CITY OF PEORIA, ARIZONA
COUNCIL COMMUNICATIONS

CC: 19C
Amend No. ________

Date prepared: October 17, 2010 **Council Meeting Date: November 16, 2010**

TO: Carl Swenson, City Manager

THROUGH: Susan Thorpe, Deputy City Manager SJT for

FROM: Brent Mattingly, Finance Director/CFO Bm

SUBJECT: Principles of Sound Financial Management

RECOMMENDATION:
That the Mayor and Council adopt Res. No. 10 -94 approving the revised Principles of Sound Financial Management.

SUMMARY:

In October 2005 the City Council last updated the Principles of Sound Financial Management (POSFM) document that was originally adopted in 2000. The Principles of Sound Financial Management establishes 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. Following these principles enhances the city's financial health as well as its image and credibility with its citizens, the public in general, and bond rating agencies.

It is important to regularly engage in the process of financial planning, including reaffirming and updating these financial guidelines. Policy changes are a necessary part of this process as the city becomes more diverse and the services it provides become more complex. In recognition of the need for review and reaffirmation, Section 17 of the document includes a provision for the Council to periodically review, discuss and revise as needed the Principles of Sound Financial Management.

Staff has completed a comprehensive review of the city's current financial policies and developed a number of proposed changes. Finance Department staff held a series of meetings to review each policy in detail. Staff also reviewed policies and recommended practices from organizations including the Government Finance Officers Association.

CITY CLERK USE ONLY:
- ☐ Consent Agenda
- ☐ Carry Over to Date:________
- ☐ Approved
- ☐ Unfinished Business (Date heard previous:_______)
- ☐ New Business
- ☐ Public Hearing: No Action Taken

ORD. #________ **RES. #** 2010-94
LCON#________ **LIC. #**________
Action Date:

In a City Council study session on October 5, 2010, staff presented the proposed revisions to the "Principles of Sound Financial Management" for Council's review and discussion. The attached document incorporates Council's comments and direction.

The following summarizes some of the revisions to the Principles of Sound Financial Management.

<u>Policy 1 – Fiscal Planning and Budgeting</u>

1) This section has some general language changes specifying our current budgeting practices. There are no significant changes to the nature, content, or approach to our budgeting and financial planning.

2) Consistent with Council and management interest, a stronger emphasis has been placed on performance management (Section 1.07).

<u>Policy 2 – Fund Balance</u>

3) Section 2.01 and Section 2.02 include additional language describing the purpose of maintaining an appropriate level of fund balance.

4) The percentage amount of the General Fund reserve is not proposed to be changed. However, changes to the <u>structure</u> of the reserve are proposed. In addition, the new language is intended to meet the requirements of a new accounting standard issued by the Governmental Accounting Standards Board (GASB). GASB Statement #54 requires that a policy be adopted that clearly defines any reserve amounts and the circumstances under the reserves may be expended.

   The total 35% level is not proposed to change. Sections 2.03 through 2.05 propose that the General Fund 35% reserve level include three components versus the current policy containing only two components. The three components are proposed as follows: 1) a 10% "Emergency Reserve" for large scale emergency events (such as floods and storms), 2) a 15% "Operating Reserve" for unexpected events such as loss of state shared revenues, and 3) a 10% "Budget Stabilization Reserve" that could be used as a bridge to ensure continuance of critical city activities while restructuring city operations during significant fluctuations in fiscal conditions.

   I believe that this proposed revision to the structure of the General Fund reserve provide clarity as to the potential use of each component as well as the timeframe in which it should be restored. The revisions provide some additional, and appropriate, flexibility in using the third component as a mechanism to maintain critical services in difficult economic times.

Section 2.07 includes language required under GASB Statement #54 specifying the classification and priority of various components of fund balance.

Policies 3, 4, 5 and 6

5) The changes in policy sections 3, 4, 5 and 6 include minor language updates and clarifications.

Policy 7 – Development Impact Fees

6) This section has been revised to reflect changes in state law that requires an infrastructure improvement plan (IIP) as the basis for calculating impact fees. Other minor language changes are included.

Policy 8 – Capital Improvement Program

7) This section has some revisions that clarify existing practices, such as the requirement for a financially balanced capital plan (Section 8.01), that the plan may include funding for the replacement of city infrastructure (Section 8.02 d and 8.04), and that the first year of the adopted multi-year plan becomes the capital budget for that fiscal year (Section 8.06).

