

# Folsom City Council Staff Report

<b>MEETING DATE:</b>	12/12/2023
<b>AGENDA SECTION:</b>	New Business
<b>SUBJECT:</b>	Presentation on the City's General Fund Unassigned Fund Balance (Reserves) Policy and Direction to Staff
<b>FROM:</b>	Finance Department

## **RECOMMENDATION / CITY COUNCIL ACTION**

Staff recommends that the City Council receive the Chief Financial Officer's presentation on the City's General Fund Unassigned Fund Balance (Reserves) Policy and provide direction to staff.

## **BACKGROUND / ISSUE**

The City Council directed staff to prepare an item to review the General Fund Unassigned Fund Balance (Reserves) policy, with the possibility of adjusting the current reserve policy from its 15% of expenditures minimum and to confirm what fund any excess reserves, if any, shall be transferred to to be used for "one-time" expenditures.

The General Fund Unassigned Fund Balance (Reserve) policy is established to ensure that the City's finances are managed in a manner which will (1) continue to provide for the delivery of quality services, (2) minimize or eliminate the need to cut services because of temporary revenue shortfalls, and (3) establish the reserves necessary to meet known and unknown future obligations and provide for the ability to respond to unexpected events.

Public entities intentionally accumulate and then maintain adequate reserves to help ensure both financial stability and the continued ability to provide essential services in difficult times. Financial stability is an important factor in operating a City. Establishing certain financial reserves protects the City against unexpected interruptions in revenues, vulnerability to Federal or State actions, adverse economic conditions, unpredictable one-time costs, and exposure to natural disasters and emergencies.

The Government Finance Officers Association (GFOA), an international organization that promotes the professional financial management of governments for the public interest, recommends maintaining, at a minimum, an unassigned fund balance (reserves) in the General Fund of no less than two months of regular general fund operating expenditures, equivalent to about 17% of annual operating expenditures. A government's particular situation may require levels of unassigned fund balance in the general fund to be significantly more than these recommended minimum levels. Cities with higher reserve levels are better positioned to protect public services during economic downturns or other unforeseen events. GFOA recommends that in establishing a policy determining the level of unassigned fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e. higher levels of unassigned fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations, such as sales tax revenue, or if operating expenditures are highly volatile, such as large fluctuations in required CalPERS contributions.)
- The availability of reserves in other unrestricted funds, as well as the potential drain upon general fund resources from other funds (i.e. the availability of resources in other funds may reduce the amount of reserves needed in the general fund, just as deficits in other funds may require that a higher level of reserves be maintained in the general fund).
- The susceptibility to natural disasters like extreme weather, wildfires, earthquakes, floods, and the like. These can result in urgent needs like overtime for first responders or shelter, food, and supplies for displaced families. There may be expenditures for the cleanup that follows the initial devastation. Sometimes, a local government will have some of its costs reimbursed by the Federal Emergency Management Agency (FEMA) and/or state agencies. If this is the case, reserves are still important to cover the nonreimbursable costs, including lost revenue and fees and increased operating costs, while also fronting the costs until reimbursement arrives. GFOA sampled several local governments that received FEMA reimbursement for natural disasters and found it took an average of 18 months to be reimbursed.

### **POLICY / RULE**

Financial Policy VI. Undesignated Fund Balances (Reserves) adopted May 25, 2004, states that the City shall maintain an Undesignated Fund Balance (reserve) for the General Fund of no less than 15% of the annual operating expenditures.

## ANALYSIS

In 2004, a comprehensive set of Financial Policies was adopted by the City Council. The document, in its entirety, is attached to this staff report. This staff report and related presentation to the City Council will focus on one of the adopted financial policies, policy VI. Undesignated Fund Balances (Reserves).

### **Current Reserve Policy:**

#### VI. Undesignated Fund Balances (Reserves)

##### A. General Fund Reserve

The City shall maintain an Undesignated Fund Balance (reserve) for the General Fund of no less than 15% of the annual operating expenditures. The Undesignated Fund Balance will be used to provide for temporary financing for unanticipated extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, economic recession, or an unexpected liability created by Federal or State legislative action. Funds shall be appropriated from the Undesignated Fund Balance only after the Finance Director and the City Manager have prepared an analysis and presented to City Council. The analysis shall provide sufficient evidence to establish that the remaining Undesignated Fund Balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs. The analysis shall address the nature of the proposed expenditure and the revenue requirement in subsequent budget years. Prior to allocating funds from the Undesignated Fund Balance, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds.

Funds shall be allocated each year in the budget process to replace any use of the Undesignated Fund Balance during the preceding fiscal year to maintain the balance of the Undesignated Fund Balance at the percentage set forth herein.

##### B. Enterprise Funds

The City shall strive to maintain sufficient reserves in its enterprise funds necessary to maintain cash flow requirements, and contingencies for unforeseen operating or capital needs.

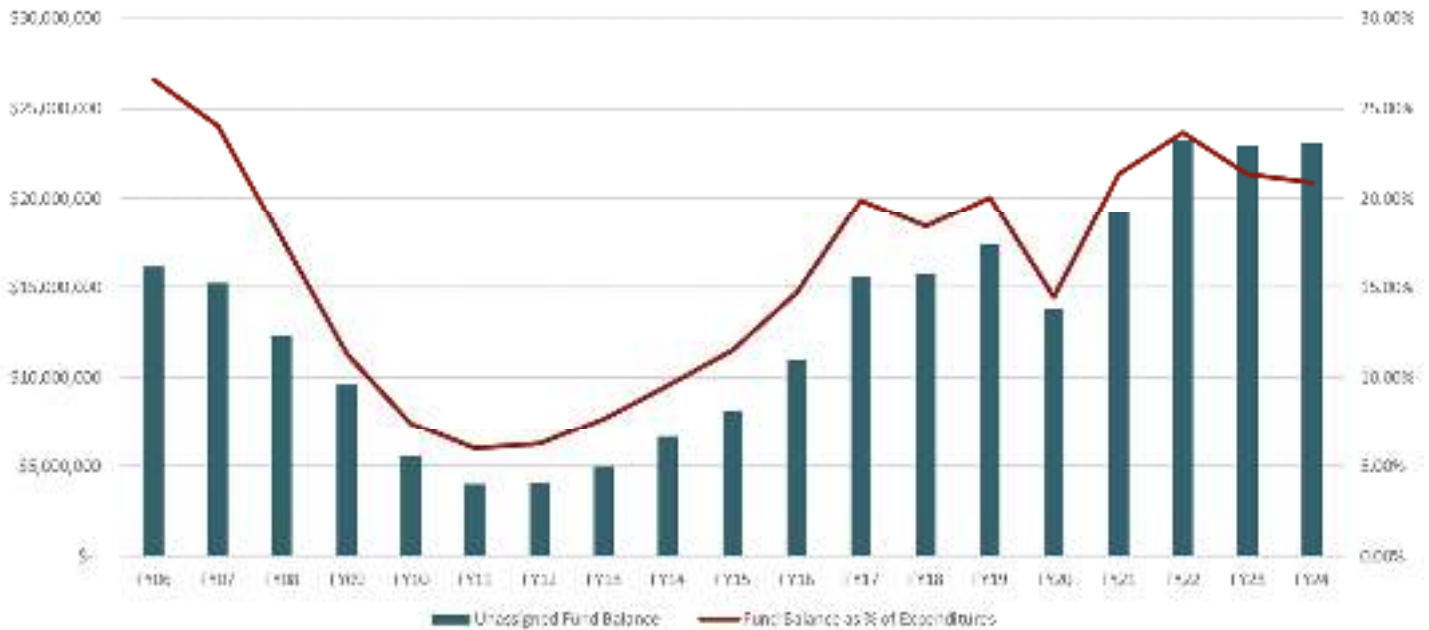
##### C. Transfer of Amounts in Excess of Specified Reserve

To the extent funds accumulate in excess of the percentage described in paragraph A, above, such funds shall be transferred to the Capital Projects Fund. This transfer shall be made upon completion of the annual financial audit. It is the intent of the City Council to affect such transfers through a Mid-Year Budget Resolution.

### Current Level of General Fund Unassigned Fund Balance (Reserves)

As noted above, the current policy calls for reserves in the General Fund to be no less than 15% of annual operating expenditures and the policy does not specify a maximum reserve level.

The chart below displays the historical level of reserves in the General Fund from FY 2005-06 through FY 2023-24. Before the Great Recession began to impact the City’s finances in 2008, the average level of reserves was at 23% of expenditures for the 10-year period prior to the recession, reaching a high of 26.6% in FY 2005-06. Having this level of reserves allowed the City to get through the Great Recession, but service cuts and layoffs were still required. Even with this level of reserves as a starting point, total reserves reached a low point of \$3.99 million or 5.98% of expenditures by FY 2010-11.



