds are outstanding and during the three-year period following the final maturity or redemption of the refunding bonds.

**Appendix C**  
**Community Facilities District Guidelines and Procedures**