Policy 9 – Capital Asset Accounting and Replacement

8) This section has been expanded to document the practices used to periodically verify the existence of capital assets (including vehicles, equipment, computers, etc.).

Policies 10 and 11

9) The changes in policy sections 10 and 11 include minor language updates and clarifications. Section 11.01 was removed reflecting that there are occasionally projects, funded with council approval, that were not originally included in the capital improvement plan. In these unique situations the entire capital improvement plan is not formally amended.

Policy 12 – Utility Enterprise Funds

10) The recommended target debt coverage ratio (Section 12.03) has been increased to be consistent with the City's improved bond rating. Peoria's bond rating has increased over the past several years to its current AA level. Consistent with this higher rating, there is an expectation of a higher debt coverage ratio. Based on rating agency research, staff is recommending

increasing the ratio from a target of 1.50 times to a target of 2.0 times. This target would be used in the city's multi-year forecast models used for rate analysis purposes.

11) Section 12.04 of the draft policy includes a recommendation to reduce the enterprise fund operating reserve level. The current policy includes a working capital reserve of at least 50% but not more than 75% of revenues. Staff recommends lowering this working capital reserve to a level of 25% of expenditures. The higher reserve levels were established when the utility systems were small and were requiring a significant amount of new capital infrastructure to meet system demands and regulatory requirements.

    Staff believes the lower operating reserve is appropriate and consistent with industry practices. It is important to note that the proposed "Rate Stabilization Reserve" and the "Debt Stabilization Reserve" described below will supplement the proposed reduced operating reserve with reserves for specific purposes.

12) Staff recommends establishing a new "Rate Stabilization Reserve" equal to 5% of average revenues for the prior three years. The rate stabilization reserve can be used to moderate and/or smooth the implementation of required rate adjustments. This reserve is described in Section 12.05 of the draft language.

13) Staff also recommends establishing a new "Debt Stabilization Reserve" equal to 50% of the projected annual debt service. The debt stabilization reserve is intended to provide additional security to insure the city's ability to meet its debt service obligations. This reserve is similar to debt service reserves required under some bond covenants. Although the city does not currently have any bond covenants to fund a debt service reserve, staff recommends following this practice. This reserve is described in Section 12.06 of the draft language.

14) The City currently maintains a reserve equal to 2% of its infrastructure assets. This is a common bond covenant to insure funding for significant system capital needs to protect bondholders from lost revenues. Section 12.07 of the draft policy formalizes the current 2% infrastructure reserve and provides a funding source for critical system maintenance and/or repair.

15) Section 12.08 codifies an existing practice whereby funds in excess of the required reserves are used to help fund capital projects or reduce debt. Consistent with existing practice it also states that one-time funds will not be used to support on-going expenditures.

16) The working capital reserve is proposed to be calculated based on operating expenditures rather than revenues. This is consistent with industry practice.

17) Other minor language changes and clarifications are also included.

<u>Policy 13 – Half Cent Sales Tax Fund</u>

18) A minor language change has been made to Section 13.03 expanding the definition of "Economic Development Expenditures".

19) The amount of the Half Cent Sales Tax Fund reserve is not changed. However, additional language is proposed to meet the requirements of GASB Statement #54 that requires explanation of the circumstances under the reserves may be expended.

    The total 35% level is not proposed to change. Section 13.04 b) clarifies that the reserve can be used to fund large scale emergency events, unexpected financial events or loss of revenues, or fluctuations if fiscal cycles and operating requirements. It includes the requirement for council approval and a plan to restore the reserve level within three fiscal years following the use of the funds.

20) The specific examples of "operational expenditures" have been eliminated from the policy since these types of expenditures are subject to change on an annual basis dependent on the adoption of the city budget.

<u>Policy 14 – Economic Development</u>

21) Language changes and clarifications were made throughout this policy section to reflect Council's discussions over the past months regarding economic development.

22) Section 14.10 includes new language discussing the potential use of development incentives. Economic Development staff is working to develop documents further describing the purposes, process, costs, benefits, and analysis that would be considered in the use of economic development incentives.

<u>Policies 15, 16, 17 and Appendix A</u>

23) Only minor language updates are proposed. Appendix A includes new criteria that are required for disclosure as a Significant Event.