The current policy states that funds shall be allocated each year in the budget process to replace any use of the Unassigned Fund Balance during the preceding fiscal year to maintain the balance of the Unassigned Fund Balance at the percentage set forth (by the policy). As required, the City worked over many years to rebuild the reserve from the 5.98% low point.

Although the current adopted policy sets a minimum of 15% of expenditures, there is no specified maximum reserve level and the reserve as a % of expenditures has remained at an average of 20% over the past eight years. This consistent level of reserve is in part due to using the Risk Management Fund reserves to stabilize the General Fund during the COVID-19 pandemic. The reserves used from the Risk Management Fund have not been replenished.

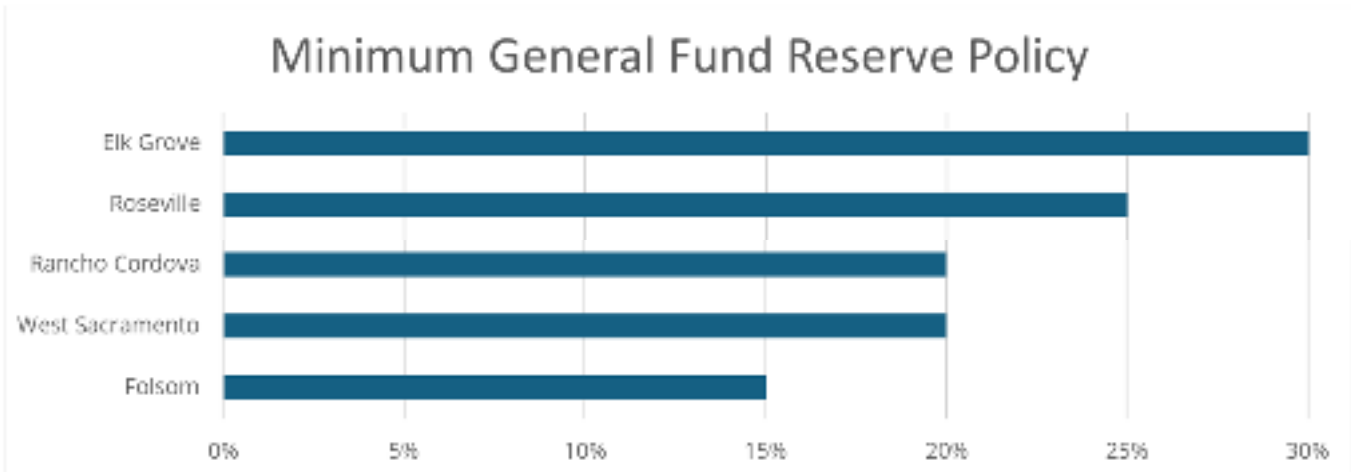
## Determining an Appropriate Reserve Range

In preparing this item for the City Council, staff reviewed over 20 different reserve policies from city organizations and studied the GFOA’s recent publication titled “Rethinking Reserves.” In that publication, the GFOA writes that it has found that a policy that identifies a floor and ceiling for reserves, rather than just a single target number, may provide more useful guidance. This is because a city government will rarely, if ever, have exactly the amount of reserves called for by its policy. Having a range defines the acceptable tolerances the reserves should stay within.

GFOA additionally states that a reserve range better supports the ongoing management of reserves. Reserves fluctuate from year to year. If the reserve stays in range, there is little need to revisit whether the actual reserve is too high or low relative to the policy. If the reserve falls outside the range, it suggests a clear course of action (i.e., do something to get it back in range). This helps make sure that reserves stay where they need to be to manage risks.

A range includes a floor that communicates that there is a minimum amount necessary to be a good steward of the community but also a ceiling that communicates that there is an upper limit on the usefulness of reserves and a point at which excess resources should be devoted to some other purpose.

To assist in determining an appropriate range, we can look to our neighboring cities for comparison. The chart below shows Folsom’s policy of maintaining a 15% minimum reserve, in comparison to neighboring cities. All others have a reserve policy minimum of 20% or higher. In practice, each of these cities maintain actual General Fund reserve balances in excess of their minimum policy requirement.



In addition to their General Fund reserves, these cities also have “other unrestricted funds” set aside outside of their General Fund to mitigate specific risks or to plan for anticipated future expenditures. When last surveyed, Rancho Cordova, West Sacramento and Elk Grove, were

all in the 80-88% range when you compare total reserves as a % of their general fund expenditures. Roseville was at 54% and the City of Folsom was lowest by far at 29%.

## **Risk Assessment**

In addition to comparing to our neighbors, we can use a risk assessment template developed by the GFOA to help cities determine an appropriate reserve range based on their unique risk profile. This risk assessment subjectively determines the City's vulnerability to extreme events, level of revenue stability, volatility of expenditures, the dependency of other funds on the General Fund to cover shortfalls, the rate of growth in the City and the City's ability to pay for services related to that growth, and the extent of unfunded infrastructure and capital needs within the City.

This risk assessment template also takes into consideration the size of the government, budget practices, and borrowing capacity to ultimately develop a "risk score" and provide analytical guidance for selecting an appropriate reserve target.

When staff worked through the risk assessment process, we found that the City does not have an unusually high or an unusually low level of risk in most of the risk factor categories. However, the categories of (1) dependency of other funds on the General Fund to cover shortfalls and (2) extent of unfunded infrastructure and capital needs within the City both received a higher risk score.

With all risk factors taken into consideration, the result of the risk assessment for the City was a score of 20 out of 40, putting the City in the low to moderate risk category (scores between 17-24). GFOA recommends cities within this category consider adopting a reserve target somewhat higher than the GFOA minimum of 17%. Their recommendation is a range of 17%-25% of expenditures. They also recommend cities in this risk category consider an informal benchmarking study with peer agencies to provide further guidance, which was completed.

## **Recommended Reserve Range**

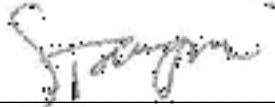
After careful analysis, risk assessment and benchmarking with peer agencies, staff recommends the City Council consider replacing the current 15% reserve target with a reserve range. The floor should be no less than the GFOA's recommended minimum of 17% of expenditures. An appropriate ceiling may be 20% of expenditures, consistent with the average reserve the City has held over the past eight years, and within the suggested range that resulted from the risk assessment.

If a range is the City Council's desire, any reserves accumulated above the ceiling would be transferred to the Capital Projects Fund upon completion of the annual financial audit, per the current policy. Staff recommends that reserves for purposes of this annual transfer be calculated using the current year's Adopted General Fund budgeted operating expenditures.

**ATTACHMENTS**

1. Financial Policies, May 25, 2004

Submitted,

A handwritten signature in cursive script, appearing to read "Stacey Tamagni".

---

Stacey Tamagni, Finance Director/CFO

# CITY OF FOLSOM, CALIFORNIA

## FINANCIAL POLICIES



**MARTHA CLARK LOFGREN,  
CITY MANAGER**

**NAVDEEP S. GILL,  
FINANCE DIRECTOR**

**ADOPTED MAY 25, 2004**



## Table of Contents

<b>I.</b>	<b>PURPOSE</b>	<b>1</b>
<b>II.</b>	<b>FINANCIAL PLANNING</b>	<b>1</b>
	A. ANNUAL FINANCIAL PLANNING	1
	B. MULTI-YEAR FINANCIAL PLANNING	1
	C. PLANNING FOR LONG-TERM LIABILITIES	2
<b>III.</b>	<b>BUDGET PREPARATION</b>	<b>2</b>
	A. BALANCED BUDGET	2
	B. STRUCTURAL BALANCE	2
	C. APPROPRIATIONS LIMIT	2
	D. OPERATING CARRYOVER	3
	E. ONE-TIME REVENUES	3
	F. INTERNAL SERVICE FUNDS	3
	G. MAINTENANCE ACCOUNTS	3
	H. LEVEL OF CONTINGENCY APPROPRIATIONS	3
	I. STRATEGIC PLAN OBJECTIVES	4
<b>IV.</b>	<b>BUDGET MANAGEMENT</b>	<b>4</b>
	A. INTERNAL CONTROL	4
	B. REVENUE FORECAST	4
	C. FISCAL IMPACT STATEMENT	4
	D. QUARTERLY FINANCIAL REPORT	5
	E. MID-YEAR BUDGET REVIEW	5
	F. APPROPRIATIONS DURING FISCAL YEAR	5
	G. INTERFUND BORROWING	6
<b>IV.</b>	<b>UNDESIGNATED FUND BALANCES (RESERVES)</b>	<b>6</b>
	A. GENERAL FUND RESERVE	6
	B. ENTERPRISE FUNDS	6
	C. TRANSFER OF AMOUNTS IN EXCESS OF SPECIFIED RESERVE	6
<b>VI.</b>	<b>CAPITAL IMPROVEMENT PLAN</b>	<b>7</b>
	A. ANNUAL ADOPTION OF CIP	7
	B. ANNUAL APPROPRIATION REQUIREMENT	7

C. PROJECT MANAGER	7
D. STATEMENT OF IMPACT ON THE OPERATING BUDGET	7
<b>VII. PRESERVING CAPITAL INVESTMENT</b>	<b>7</b>
A. PARKS AND RENOVATION	8
B. CAPITAL ASSETS	8
<b>VIII. DEBT MANAGEMENT</b>	<b>9</b>
A. DEBT MANAGEMENT APPROACH	9
B. FINANCING CRITERIA	11
C. PROCESS	17
D. ADDITIONAL POLICIES REGARDING LAND-SECURED AND CONDUIT FINANCING	19
<b>IX. STRENGTHENING FINANCIAL POSITION</b>	<b>36</b>
A. DIVERSIFIED ECONOMY AND REVENUES	36
B. ECONOMIC INCENTIVES FOR COMMERCIAL AND INDUSTRIAL DEVELOPMENT	36
C. REDEVELOPMENT REVENUES	37
D. INTERGOVERNMENTAL REVENUES	37
E. COST ALLOCATION CHARGES	38
F. USER FEE COST RECOVERY	38
G. ENTERPRISE FUND RATES	42
<b>X. INVESTMENTS</b>	<b>44</b>
A. POLICY ADOPTION	44
B. DELEGATION OF AUTHORITY	44
C. SCOPE	44
D. PRUDENCE	45
E. OBJECTIVES	45
F. ETHICS AND CONFLICTS OF INTEREST	46
G. INVESTMENT PROCEDURES	46
H. AUTHORIZED FINANCIAL DEALERS AND INSTITUTIONS	46
I. AUTHORIZED AND SUITABLE INVESTMENTS	46
J. INVESTMENT POOLS/ MUTUAL FUNDS DUE DILIGENCE	49
K. COLLATERALIZATION	49
L. SAFEKEEPING AND CUSTODY	50
M. INTERNAL CONTROL	50
N. PERFORMANCE STANDARDS	50
O. REPORTING	50

<b>XI. FINANCIAL REPORTING</b>	<b>52</b>
A. ACCOUNTING PRACTICES	52
B. ANNUAL FINANCIAL AUDIT	52
C. QUARTERLY FINANCIAL AND MANAGEMENT REPORTING	52
D. AVAILABILITY OF REPORTS TO THE PUBLIC	52
<b>XII. PRODUCTIVITY</b>	<b>53</b>
A. TECHNOLOGY	53
B. CONTRACTING FOR SERVICES	53
C. CUSTOMER SERVICE	53
D. TRAINING	53
E. PERFORMANCE MEASUREMENT	53
<b>XIII. RISK MANAGEMENT</b>	<b>54</b>
A. SAFETY TRAINING AND RISK MANAGEMENT	54
B. THIRD PARTY INDEMNIFICATION	54
C. EMERGENCY OPERATION PLAN	54
<b>APPENDIX A</b>	
RESOLUTION NO. 7332 - A RESOLUTION ADOPTING THE FINANCIAL POLICIES FOR THE CITY OF FOLSOM	<b>55</b>

## **I. Purpose**

The purpose for implementing financial policies is to provide operating and planning guidelines that support the City's financial operations. The financial policies shall guide staff in evaluating financial implications of program and policy recommendations to the City Council. The financial policies shall also serve as parameters for City Council action to ensure a long-term, stable economic base for the City. The City Council and staff shall comply with the guidelines set forth herein absent a compelling reason not to do so. Any recommended deviation from these policies shall be clearly identified in appropriate written documentation (e.g., staff report, resolution, or budget presentation). These policies are intended to be applied in conjunction with requirements set forth in state law, the City Charter, and the Folsom Municipal Code and Generally Accepted Accounting Procedures (GAAP). In the case of any conflict, the provisions of such laws, ordinances or GAAP will control.

## **II. Financial Planning**

### **A. Annual Financial Planning**

The City shall engage in annual financial planning through the adoption of an Annual Budget. Through the Annual Budget, the City will link resources with results by:

1. Identifying community needs for essential services.
2. Organizing the programs required to provide these essential services.
3. Establishing program goals and objectives that define the nature and level of program services to be provided.
4. Identifying activities to be performed in delivering program services.
5. Proposing objectives for improving the delivery of program services.
6. Identifying operational, maintenance, staffing and long-term renovation costs in connection with any new proposed level of program services and/or activities.
7. Identifying and appropriating the resources required to perform program activities and to accomplish program objectives.
8. Setting standards to measure and evaluate:
  - a. Output of program activities.
  - b. Accomplishment of program objectives.
  - c. Expenditure of program appropriations.
  - d. Cost comparisons with other service providers (e.g., benchmarking service delivery cost against other local agencies and/or options for contracting with private service providers).

### **B. Multi-Year Financial Planning**

In order to determine the effect of current year decisions on the City's future, a five-year financial forecast, projecting revenues and expenditures for all operating funds, shall be developed as a part of each year's budget process and shall be updated during the mid-year budget review. Individual and aggregate revenue categories, as

well as expenditures, shall be projected by revenue and/or expenditure type. Historical growth rates, inflation assumptions, and City expenditure priorities will be used in developing the forecast. This tool shall be used as a planning document for developing the budget guidelines and for evaluating the future impact of current year decisions.

#### C. Planning for Long-Term Liabilities

To avoid future financial burdens that could affect financial stability, the City shall proactively plan for potential liabilities, such as leave payouts, pension plans, retiree health costs, state and/or federal unfunded mandates,

### **III. Budget Preparation**

The Annual Budget shall comply with the provisions of Section 5.05 (Budget and Accounting) of the Folsom City Charter and Chapter 3.02 (Budgeting, Accounting and Fiscal Procedures) of the Folsom Municipal Code. The Annual Budget shall meet the following criteria:

#### A. Balanced Budget

The City shall maintain a balanced budget. The total of proposed expenditures shall not exceed the total of estimated revenues plus carried forward fund balance, exclusive of reserves, for any fund.

#### B. Structural Balance

The Annual Budget shall clearly identify anticipated revenue for all funds for the upcoming fiscal year. Current revenue shall be sufficient to support current expenditures (defined as “structural balance”). Estimates of current revenue shall not include beginning fund balances (whether General Fund, Revenue Funds, or other Specially Designated Funds). Any unreserved fund balance available at the commencement of a fiscal year shall generally be used only to fund capital items in the operating budget or in the capital improvement plan. If projected revenue is insufficient to support projected funding requirements, the City Manager and Finance Director may recommend allocation of all or a portion of an unreserved fund balance if it appears that (1) the revenue source leading to the development of the available revenues is likely to remain stable in future years, (2) the expenditure requiring the appropriation of additional revenues is not likely to be recurring, or (3) the City Manager and Finance Director can otherwise establish an appropriate match of revenue/expenditures that will not lead to structural imbalance in future years.

#### C. Appropriations Limit

Appropriations in the Annual Budget shall comply with the annual determination of the City’s appropriations limit, calculated in accordance with Article XIIB of the Constitution of the State of California and Government Code section 7900.

#### D. Operating Carryover

Operating program appropriations not spent during the fiscal year will not automatically carry-over into the next fiscal year, and shall lapse at year-end, subject to reappropriation into the subsequent fiscal year, except for long-term projects in progress that are carried forward to the following year and reserved for encumbrances. This policy shall not preclude the adoption by the City Council of an expenditure control program that may be designed as an incentive to encourage departments to achieve annual cost-savings to fund large capital expenditures.

#### E. One-Time Revenues

One-time revenues shall only be used for one-time expenditures. Prior to allocating any one-time revenues, the Finance Director shall determine that such revenues are not being used to subsidize an imbalance between operating revenues and expenditures. If the Finance Director determines that one-time revenues are needed to correct a structural imbalance, the Finance Director shall present the City Manager and City Council with a financial forecast demonstrating that the operating deficit will not continue.