<u>Appendix B – Community Facilities District Guidelines and Procedures</u>

24) The revised CFD policies as adopted by Council in November 2009 are attached to the final adopted Principles of Sound Financial Management.

Staff believes these changes represent Council's direction and recommends Council adopt the attached Resolution approving the revised Principles of Sound Financial Management. The resolution has been reviewed and approved as to form by the City Attorney's Office.

ATTACHMENT:

1. Resolution 10 - 2010-94
   Exhibit A – Revised Principles of Sound Financial Management

RESOLUTION 2010 - 94

A RESOLUTION OF THE MAYOR AND COUNCIL OF THE CITY OF PEORIA, MARICOPA COUNTY, ARIZONA ADOPTING GUIDELINES AND POLICIES GOVERNING THE OVERALL FISCAL PLANNING AND MANAGEMENT OF THE CITY'S FINANCES; AND PROVIDING FOR AN EFFECTIVE DATE.

WHEREAS, the Mayor and Council of the City of Peoria determine that is in the public interest to provide for guidelines to govern the overall fiscal planning and management of the City's finances.

WHEREAS, the Chief Financial Officer exercises the day to day authority over the management of the City's finances.

THEREFORE, it is resolved by the Mayor and Council of the City of Peoria, Maricopa County, Arizona as follows:

SECTION 1. ADOPTION OF THE PRINCIPLES OF SOUND FINANCIAL MANAGEMENT.

That the Mayor and Council adopt and approve the policies attached as Exhibit "A" as official guidelines for the management of the finances of the City of Peoria.

SECTION 2. RESPONSIBILITY OF THE CHIEF FINANCIAL OFFICER.

That the Chief Financial Officer is authorized and directed to manage the City's finances in accordance with these adopted guidelines and policies.

SECTION 3. EFFECTIVE DATE.

This resolution shall become effective in the manner provided by law.

PASSED AND ADOPTED by the Mayor and Council of the City of Peoria, Arizona, this 16th day of November , 2010.

____
Bob Barrett, Mayor

ATTEST:

____
City Clerk

APPROVED AS TO FORM:

____
Stephen M. Kemp, City Attorney

CITY OF PEORIA, ARIZONA

PRINCIPLES OF SOUND FINANCIAL MANAGEMENT

Revised November 16, 2010

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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 Statues.

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, 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 valorum (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.

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 <u>minimum</u> 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 Statues 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 of 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
Community Facilities District Guidelines and Procedures

CITY OF PEORIA, ARIZONA
POLICY GUIDELINES AND APPLICATION PROCEDURES
FOR THE ESTABLISHMENT OF
COMMUNITY FACILITIES DISTRICTS

In order to secure for the City of Peoria, Arizona (the "City") the benefits of the Community Facilities Act (the "Act") enacted by the Arizona Legislature in 1988 and to promote the best interests of the City, the following Policy Guidelines and Application Procedures are adopted by the City Council.

A community facilities district ("CFD") provides a funding mechanism to finance construction, acquisition, operation and maintenance of public infrastructure that benefits the real property comprising the CFD and its ultimate users, and to better enable the City to provide municipal services benefiting the users of the real property within the CFD.

Recognizing a CFD is a statutory special taxing district with municipal taxing and borrowing powers created within the boundaries of the City, the City Council believes that the formation of each CFD should be entered into carefully in order to ensure its lasting success.

It is for these reasons that the City Council has established the following Policy Guidelines and Application Procedures.

ARTICLE 1.
General Policies

1.1 It is prudent that Peoria utilize a CFD where Council public policy objectives are facilitated by providing this financing mechanism.

1.2 CFDs should be utilized primarily in connection with the financing of infrastructure for projects that bring additional revenue or benefits to the City.

1.3 Special consideration should be given to CFDs that provide enhanced infrastructure and/or municipal services beyond what is normally expected and/or required in a similar project. Any public infrastructure financed by a CFD should be in conformance with the City's General Plan in order to encourage orderly growth and development.

1.4 All costs incurred by the City and/or the CFD in connection with the CFD application and formation will be paid by the applicant/landowner (the "Applicant") through a series of monetary deposits as provided herein. These deposits shall be applied to payments for services rendered by the City staff, CFD staff and services rendered by outside consultants who may be retained by the City and/or the CFD, including but not limited to bond counsel, financial advisors, engineers, appraisers and attorneys. The City may use outside consultants as "staff" to review or confirm any analyses prepared in conjunction with an application or financing of the CFD. If authorized by the CFD board of directors, exercising its sole discretion, all or part of such costs may be reimbursed to the Applicant from a CFD tax levy, CFD assessments, CFD revenues or CFD bond proceeds, provided such reimbursement is in conformance with federal law, state law and these guidelines.