#### F. Internal Service Funds

The City may establish and operate one or more Internal Service Funds. Internal Service Funds shall be created to report any services that are provided to other City departments and the Cost Allocation Plan does not recoup that cost. It is the policy of the City Council to minimize the creation of Internal Service Funds unless it is clearly established that no other fund type is applicable. At the same time that it adopts the budget ordinance, the City Council must approve a balanced financial plan for each Internal Service Fund. A financial plan is balanced when estimated expenditures do not exceed estimated revenue.

#### G. Maintenance Accounts

Equipment and buildings shall be maintained at reasonable levels to avoid service disruptions, and to achieve maximum useful life, and to ensure safety of employees and the public. Maintenance and replacement funding shall be allocated each year consistent with this policy.

#### H. Level of Contingency Appropriations

A General Fund Contingency of 1% of total budgeted departmental expenditures shall be budgeted annually. The Contingency Appropriation may be used to provide for unanticipated or unforeseen needs that arise during the year; for example, expenses associated with unforeseen weather or other natural disasters such as debris removal following a flood, unexpected liability created by federal or state legislation, new service needs that have been identified after the budget process, new public safety or health needs, revenue shortfalls, service enhancements, or opportunities to achieve cost

savings. Funds shall be allocated from the Contingency Fund only after an analysis has been prepared and presented by the Finance Director and City Manager to the City Council outlining the initial and recurring costs associated with the proposed expenditure. Funds shall be allocated each year in the budget process to replace any use of the Contingency Fund during the preceding fiscal year and to maintain the balance of the Contingency Fund at one percent (1%) of budgeted departmental expenditures. The Contingency Fund will be exhausted prior to any utilization of the Undesignated Fund Balance. This fund is subject to the City Manager's contract approval limit as defined in the Folsom Municipal Code.

#### I. Strategic Plan Objectives

The Annual Budget shall establish measurable program objectives consistent with the City's Strategic Plan. The status of major program objectives identified in the Annual Budget and the Strategic Plan shall be formally reported as part of the Quarterly Financial Report.

### **IV. Budget Management**

#### A. Internal Controls

A comprehensive system of financial internal controls shall be maintained to protect the City's assets and sustain the integrity of the City's financial systems. Managers at all levels shall be responsible for implementing sound controls and for regularly monitoring and measuring their effectiveness.

#### B. Revenue Forecast

Revenue estimates shall be monitored on a monthly basis to identify any potential trends that would significantly impact revenue sources. The Finance Director shall consult with stakeholders to review current local economic trends that may impact City revenues sources.

#### C. Fiscal Impact Statement

Effective management dictates that the City Council and citizens be presented with the direct and indirect costs of all items as part of the decision making process. Items presented to the City Council for approval shall include a Statement of Projected Fiscal Impact. Proposals that were not included in the annual budget work plan shall be identified, and funding shall be based on the identification of savings or additional revenue necessary to fund the unanticipated needs. The Finance Director shall also review state and federal legislative items that might result in a fiscal or policy impact on the City and shall promptly report on such items to the City Manager and City Council.

#### D. Quarterly Financial Report

As required by Section 5.05R of the City Charter, the City Manager and the Finance Director shall submit a Quarterly Financial Report to the City Council after the end of each quarter of the fiscal year. The Quarterly Financial Report shall analyze budgeted versus actual revenues and appropriations, expenditures and encumbrances on a year-to-date basis.

#### E. Mid-Year Budget Review

The City Manager and the Finance Director shall prepare and submit a mid-year budget review for the City Council's review. The report shall review the City's fiscal condition, and amend appropriations if necessary.

#### F. Appropriations During Fiscal Year

##### 1. Supplemental Appropriations

As set forth in Section 5.05H of the City Charter, prior to the City Council making any supplemental appropriation, the City Manager shall certify that monies in excess of those estimated in the budget are available for appropriation. Any such supplemental appropriation may be made for the fiscal year by resolution up to the amount of any available excess funds.

##### 2. Emergency Appropriations

As set forth in Section 5.05I of the City Charter, the City Council, by four-fifths vote only, may make emergency appropriations to respond to a public emergency affecting life, health, public welfare, property or the public peace.

##### 3. Reductions in Appropriations

Appropriations may be reduced any time during the fiscal year by the City Council or City Manager if it appears probable that either the revenues or fund balances available will be insufficient to finance the expenditures for which appropriations have been authorized. The City Manager shall report any appropriation reductions to the City Council as required by Section 5.05J of the City Charter.

##### 4. Transfer of Funds

The City Manager may transfer monies between departments and divisions, programs and accounts within departments and divisions as provided for in Section 5.05K of the City Charter. All such transfers made by the City Manager shall be reported in writing quarterly to the City Council. Only the City Council, by resolution, may transfer monies between funds and from unappropriated balances or fund balances to any fund or appropriation account.



### G. Interfund Borrowing

From time to time it becomes necessary for the City to loan funds from one fund to another. If this need arises a written request shall be made to the Finance Director. The Finance Director shall make a written recommendation to the City Manager regarding the request and the appropriate repayment schedule and interest rate. If approved by the City Manager the Finance Department and the requesting department(s) shall prepare an agenda item seeking City Council approvals. Any intrafund borrowing contemplated shall be consistent with documents establishing the fund.

## VI. Undesignated Fund Balances (Reserves)

### A. General Fund Reserve

The City shall maintain an Undesignated Fund Balance (reserve) for the General Fund of no less than 15% of the annual operating expenditures. The Undesignated Fund Balance will be used to provide for temporary financing for unanticipated extraordinary needs of an emergency nature; for example, costs related to a natural disaster or calamity, economic recession, or an unexpected liability created by Federal or State legislative action. Funds shall be appropriated from the Undesignated Fund Balance only after the Finance Director and the City Manager have prepared an analysis and presented to City Council. The analysis shall provide sufficient evidence to establish that the remaining Undesignated Fund Balance is adequate to offset potential downturns in revenue sources and provide a sufficient cash balance for daily financial needs. The analysis shall address the nature of the proposed expenditure and the revenue requirement in subsequent budget years. Prior to allocating funds from the Undesignated Fund Balance, the City Council shall find that an emergency or extraordinary need exists to justify the use of these funds.

Funds shall be allocated each year in the budget process to replace any use of the Undesignated Fund Balance during the preceding fiscal year to maintain the balance of the Undesignated Fund Balance at the percentage set forth herein.

### B. Enterprise Funds

The City shall strive to maintain sufficient reserves in its enterprise funds necessary to maintain cash flow requirements, and contingencies for unforeseen operating or capital needs.

### C. Transfer of Amounts in Excess of Specified Reserve

To the extent funds accumulate in excess of the percentage described in paragraph A, above, such funds shall be transferred to the Capital Projects Fund. This transfer shall be made upon completion of the annual financial audit. It is the intent of the City Council to affect such transfers through a Mid-Year Budget Resolution.

## **VI. Capital Improvement Plan**

As required by Section 5.05M of the City Charter and Folsom Municipal Code sections 3.02.040, a Capital Improvement Plan (also known as a Capital Investment Plan or “CIP”) shall be prepared for the upcoming budget year and the next five fiscal years. The purpose of the CIP is to systematically plan, schedule and finance capital projects to ensure cost-effectiveness as well as conformance with established funding and construction policies. The CIP shall reflect a balance between capital replacement projects that repair, replace or enhance existing facilities, equipment or infrastructure, and capital facility projects that significantly expand or add to the City’s existing fixed assets.

### **A. Annual Adoption of CIP**

The City Council shall adopt the annual CIP that addresses all capital investments planned for the budget year and for the subsequent budget years at the same time as adoption of the Annual Budget.

### **B. Annual Appropriation Requirement**

The capital budget represents only the first year of the CIP. The primary difference between the capital budget and the CIP is that, through the annual Appropriation Resolution passed by the City Council, the Capital Budget legally authorizes expenditures during the upcoming fiscal year. The CIP includes the first year projections as well as future projects for which financing has not been secured or legally authorized. The funding allocation for future years of the CIP are therefore subject to change.

### **C. Project Manager**

Every CIP will have a project manager who prepares the project proposal, ensures that required phases are completed on schedule, authorizes all project expenditures, ensures that all regulations and laws are observed, and periodically reports project status.

### **D. Statement of Impact on the Operating Budget**

Each approved CIP project will contain a statement of impact on the annual operating budget.

## **VII. Preserving Capital Investments**

The City invests in capital assets such as property, plant, equipment, facilities and infrastructure. Preservation of such investments through regular maintenance and a long-term renovation plan is necessary to preserve the value of such capital investments. The City must also plan for the replacement of capital investments (particularly vehicles and equipment). The following policy requirements are intended to ensure the preservation of capital investments and to provide a sound economic base for their replacement.