1.5 The City will encourage an area to be governed by as few CFDs as possible, and a preference will be given to one master CFD for a single development. This policy is adopted to facilitate ease of administration and to create the largest tax/revenue base possible. The decision to form a CFD shall be determined by the City Council exercising its sole and absolute discretion.

1.6 Unless otherwise agreed to by the City Council, and pursuant to state statutes, the CFD will be governed by a board of directors comprised of the members of the City Council. The day-to-day administrative responsibilities of the CFD will be performed pursuant to a contract by outside personnel or by the City staff. The City will determine that adequate safeguards and controls are in place to ensure the soundness of any CFD financing program, as well as the adequacy and legality of the legal proceedings and disclosure documents in connection with any financing. At the option of the CFD board of directors and with approval by the City Council, advisory committees may be utilized.

1.7 Unless otherwise agreed to by the City, the CFD must be self-supporting from the standpoint of financing, operations and maintenance and no City funds will be used for CFD purposes. Notwithstanding anything contained herein, neither the property, the full faith and credit nor the taxing power of the City shall be pledged to the payment of any CFD obligation or indebtedness.

1.8 After review of the project feasibility report, property appraisals and other required pertinent information, the CFD board of directors will determine, in its sole and absolute discretion, the amount, timing and form of financing to be used by a CFD.

1.9 All public infrastructure constructed or acquired by the CFD will utilize statutory public procurement procedures in accordance with applicable laws, rules and regulations, as applicable.

1.10 The CFD will not use bond proceeds or other CFD funds to purchase public rights-of-way or other real property to be used for public infrastructure improvements if such real property would be required to be dedicated and conveyed to the City by the Applicant upon development of the Applicant's property.

1.11 Unless otherwise agreed to by the City, all costs of administration and operation of the CFD and the operation and maintenance of public infrastructure in the CFD, including replacement reserves if appropriate, shall be the responsibility of the CFD, the Applicant, applicable homeowners associations, or any combination of the foregoing, as may be acceptable to the City and the CFD board of directors.

1.12 These Policy Guidelines and Application Procedures may be modified from time to time by the City. Any Applicant will be given the opportunity to propose alternative approaches to those provided herein, with the understanding that concerns of the City must be adequately addressed before the staff of the City will recommend approval of a CFD to the City Council.

ARTICLE 2.
Content of Application

An Application for the formation of a CFD must be completed prior to any determination that a CFD will be formed. The Application shall be submitted to the City's Finance Department. The Application shall, at a minimum, contain the following information and be organized in the manner described below.

Applicant Information

2.1 Applicant Information. A general description of the Applicant, including the corporate and organizational structure of the entity or individual making the Application to form a CFD. This description should also include the names of all officers and/or corporate directors directly related or associated with the proposed development and the proposed CFD.

2.2 Applicant Contact. The name, address, phone number and other relevant information of the primary contact for the Applicant. This information should also list the names (and other relevant information) of any legal representatives, engineers, architects, financial consultants and/or other consultants significantly involved in the Application.

2.3 Experience. A general description of the Applicant's experience with similar types of projects.

2.4 Financial Capability. Evidence demonstrating the Applicant's ability and capacity (including financial statements if necessary) to undertake the proposed development.

Proposed CFD and Project Description

2.5 General Description. The Application shall provide a general description of the CFD, its purpose, proposed improvements and/or services to be provided and a statement describing the overall community benefit or enhanced public services to be derived from the CFD. This description should also include a statement of how the proposed CFD meets the existing development objectives of the City, including the degree to which the CFD is consistent with the goals of the City's General Plan for promoting orderly development, consistent with growth management policies and zoning requirements and the degree to which the land use plan for the CFD is consistent with the City's General Plan.

2.6 Location. The Applicant shall provide a description of the proposed CFD's general location within the City; an area site map illustrating the proposed boundaries and a legal description of the proposed boundaries. This description must include an analysis of the appropriateness of the CFD boundaries.