1. The budget shall provide sufficient funding for adequate maintenance, renovation and the orderly replacement of capital assets such as equipment, fleet, facilities, and parks.
2. All capital assets shall be maintained at a level that protects capital investment and minimizes future maintenance and replacement costs.
3. A five-year schedule of equipment replacement and maintenance needs as well as facility and parks renovation and maintenance needs shall be prepared on an annual basis. Expenditures consistent with such plans shall be included in annual budget appropriations.

A. Parks Maintenance and Renovation

- a. Each budget year the Parks and Recreation Department shall present to the City Manager a budget request that includes the maintenance, operation and renovation costs for all parks in the City’s park system.
- b. If the City Manager concludes for fiscal or other operational reasons that full funding should not be included for the park maintenance, operations and renovation expenses, the City Manager shall explain such recommendations to the City Council as part of the annual budget presentation.
- c. The Finance Director shall segregate all park renovation funding in a separate account that shall be used only for renovation projects as outlined in the Park Renovation Plan.
- d. The City’s Annual Budget will include an update of the current funds available for park renovation and an updated five-year projection of park renovation funding requirements.

B. Capital Assets

The City defines capital assets as assets with an initial cost of more than \$5,000 and an estimated life in excess of three years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are valued at their fair value on the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Property, plant and equipment, and depreciable infrastructure assets of the City shall be depreciated using the straight-line method over the following useful lives.

<b>Assets</b>	<b>Years</b>
Specialty equipment and vehicles	3-20
Computer and office equipment	3-7
Construction equipment	10-20
Buildings, facilities and improvements	10-40
Roads (surface only)	10-20
Utility underground systems	33-40
Bridges	99

## VIII. Debt Management

The Debt Management Policy provides operating guidelines for all major debt transactions of the City. Additional guidelines specifically applicable to land-secured (including Community Facilities Districts (“CFDs”) and Assessment Districts (“ADs”)) and conduit financings. The Debt Management Policy addresses the following objectives:

1. To guide the City Council and management in policy in debt issuance decisions having significant fiscal impact;
2. To maintain appropriate capital assets for present and future needs;
3. To promote sound financial management by providing accurate and timely information on financial condition;
4. Protect and enhance the city's credit rating;
5. To ensure the legal use of city bonding authority through an effective system of financial security and internal controls;
6. To promote cooperation and coordination with other governments and the private sector in the financing and delivery of services; and
7. Properly articulate the City’s policies and make them available to interested parties.

### A. Debt Management Approach

The City will manage its debt to ensure high credit quality, access to credit markets, and financial flexibility. This debt management program will lower the overall long-term cost of government for Folsom residents and businesses.

#### 1. Credit Quality

All City debt management activities will be conducted to receive the highest credit ratings possible and then, at a minimum, to maintain at least the current credit ratings assigned to the City's debt by the major credit rating agencies. The City shall use the following ratios, standards and limits to guide its maintenance of credit quality:

- a. Non-self supporting annual debt service will not exceed 25 percent of total annual general fund expenditures.
- b. The City shall not exceed the statutory debt limits.
- c. Overlapping debt (including debt from all other jurisdictions which tax Folsom taxpayers) will be taken into consideration in planning debt issuance.

#### 2. Standards for Use of Debt Financing

Debt will be used only in those cases where public policy, equity, and economic efficiency favor debt over cash (pay-as-you-go) financing. Whenever possible, the debt shall be self supporting.

- a. *Long-Term Capital Projects:* Debt will be used primarily to finance long-term capital projects -- paying for the facilities or equipment over their useful life and concurrent with the stream of benefits from these facilities.
- b. *Special Circumstances for Debt Issuance.* Debt may be used in special circumstances for other than long-term capital projects, only after careful policy evaluation by the City Council and management.
- c. *Cash Financing of Capital Outlays.* To demonstrate the City's commitment to a continued capital program, to ensure careful consideration of the level of capital expenditures, and to enhance the City's overall creditworthiness, the City will continue to fund at least between 2 and 5 percent of the overall capital program from current resources, depending upon the specific projects and annual budgetary constraints.

### 3. Record-Keeping

The Finance Department will develop and maintain a central system for all debt-related records. At a minimum, this repository will include all official statements, bid documents, ordinances, indentures, leases, etc. for all City debt. To the extent that official transcripts incorporate these documents, possession of a transcript will suffice. The Finance Department will collect all available documentation for outstanding debt, and will develop a standard procedure for archiving transcripts for any new debt.

### 4. Rebate Policy and System

It will be the policy of the City to accurately account for all interest earnings in debt-related funds. These records will be designed to ensure that the City is in compliance with all debt covenants, and with State and Federal laws. The Finance Department shall maintain a system of reporting interest earnings, which relate to Internal Revenue Code of 1986 as amended, rebate, yield limits, and arbitrage. The City's policy shall be to maximize the interest earning on all funds while minimizing rebates to the Federal Government.

### 5. Disclosure and Market Relationships

The Finance Director shall maintain a system of disclosure, which will ensure that investors, rating agencies and other interested parties are provided full and accurate disclosure of all matters relevant and material to each debt issue. All City official statements will be designed to meet or exceed industry standard disclosure guidelines.

- a. *Investment Community and Rating Agency Relationships:* Private decision makers and opinion-leaders in the investment community can have a significant effect on the City's borrowing cost. In order to ensure the lowest possible cost of capital, the City shall seek to maintain positive relationships with all members of the investment community.

The foundation of these positive relationships will be frequent, open, and effective communication of the City's financial status to these parties. The Finance Director will seek to inform the investment community through a yearly publication detailing the financial health and fiscal forecasts of the City. Such publication shall be made available to all credit market participants.

Except for all Mello-Roos and Assessment District Financings, the City will seek a rating, either directly or indirectly through the purchase of bond insurance. The City will also seek a rating when appropriate for Mello-Roos and Assessment District debt.

## B. Financing Criteria

### 1. Types of Debt

#### a. Long-Term Debt

Whenever possible, long-term debt shall be self-supporting and as such will be revenue debt, or revenue-backed with a general fund pledge. Other long-term debt may be issued as best meets the City's needs.

#### b. Short-Term Debt

- i. *Bond Anticipation Notes (BANs)* may be issued instead of capitalizing interest to reduce the debt service during the construction period of a project or facility. The BANs shall not mature more than 3 years from the date of issuance. BANs shall mature within 6 months after substantial completion of the financed facility.
- ii. *Tax and Revenue Anticipation Notes (TRANs)* shall be issued only to meet actual cash flow needs and shall never exceed 10 percent of projected budget resources.
- iii. *Lines of Credit* shall be considered as an alternative to other short-term borrowing options. The lines of credit shall be structured to limit concerns as to the Internal Revenue Code.

### 2. Lease Purchase Debt

Lease purchase debt, including certificates of participation, shall be considered as an alternative to long-term vendor leases. Such debt shall be subject to annual appropriation. In order to reduce the cost of lease borrowing and to improve control over leases, the City may adopt a master lease program. Lease-purchase debt -- equipment and furnishings -- will not be issued for items, singularly or when aggregated, that cost less than \$10,000 or that have a useful life of less than 3 years. Long-term non-self-supporting leases -- buildings and facilities -- will be used when the cost of leasing such buildings is more than or equal to the debt service paid for the lease purchase of such facilities.

### 3. Variable Rate Debt

The City shall consider variable rate debt only in the following circumstances:

- a. *High Interest rates:* Interest rates are above historic average trends;
- b. *Variable Revenue Stream:* The revenue stream for repayment is variable, and is anticipated to move in the same direction as market-generated variable interest rates, or the dedication of revenues allows capacity for variability;
- c. *Adequate Safeguards against Risk:* Financing structure and budgetary safeguards are in place to prevent adverse impacts from interest rate shifts; such structures could include, but are not limited to, interest rate caps;
- d. *Finance Department Analysis:* A report from the Finance Director shall be forwarded to the City Council evaluating and quantifying the risks and returns involved in the variable rate financing and recommending variable rate as the lowest cost option.

### 4. Swaps, Foreign Markets

The City will not issue any foreign denominated debt nor engage in any interest rate swaps, unless such transactions have been first thoroughly evaluated and the risk exposure from such transactions is quantified and presented to the City Council for review.