2.7 Ownership Interests. The Applicant shall provide the identity and address of all persons or entities with any interest in the property, including lien holders and purchasers under pending sales contracts, and the names and addresses of any qualified electors located within the proposed boundaries of the CFD. A current title report and certificate from the Maricopa County Elections Department shall be submitted as evidence of names or persons with any interest in the land and qualified electors, respectively.

Proposed Improvements

2.8 Description of Project. The Application shall contain a detailed description of the types of public infrastructure to be financed and/or acquired by the CFD. This description should include a proposed project schedule for commencement and completion of (a) public infrastructure and (b) the private development.

2.9 Estimated Costs. The Application shall provide an estimate of the construction and/or acquisition costs of the public infrastructure to be completed by the CFD. This information shall include a detailed list of the estimated cost of each component of the public improvements.

2.10 Development Timetable. A detailed timetable describing the scheduling, timing or phasing of the improvements shall be provided in the Application. This schedule should include a timetable for constructing/acquiring both the public and private components of the overall development. Each phase of the development should be shown separately.

Financing Plan

2.11 Description of Financial Plan. The Application shall include a detailed description of the capital financing plan for the public infrastructure and the private development, including both public and private components of the development. This description should include the proposed types of tax-exempt/taxable bonds to be issued for the public improvements as well as the financing plan of the Applicant for the private developments and the sources of the proposed financing of debt or equity.

2.12 Sources and Uses of Funds. The Application shall include a detailed sources and uses of funds for the public improvements. This schedule should include the description of components of the public improvements that will be financed by the type of bond to be issued.

2.13 Financial Feasibility. The Application should include a 20-year financial feasibility study for the entire project including both the public infrastructure and the private development. This feasibility study should include, if possible, a preliminary market absorption study for the private development.

2.14 Fiscal Impact. The Application shall provide an analysis of the taxes, assessments and utilities fee impact on the property owners/residents/users within the CFD, specifically, projected property tax rates and levies, special assessments, fees, charges and any other costs to be borne by the property owners/residents/users in the CFD. A comparative analysis of such taxes, assessments and fees of similar or adjoining areas and/or CFDs should also be provided.

2.15 Value-to-Lien Ratio Analysis. Based on the estimated value of the property within the development, including the acquisition and/or construction of the public improvements within the CFD, the Application shall include an analysis of the value-to-lien ratios of the proposed public financing.

2.16 Operation and Maintenance Costs. The Application shall provide a detailed description and a financial pro-forma of the estimated annual operation and maintenance cost of the public infrastructure along with the governmental approvals that will be required for both the public and private improvements to be constructed and operated. The Application must clearly detail the specific entities such as CFD, Homeowners Associations, Applicant, City, etc that will be responsible for funding the on-going operation and maintenance costs for all CFD improvements. This section should also provide a description of the revenue source of such operations.

Miscellaneous Information

2.17 Marketing Plan. The Application shall provide a detailed description of the proposed marketing plan to be used by the Applicant to market the property within the CFD. This information may include comparisons of the proposed CFD to similar CFDs in the area.

2.18 Disclosure to Prospective Property Owners. The Application shall include information regarding the proposed disclosure forms that will be used to describe to prospective buyers the potential tax, assessment and fee implications of the CFD. Such forms shall have provisions for the signed acknowledgement of receipt of such disclosure forms. The Applicant and any subsequent developer/builder are required to describe in their promotional materials the financial and other relative impacts of the development being in a CFD. The Applicant should also describe the process and record-keeping processes to be used for retaining all signed homeowner CFD acknowledgement disclosure statements.

2.19 Operating Plan. The Application shall include an operating plan for the CFD, describing the functions of the CFD and how the operation and maintenance of the infrastructure and any other services will be provided.

2.20 Development Agreements. The Application shall include (as an Appendix) any Development Agreements entered into between the City and the Applicant relating to this proposed development.

ARTICLE 3.
Application Procedures

3.1 Ten copies of the Application for the formation of a CFD shall be submitted to the Chief Financial Officer of the City who will coordinate an inter-departmental analysis of the Application.

3.2 At the time of submission of the Application, the Applicant shall pay a non-refundable application fee of $5,000 and shall deposit an additional $25,000 as a deposit on account to be applied by the City in its sole discretion to the costs incurred in connection with processing and reviewing the application and the formation and administration of the CFD. When such $25,000 (and each subsequent $25,000 amount hereinafter described) is expended, an accounting will be made to the Applicant for all costs incurred by the City and an additional $25,000 will be requested and must be paid forthwith.

3.3 After the application fee and deposit are submitted, the Chief Financial Officer shall arrange a pre-review conference with the appropriate City staff, for the purpose of reviewing the Application for conformity with City policies.

3.4 If, following the pre-review conference or any other time during the Application process City staff requests additional information, the Applicant shall provide any and all supplemental information requested prior to proceeding to the next step of the review process.

3.5 The review, analysis and implementation of an Application will be generally conducted in four sequential phases.

a. Phase 1 will consist of a preliminary review of the Application to identify missing or incomplete information and to identify and discuss any initial concerns prior to the City undertaking a more complete review of the Application.

b. Phase 2 will consist of a detailed review of the Application as amended. The review will include, but will not be limited to, examining the project feasibility, financing analyses and evaluation of community benefits. This phase may include several iterations of review, comment and re-review. Under the direction of the Chief Financial Officer, a report may be prepared including recommendations related to the CFD and an analysis of the impact of the formation of the CFD and its effects on the City. This report may provide a recommended disposition of the Application and any additional requirements that will be placed on the Applicant, developer/landowner, builder and/or the CFD.

c. Phase 3, if undertaken, will consist of the planning, development, creation, financing and bond issuance for the CFD.

d. Phase 4, if necessary, will consist of the continuing administration, oversight and management of the CFD.

3.6 All costs must be paid by the Applicant and received by the City at least fourteen (14) days prior to the date of the City Council meeting at which the Application is to be considered. If the Application meets the qualifications provided herein, the Application, along with any report and recommendations by City staff, will be forwarded to the City Council.

3.7 If the City Council approves an Application for formation of a CFD, the Applicant and the staff of the City shall coordinate a schedule of events for formation of the CFD. Prior to formation of the CFD the Applicant and the City shall enter into a development agreement incorporating the requirements of any report, recommendations of the City staff relating to such CFD, the requirements of these policy guidelines and any other restrictions, provisions and agreements required by the City.

3.8 If the City Council approves the formation of a CFD and there are existing agreements with the Applicant and/or any other developers/landowners for the provision of infrastructure proposed to be furnished by the CFD, then those agreements will be amended to reflect the agreements and conditions pertaining to the CFD. The amendments will reflect that such infrastructure improvements will be provided (including by acquisition) by either the Applicant, developer/landowner or the CFD.

ARTICLE 4.
CFD Operations and Debt Financing

4.1 Upon formation of a CFD the Applicant shall deposit with the CFD a nonrefundable administrative expense fee in the amount of $25,000. The administrative expense fee shall be applied by the CFD to the costs and expenses incurred in connection with the formation, review of any feasibility study, election costs, administration, operation and maintenance of the CFD or its public improvements. These deposits shall be applied to payments for services rendered by the City staff, CFD staff and services rendered by outside consultants who may be retained by the City and/or the CFD, including but not limited to bond counsel, financial advisors, engineers, appraisers and attorneys. From time to time, upon depletion of the administrative expense fee, the CFD may request, and the Applicant shall promptly deposit with the CFD, additional $25,000 deposits to be applied to the purposes contemplated in this Section.

4.2 The City and CFD may require the imposition of an ad valorem tax per $100.00 of assessed value upon the CFD taxable property in order to provide for the CFD to be self-supporting for its administrative, operation and maintenance expenses, and replacement reserve purposes if appropriate. Failure to agree to impose any necessary tax for the operation and maintenance of the CFD will relieve the City and the CFD from undertaking any obligations or operations.

4.3 In connection with any request for debt financing, unless otherwise agreed by the City, the Applicant will provide a current appraisal of the fair cash market value of the property within the proposed CFD that is to be taxed or assessed, prepared by a person who is designated as a Member Appraisal Institute ("MAI") and a certified general real estate appraiser (such person hereafter referred to as an "MAI Appraiser"), such appraisal to be in form and substance acceptable to the City, in its sole discretion. Generally, the appraisal shall be based on the wholesale, bulk sale of the property in the CFD.

4.4 The amount of debt of a CFD may not have any substantial direct or indirect negative impacts on the debt or financing capabilities of the City, and the debt imposed on the CFD may not impose an unreasonable financial burden on future CFD residents.