### 5. Terms and Conditions of Bonds

All terms and conditions of City debt shall be established by the City Council with advice from the City Manager and Finance Director. The Finance Director will control, manage and invest all bond proceeds, including those from land-secured or conduit project issued bonds. Unless otherwise authorized by the City, the following shall serve as bond requirements:

- a. *Term* - If a single series of bonds is contemplated, the bonds will mature within a period that is no greater than twenty-five (25) years unless extended to more closely relate the final maturity to the useful life of the facility being financed. If multiple series of bonds are contemplated, the term of each series will be appropriately determined to meet the City's objectives.
- b. *Capitalized Interest* - Unless otherwise agreed to by the City, interest shall not be funded (capitalized) beyond two years or a shorter period if further restricted by statute. The City may require that capitalized interest on the initial series of bonds be funded from the proceeds of the bonds. Interest earnings may, at the City's discretion, be applied to extend the term of capitalized interest but in no event beyond the term statutorily authorized.
- c. *Debt Service Structure* - Debt issuance shall be planned to achieve relatively rapid repayment of debt while still matching debt service to the useful life of facilities. Beginning with the commencement of the repayment of principal, annual debt service of the City's General Obligation indebtedness shall be retired on a level debt service basis unless project circumstances require otherwise. In regard to Mello-Roos CFD debt, annual debt service may be

level or may escalate up to a maximum of 2% per year, subject to restrictions imposed by applicable laws and regulations. To the extent that bonds are issued in series, individual series of bonds may have uneven debt service if the intent is to create level debt service at such time as all series of bonds are issued and to minimize the potential of a fluctuating annual debt service.

- d. Court Validation Proceedings - Upon advice of bond counsel and prior to the issuance of bonds, the City shall authorize its bond counsel to commence and process to final judgment an action establishing the validity of the proceedings, special tax and issuance of bonds.
- e. Underwriter's Discount - The underwriter's discount shall be negotiated and determined solely by the City and shall be competitive with and comparable to such discounts on similar financings being issued by the City or other public entities. The City shall consider any other compensation the underwriter may be receiving in connection with the bond financing in determining the appropriate amount of the discount.
- f. Original Issue Discount - An original issue discount will be permitted only if the City determines that such discount results in lower total debt service payments, a lower true interest cost on the bonds and that, for land-secured financings, the use of an original issue discount will not adversely affect the ability of the financing district or conduit project to construct facilities identified by the bond documents.
- g. Multiple Series - In instances where multiple series of bonds are to be issued, the City shall make a final determination as to which facilities are of the highest priority and those facilities which will be financed first, pursuant to funding availability and the proposed timing of facilities development, and will be subject to the earliest or most senior lien except, when concerning land-secured financing if the City and applicant/developer agree separately.

## 6. Credit Enhancements

The City will consider the use of credit enhancements on a case-by-case basis, evaluating the economic benefit versus cost for each case. Only when a clearly demonstrable savings can be shown shall an enhancement be considered. The City will consider each of the following enhancements as alternatives by evaluating the cost and benefit of such enhancements.

- a. Bond Insurance - The City shall have the authority to purchase bond insurance when such purchase is deemed prudent and advantageous. The predominant determination shall be based on such insurance being less costly than the present value of the difference in the interest on the bonds insured versus uninsured.
- b. Debt Service Reserves - A reserve fund equal to the lesser of ten percent (10%) of the original principal amount of the bonds, maximum annual debt service or one-hundred-and-twenty-five percent (125%) of average annual debt service (the "Reserve Requirement") shall be funded from the proceeds of each series of bonds, subject to federal tax regulations. The City shall have the authority to purchase reserve equivalents when such purchase is deemed prudent and advantageous. Such equivalents shall be evaluated in comparison to cash



funding of reserves on a net present value basis (i.e., the use of a reserve fund surety).

- c. Letters of Credit - The City shall have the authority to enter into a letter-of-credit agreement when such an agreement is deemed prudent and advantageous.

## 7. Refunding

The Finance Director shall analyze all outstanding bond issues for refunding opportunities on a periodic basis. Such review shall consider the benefits and costs of the proposed refinancing. In addition, the City will accept refunding proposals from underwriting firms and financial advisors, which the Finance Director shall then analyze and verify. The Finance Director shall consider the following issues/criteria in analyzing refunding possibilities:

- a. Debt Service Savings - The City shall consider refunding bonds if the refunding generates at least three (3) percent of the refunded bond principal amount or at least \$750,000 (including foregone interest earnings) or that the refunding will capture at least 75% of the option value of the outstanding debt. The present value savings will be net of all costs related to the refinancing.
- b. Advance Refunding - The advance refunding of outstanding indebtedness may be appropriate to meet City service and financial objectives. In giving its authorization for the advance refunding, the City will state the reasons and goals to be achieved by the refinancing, as well as acknowledging that each bond issue is allowed to be advance refunded only once. The City will retain a verification agent to independently determine that the advance refunding escrow is sufficient to pay all necessary principal and interest payments for the refunded bonds.
- c. Restructuring - The City will refund debt to achieve a restructuring of its debt when it is in the best financial interest of the City to do so. Such refundings will be limited to restructuring to meet unanticipated revenue expectations or to remove unduly restrictive bond covenants.
- d. Term of Refunding Issues - No refunding shall result in the extension of debt service payments beyond the term of the originally issued debt. The term may be shortened to realize greater savings, but such shortening should be guided by the remaining useful life of the financed facility and the concept of inter-generational equity.

## 8. Methods of Issuance

The City will issue all of its debt through competitive sale unless the Finance Director finds that the sale by negotiation would provide significant cost advantages to the City or eliminate or reduce certain risks such as those related to the timing of certain sales. The Finance Department shall provide the City Council with a recommendation whenever a negotiated sale is contemplated.

- a. Methods of Issuance
  - i. *Competitive*: Sale of securities by competitive bid shall be the method of choice for general obligation debt and other types of debt on a case-by-case basis.
  - ii. *Negotiated*: The City recognizes that some securities are best sold through negotiation. The City shall elect to sell securities through this method if conditions exist that would otherwise limit the market access of the City for these securities. The criteria to be used when evaluating the negotiated sale of indebtedness may include:
    - 1) Structure: Whether the financial structure of the issue is simple and straightforward, or is complicated and/or a "story" bond;
    - 2) Capital Market Conditions: Whether the capital markets are calm, changing little on a week- to-week basis, or if they are volatile and changing frequently.
    - 3) Security: Whether the issue is Certificates of Participation of the City, Mello-Roos, Assessment District debt, or other types of debt on a case-by-case basis.
  - iii. *Private Placement*: From time to time the City may elect to privately place its debt. Such placement shall only be authorized if this method is demonstrated to result in a cost savings to the City relative to other methods of debt issuance.
- b. Issuance Method Analysis:  
The City shall evaluate each method of issuance on a net present value basis, using the City's investment rate as the appropriate measure of the discount rate.
- c. Feasibility Analysis:  
Issuance of self-supporting revenue bonds may be accompanied by a feasibility projection or report demonstrating the projected revenue stream's ability to meet future debt service payments.

9. Terms and Conditions of Sale

The City shall establish the terms and conditions of the sale prior to the actual sale date. In competitive sales the terms shall be approved by the Finance Director prior to the publication of the notice of sale. In negotiated sales, the terms shall be set in an underwriting agreement at least five days prior to the pricing of the securities.

- a. General
  - i. *Call Provisions*: The Finance Director shall ensure that an analysis of the cost of all provisions for each financing is performed. Based upon this analysis, the City's securities shall provide for redemption at the option of the City as early as current market conditions allow, given the appropriate cost-benefit to the City. In general, the City's securities shall include an optional call feature no later than 10 years from the date of delivery of the bonds (and approximately 50% of the life of the last maturity for issues which are shorter than twenty years).

- ii. *Purchase Offer Analysis:* Offers to purchase the City's debt will be analyzed according to the true interest cost method. The interest calculation in this method determines the rate at which the present value of the debt service equals the par amount of the bonds less the discount (plus any premium) plus accrued interest.
- iii. *Bond Denominations:* In general, the City's securities will have denominations of \$5,000. The City will consider denominations of less than \$5,000 if targeting special markets or initiating mini-bond programs. When in the best interest of the City, Capital Appreciation Bonds (bonds which pay interest only at maturity and whose value at that time equals \$5,000 or multiples thereof) will be considered as an alternative to traditional current interest bearing municipal securities. When undertaking a project the City believes is necessary for its general health and welfare, but has higher-than-normal risks associated with it, the City may require denominations of greater than \$5,000 to insure that only sophisticated buyers can purchase these bonds.

b. **Competitive Sale**

When conducting a competitive sale, the City will undertake to publish a Preliminary Official Statement (“POS”). Such POS shall be prepared by the Finance Department with the assistance of an appointed disclosure counsel. The POS shall be in accordance to the standard heretofore mentioned. The POS and final Official Statement shall be published according to timelines established by the Municipal Securities Rulemaking Board (MSRB) and other rulemaking bodies.

- i. *Market:* The City shall inform the potential market for its securities on a timely basis prior to the sale date and make available sufficient POSs to assure the maximum number of bids for all of the City's sales. The market for municipal securities is increasingly a national market. In marketing the City's bond issues, trends, structures, and factors in the California regional markets as well as national credit markets should be considered. The City's marketing should be designed to take maximum advantage of the factors in both the national and regional markets, which will provide the lowest borrowing cost for City residents and businesses.
- ii. *Official Bid Form:* The City shall make available an official bid form for all sales, which will be used by all bidders and provide a common structure for all bids.
- iii. *Bid Constraints:* The City will list any constraints of the bid so desired. In general, the City shall not allow a discount to exceed 2 percent of the par amount of the securities. Prevailing state and federal law should guide discounts and other bid constraints.
- iv. *Award of Bid:* All bids shall be evaluated by the True Interest Cost Method (“TIC”). Bids shall be awarded to the lowest TIC bidder.

c. Negotiated Sale

When the City's interests may be best served by a negotiated sale.

- i. *Selection of Underwriter:* The City shall select the negotiated underwriter(s) through a request for proposal for underwriting services. The City may select more than one underwriter for a single issue. Underwriter selection will be based on the Firm's demonstrated experience and ability to market the type and size issue being contemplated, assigned personnel's experience with similar credits and structure, estimated costs and fees, and the proposed marketing plan.
- ii. *Negotiating Techniques:* The City shall separate the negotiation of the terms of the bonds, the management fees, the expenses chargeable and the underwriting fees from the takedown and rate discussion. The City shall receive a pre-pricing book, before the sale date, which will include comparable sales and a proposed rates and prices for the bonds. On the day of the pricing, only interest rates, final financing structure and takedown will be discussed unless takedown has been previously agreed upon. In cases where the bonds will be offered at an Original Issue Discount, this too may be discussed at the time of the sale.

d. Private Placement

From time to time the City may seek to privately place its securities. The City will send inquiries to several investors seeking interest in such a placement. The City will seek bids from such private placements for its securities.

e. Lease Purchase

The City shall consider coordinating its lease purchase financings through the development of a master lease program. The Finance Director shall submit the master lease purchase program to the City Manager and City Council for approval.

C. Process

1. Evaluation of Financing Options and Proposals

- a. Submission and Review of Financing Proposals (City and/or land-secured new money debt)

Early communication with the City is encouraged to assist applicants in evaluating the feasibility of available financing programs and to discuss program procedures. The submission of a proposal does not guarantee the feasibility of a project or the City's willingness to proceed with any project. A proposer's completion of all or part of the proposal submission and review process neither creates nor implies any vested right to reimbursement by the City or any other public agency of costs incurred or revenues foregone.

b. Assessment of Alternatives

The review of financing proposals will include a review of all alternatives, including cash financing, which could lower the net present value of acquiring the capital asset.

c. Establishment of Financing Priorities

In evaluating individual financing proposals, the Finance Department will consider all pending financing requirements of the City. This approach will allow the City to take a long-term strategic approach to each financing in order to ensure that each financing is completed efficiently, at the lowest cost, and will not negatively impact future City transactions.

d. Adoption of Capital Financing Plan/Debt Calendar.

The City will periodically adopt a Capital Financing Plan/Debt Calendar which will control all issuance of debt by the City. No debt will be issued unless it has been included on the Debt Calendar. The Finance Director should periodically update the Debt Calendar. Authorization for refunding of outstanding debt that is sensitive to market rate fluctuations shall have a special approval process, which gives maximum authorization to the Finance Director to carry out such financings after the City Council has approved the refinancing within parameters such as:

- i. Minimum present value savings;
- ii. Maximum principal amount;
- iii. Maximum true interest cost;
- iv. Maximum final maturity; and
- v. Date this authorization terminates (no longer than the end of the current fiscal year).

2. Use of Consultants

The City shall select, retain, employ, and be responsible for, in its sole discretion, any consultants necessary for the formation of a special district, review of the financing, and the issuance and administration of bonds, including but not limited to the underwriter(s) and underwriters' counsel; bond counsel; financial advisor; special tax consultant; engineers; appraiser; district administrator, market absorption study consultant; or any other consultant deemed necessary by the City in its judgment to complete the legal proceedings; and financial analysis for issuance of bonds. The cost reimbursement provisions of Section IV.D of this policy shall apply to all costs and expenses incurred by City in employing such consultants.

An applicant/developer may retain its own consultants for its own benefit, but will work through those consultants hired by the City. If the developer/applicant retains its own consultants, all costs associated therewith shall be borne by the developer/applicant.

No firm may serve in more than one capacity as design engineer or special tax consultant on the same District pursuant to California Government Code. Similarly,

no firm may serve as a financial advisor or bond counsel during the planning stages for a district or conduit project and subsequently as underwriter or disclosure counsel for the bonds of the district or project.

### 3. Land Use Approvals

All proposed projects within the proposed district or project area, together with the infrastructure and public facilities, must be consistent with the City's adopted General Plan, zoning classifications, and the California Environmental Quality Act (CEQA). All property within the proposed district must possess land use determinations or zoning classifications of sufficient certainty, and facility requirements of sufficient specialty that each parcel can be adequately assessed.

#### D. Additional Policies Regarding Land-Secured and Conduit Financing

##### 1. Purpose of Additional Policies Regarding Land-Secured and Conduit Financing

The purpose of these Additional Policies Regarding Land-Secured and Conduit Financing is to facilitate the acquisition and construction of public facilities on commercial, industrial and residential properties in order to promote any of the following:

- a. The health and welfare of developed areas;
- b. The orderly development of the City; and
- c. The development of needed commercial or industrial property.

##### 2. Policy for Use of Public Financing for Public Facilities

Factors to be considered in reviewing a request that a Community Facilities District (CFD) or an Assessment District be formed shall include but not be limited to the following:

- a. Whether there is a need for additional commercial, industrial or residential zoned lots in the City;
- b. Whether the inventory of existing improved parcels in the community is adequate for orderly development needs;
- c. If additional commercial, industrial or residential lots are desired in the City, and if the project's financial feasibility is dependent upon financing the public improvements with tax-exempt bonds;
- d. Whether the proposed assessment or special tax, when added to the existing public indebtedness in the area will result in an unusually high tax rate or collection charge, which tends to make the sale or use of property uneconomic. Total tax assessment including special taxes must be less than 2%; and
- e. Whether the City anticipates debt issuance during the applicable calendar year for the purpose of general City operations, which might be precluded or negatively impacted as a result of an assessment district or CFD financing.

The City encourages the development of commercial or industrial property. The City Council will consider the use of community facility districts (hereinafter "CFDs") or special benefit assessment districts (hereinafter "Assessment Districts"), as well as other financing methods to assist these types of development. Where, in the City's opinion, the public facilities of a residential development represents a significant public benefit, this type or other appropriate types of public financing will also be considered.

While recognizing that public facilities proposed to be financed must meet a public need and must benefit properties within the proposed development project, public benefit implies that a significant benefit will also result to the community at large. An example of significant public benefit is a public facility having regional impact such as a bridge, a freeway overpass, a regional water or wastewater treatment plant, etc. Significant public benefit can also take the form of affordable housing through reduced housing costs, etc.

Public financing will be permitted for real property public improvements that will benefit the ultimate property owner and whose useful life will be equal to or greater than the term of the bonds.

The proposed development project must be consistent with the City's Comprehensive General Plan and have secured appropriate land use approvals from the City to allow for the implementation of the ultimate development of the area.

Facilities, which are, upon completion, owned, operated or maintained by public agencies, shall be considered public facilities. Limited exceptions will be made for certain facilities to be owned, operated or maintained by private utilities.

An appraisal of the property subject to any lien required to secure any public financing shall be required. A minimum property value to lien/debt ratio of 3:1 (after inclusion of the public facilities being financed and including any overlapping assessment or community facilities districts) must be present pursuant to Premise 3 entitled, *Bulk Land Value*, as determined by an M.A.I. appraisal. Exceptions may be granted for commercial, industrial and mixed-use development projects. The appraisal shall be reviewed by the City and shall be prepared according to the requirements discussed in Section H, below.