4.5 If general obligation bonds are to be issued by the CFD, those general obligation bonds will be secured by an unlimited ad valorem tax on all taxable property located within the CFD. Prior to the issuance of general obligation bonds by the CFD, the applicant shall describe in the project feasibility report, in addition to the statutory requirements, the following information:

a. The current direct and overlapping tax and assessment burden on the taxable property that is proposed to be taxed and the full cash value and assessed valuation of the taxable property as shown on the most recent assessment roll.

b. The amount and timing of CFD general obligation bonds to be issued.

c. The expected market absorption of development within the CFD.

d. The effect of the CFD bond issuance on CFD property tax rates, calculated over the entire period of time that the proposed General Obligation Bonds are estimated to be outstanding or based on the phasing of the project to be financed, as applicable.

e. The CFD board of directors may attempt to limit the total tax rates of the CFD. If the pre-established debt service tax rate is not sufficient to pay the entire debt service in respect of outstanding General Obligation Bonds when due, the Applicant/Developer will be required to contribute an amount annually sufficient to pay the difference between the revenues produced by the pre-established tax rate and the actual CFD debt service coming due in that fiscal year. Security for the Applicant/Developer's payment of this contribution may be in the form of a cash contribution, standby contribution agreement or other acceptable form of security, which shall be bankruptcy proof, as required by the City and the CFD board of directors. A cash flow schedule illustrating the security amount and the time period required to cover such shortfall will be required to be submitted by the Applicant prior to the issuance of General Obligation Bonds. The security shall remain in full force and effect until such time as the CFD board of directors, exercising their sole discretion, determines the assessed value of real property in the CFD is sufficient to generate ad valorem taxes at the pre-established CFD tax rate sufficient to pay the actual CFD debt service. At that time, the CFD board of directors, exercising their sole discretion, will determine whether the Applicant's security will be released in whole or in part.

f. Any economic advantage or the estimated savings, if any, to residents in the form of reduced purchase prices, enhanced public services and/amenities, additional community benefits, etc. that are projected to result from CFD financing.

g. The marketing plan for the issuance of bonds shall be described. The plan should include a statement of whether the bonds will be publicly offered or privately placed.

Publicly offered bonds must be rated in one of the four highest investment grade ratings from Standard & Poor's Corporation, Moody's Investors Services, Inc., or other nationally recognized bond rating services. Pursuant to state statutes, the CFD will not issue non-investment grade bonds in a public offering.

Privately placed bonds need not be rated. However, purchases of such general obligation bonds must be "qualified buyers" (similar to those acceptable pursuant to the Securities Exchange Commission) and must agree to hold the bonds for their own account and not to resell the bonds except to "qualified buyers" in a private placement.

4.6 Revenue bonds shall be payable from a specified revenue source. An Applicant for revenue bonds must describe in each project feasibility report, along with the statutory requirement, the following:

a. The current direct and overlapping tax and assessment burdens on the taxable property within the CFD and the full cash value and assessed valuation of that taxable property as shown on the most recent assessment roll.

b. The revenue source from which bonds will be payable. The City reserves the right to require the applicant to produce such independently prepared financial feasibility studies or reports as it deems necessary to confirm the amount and availability of revenues.

c. The expected market absorption of development within the CFD.

d. The amount and timing of CFD revenue bonds to be issued.

e. The financial impact of the proposed issue(s) on prospective residents.

f. Any plan for subsidizing revenues to meet obligations.

g. Whether the bonds will be publicly offered or privately placed.

Publicly offered revenue bonds must be rated in one of the four-highest investment grade ratings from either Standard & Poor’s Corporation, Moody's Investors Service, Inc., or other nationally recognized bond rating services. Pursuant to state statutes, the CFD will not issue non-investment grade bonds in a public offering.

Privately placed bonds need not be rated. However, purchasers of such revenue bonds must be “qualified buyers” (similar to those acceptable pursuant to the Securities Exchange Commission) and must agree to hold the bonds for their own account and not to resell the bonds except to “qualified buyers” in a private placement.

4.7 Assessment bonds shall be secured by first lien (subject only to the lien for general taxes and prior special assessments) on the property benefited. Applicants for assessment bonds should describe in each project feasibility report, the following:

a. The current direct and overlapping tax and assessment burdens on real property to comprise the CFD and the full cash value and assessed valuation of that property as shown on the most recent assessment roll.

b. The amount and timing of CFD assessment bonds to be issued.

c. The expected market absorption of development within the CFD.

d. The estimated assessment amount to be placed on prospective assessed parcels.

e. Whether the assessments will be paid upon the sale of lots by the Applicant or will remain on the property after sale.

f. Whether the assessment bonds will be publicly offered or privately placed.

Publicly offered assessment bonds must be rated in one of the four highest investment grade ratings from Standard & Poor’s Corporation, Moody’s Investors Service, Inc., or other nationally recognized bond rating services. Pursuant to state statutes, the CFD will not issue non-investment grade bonds in a public offering. In a public offering, an appraisal of the land to be encumbered, prepared by an MAI Appraiser and in form and substance acceptable to the CFD board of directors, in its sole and absolute discretion, shall indicate a minimum land value to debt ratio of 4 to 1 prior to the issuance of debt.

Privately placed bonds need not be rated. However the purchasers of such assessment bonds must be "qualified buyers" (similar to those acceptable pursuant to the Securities Exchange Commission) and agree to hold the bonds for their own account and not to resell the bonds except to “qualified buyers” in a private placement. Further, in connection with the sale of unrated privately placed assessment bonds, the CFD board of directors must have received an appraisal of the land to be encumbered, prepared by an MAI Appraiser and in form and substance acceptable to the City, in its sole discretion, indicating a minimum land value to debt ratio of 4 to 1 as of a date prior to the issuance of debt. If a 4 to 1 ratio is not achieved, a scaling down of the proposed debt and phasing of the infrastructure is expected.

4.8 Notwithstanding the restrictions pertaining to public sales and private placements of the bonds set forth in this Article 4, the restrictions may be modified if other financing structures are presented which, in the sole discretion of the CFD board of directors, provide other means to address the CFD board of director concerns.

ARTICLE 5.
Financing Considerations

5.1 The Applicant or developer/landowner shall provide at least $0.25 in infrastructure or community improvements for each $1.00 of debt to be issued by a CFD to finance public infrastructure purposes. If agreed to by the CFD board of directors, in its sole and absolute discretion, prior infrastructure and community improvements constructed or acquired by the Applicant or the developer/landowner and benefiting the property within the CFD may be included in calculating the Applicant's or developer/landowner's compliance with this Section 5.1.

As described in ARTICLE 2. "Content of Application", the Applicant shall provide a detailed description of how the Applicant will provide the equity contribution of the proposed total costs of the Project. This description should include details of whether the developer is using cash and/or debt and the source of such equity contribution.

5.2 If allowed by law, all bond issues shall include a reasonable debt service reserve fund or acceptable debt service surety in an amount acceptable to the CFD board of directors. The City and/or CFD board of directors reserves the right to require the applicant to fund a reserve account in such amounts as determined by the City or CFD board of directors to insure payment. The City or CFD board of directors will determine whether the reserve shall be funded through bond proceeds, project revenues or directly be the applicant.

5.3 Unless otherwise agreed, it is expected that general obligation bond authorization for a CFD shall expire no later than fifteen (15) years from the date of voter authorization.

5.4 The applicant or developer/landowner (or such other third party acceptable to the City and CFD) for any CFD bonds, shall indemnify the City and the CFD and their agents, officers, and employees and shall hold the City and the CFD and their agents, officers and employees harmless for, from and against any and all liabilities, claims, costs and expenses, including attorneys' fees, incurred in any challenge or proceeding to the formation, operation, administration of the CFD, the offer and sale of CFD bonds, the levying by the CFD of any tax, assessment or charge and the operation and maintenance of public infrastructure financed or owned by the CFD.

In addition, if such insurance is not otherwise available from another source, the Applicant shall be responsible for the cost of a Director's and Officers (D&O) insurance policy to cover all actions and activities taken by the Board of Directors and officers of the CFD relating to the CFD formation, financing, administrative actions of other related activities. The Applicant shall be responsible for depositing the amount of any deductible in escrow with the CFD or for providing a plan for providing for such deductible. The amount of the D&O coverage will be determined by the CFD at the time of formation.

5.5 Unless otherwise provided to the City pursuant to other requirements, prior to CFD financing and acquisition by the CFD or City, the CFD or City will require an independent environmental report or assessment of any real property which will be dedicated to or otherwise owned, leased or operated by the City or the CFD and a proposed form or indemnity agreement with respect to all environmental law liability.