### 3. Legal Environment

Numerous laws codify assessment proceedings and bond issuance in California, with the most relevant, for purposes of the Policies, being the Municipal Improvement Act of 1913 (setting forth procedures for forming an assessment lien on property), the Improvement Bond Act of 1915 (providing a method of issuing bonds secured by those assessment liens), and Proposition 218. The Improvement Act of 1911, routinely used by municipal issuers for small assessment projects, is rarely, if ever, used for developer-sponsored assessment financing

The bonds shall be issued in accordance with the 1913, 1915 or Mello-Roos Bond Acts as determined jointly by the City and project proponents. In the absence of a development agreement, no bonds shall be issued unless the City Council makes findings that a development agreement is not in the best interest of the City.

Facilities shall be funded in accordance with the provisions of the Municipal Improvement Acts of 1911, 1913, and 1915 and the Mello-Roos Community Facilities Act of 1982 as amended. In the event the acquisition provisions of the 1913 Act are utilized, the City and the project proponent shall mutually agree upon the facilities to be acquired and the method of determining the construction costs incurred. Furthermore, the project proponent shall be required to provide evidence satisfactory to the City of (1) competitive bids for the construction contract and (2) payment of prevailing wage with respect to such construction contract(s).

#### 4. Project Costs and Reimbursement Policies

- a. Costs incurred by the City prior to approval of project: All costs incurred by the City prior to formation of a district or approval of a land-secured or a conduit project, including but not limited to consultant costs (e.g., legal counsel, engineering firms, appraisers, special tax consultants, financial advisors), City staff and administrative costs and related expenses, cost of providing notices, printing and publication costs, and all expenses directly or indirectly relating to these items, shall be reimbursed to the City by the applicant/developer prior to formation of the district or approval of the conduit project. Reimbursement shall be facilitated by advance deposit increments as required by the City. At the City's discretion, the City may consider as an alternative to a cash reimbursement by the applicant/developer, in-kind improvements which are dedicated to the City, and which have a value at least as great as the identified City costs. The City may also allow the reimbursement to be accommodated for in the development agreement, which would stipulate that the City's costs will be paid from bond proceeds.
- b. Costs incurred prior to bond closing: If a district is formed or a conduit project is finalized, and if bonds are issued, the City may direct that a portion or all of the City's costs be reimbursed and the consultant's costs be paid from bond proceeds.
- c. Costs incurred by the City subsequent to formation of district: in the case of a land-secured financing, all City administrative and consultant costs related to administration of the district and incurred after formation shall be included within the assessment or special tax formula in accordance with applicable provisions of law.
- d. Reimbursement to applicant/developer
  - i. *Where district is formed or conduit project is approved and bonds are issued:* If the district is formed or conduit project is approved and bonds are issued, the applicant/developer shall be entitled to reimbursement from bond proceeds for all reasonable costs and expenses incident to the proceedings and construction of the



facilities, subject to approval of the City Council, and subject to any applicable restrictions contained in the Improvement Acts, the Mello-Roos Community Facilities Act of 1982, and other applicable laws and regulations as amended. With regard to applicant/developer paid consultant costs, reimbursement shall be limited to those project-related consultants hired by the City or those hired by the developer/applicant and expressly approved by the City prior to expenses being incurred. The City reserves the right, in the City's sole discretion, to retain any independent consultant, which shall be at the applicant/developer's cost, to review or audit project related costs, including, but not limited to applicant/developer paid costs. Eligibility for reimbursement for any otherwise-eligible expense is conditioned upon the applicant/developer providing paid invoices therefore to the City, and City approval.

The applicant/developer shall not be entitled to reimbursement from bond proceeds for any of the following reasons: interest expense incurred by the applicant/developer during the planning or design or construction (subject to the exception for construction-related interest expense, set forth below) of the public improvements, any other costs and expenses incurred by the applicant/developer which are not legally authorized for reimbursement, or as to which bond counsel has declined approval for reimbursement, and any costs not expressly approved by the City.

- ii. *Where district is not formed (or conduit project is not approved), or where district is formed (or conduit project is approved) and bonds are not issued:* In the event that the district is not formed (or the project does not proceed) due to City disapproval or abandonment, or due to applicant/developer abandonment, or the district is formed (or the project is approved) and bonds are not issued for any reason, the City will refund to applicant/developer any remaining unexpended and unobligated portion of advance deposits posted with the City, subject to the City's prior and full reimbursement of all its direct and indirect costs. If the applicant/developer's advance deposit to the City is not sufficient to reimburse the City for all of its direct and indirect costs, the City, at its sole discretion, will require an additional deposit by the applicant/developer for the difference. The City shall be entitled to pay any refund to the applicant/developer listed on the application form without interest, irrespective of any changes in the ownership or composition of the applicant/developer.

## 5. Jurisdictional Impact Study

At the City's discretion, a jurisdictional impact study may be required to determine the aggregate public service needs for the project. Upon receipt of an application for public financing, the City may notify the other public entities having responsibility to service the proposed project and request comment on the application. Periodic meetings, on a regional basis, with all affected public entities may be required by the City to address issues relative to overlapping debt and other considerations.

## 6. Agreements Required

The applicant will be required to enter into all agreements incident to district or conduit project proceedings as determined by the City in a form provided by the City and consistent with these policies. These agreements may include, but not be limited to:

- a. Development Agreement
- b. Disposition and Development Agreement
- c. Acquisition Agreement
- d. Funding and Reimbursement Agreement
- e. Advance Deposit Agreement
- f. Land Dedication Agreement
- g. Other Agreements (as required)

As a condition to the issuance and sale of the bonds, all of the agreements required by the City shall be duly approved and executed by the parties thereto. Prior to execution of any agreements, the City Attorney, the Finance Director and the City's bond counsel shall review such agreements. Additional agreements and conditions are described below.

All contracts for public improvements to be owned, operated or maintained by the City shall be solicited, let and administered as required by City policy.

The proponents (developers) will covenant that bond proceeds will be used and dispersed at times and in the manner as specified on the resolutions forming the financing districts and other such agreements entered into with the City.

## 7. Information Regarding Feasibility of Project

- a. Fiscal Feasibility Report - Prior to the formation of a financing district or project, a fiscal feasibility report may be required if a portion of the land within a district or project area is substantially undeveloped. The report shall be prepared by or at the direction of the City. All costs for preparing this report shall be borne by the applicant/developer.
- b. Property Owner Support - Where the formation of a district is applicant/developer initiated and where multiple property owners are involved, the district applicant shall be required to produce letters of support

from the other property owners who are in favor of the district as an attachment to the district application. The applicant/developer must demonstrate, to the satisfaction of the City, that the project has, or is likely to have, sufficient property owner support to meet all legal and statutory requirements, including but not limited to the Mello-Roos Act and Proposition 218.

- c. Market Absorption Study - An absorption study of the proposed development project may be required for land-secured financings. The absorption study shall be used as a basis for verification that sufficient revenues can be produced and to determine if the financing of public facilities is appropriate given the timing of the development. Additionally, the projected absorption rates will be provided to the appraiser for use in the appraisal required in Section H, below.

## 8. Appraisal

A current appraisal will be required of the property that comprises the financing district against which a lien will be placed to secure the bonded indebtedness to be incurred. The City may also require a current appraisal of the proposed conduit financing project in such cases that the City considers appropriate which may include but not be limited to the case in which the proposed debt issue is neither to be rated nor insured. The appraisal will be made by an appraiser retained by the City and is to be made consistent with the following guidelines (with special emphasis on section five, "Form and Content of Appraisal").

### a. Introduction

The process of arriving at an appraised value outlined by the California Debt Advisory Commission's *Guidelines for Appraisal Services for Land-secured Financing* may be summarized as follows:

- i. Statement of appraisal problem.
- ii. Required data and sources of data.
- iii. Gathering, recording and verification of data.
- iv. Determination of "highest and best use."
- v. Estimation of land value.
- vi. Estimation of improvement value by relevant approach:
  - 1. sales comparison,
  - 2. cost (or replacement value), or
  - 3. income capitalization.
- vii. Reconciliation of results to concluded value.
- viii. Report of value with statement of limitations, conditions, and assumptions.

b. The Appraiser - General Requirements

Appraisals undertaken to establish value-to-lien ratios for land-secured financing can be complex, requiring the appraiser to interpret the significance of various financial and demographic data. Because an appraisal essentially is an appraiser's *opinion* of value, the City requires that the appraiser be qualified to render this opinion.

- i. City Oversight: Appraisers must be selected from a "pre-qualified" list of appraisers determined by the City.
- ii. Credentials: The appraiser will be accredited by the State of California Office of Real Estate Appraisers and be a Member of the Appraisal Institute (MAI), or have similar training, experience and qualifications as determined in the City's sole discretion.
- iii. Independence: The appraiser will be a member of City staff or an independent contractor retained by the City, rather than a land owner/developer. No appraiser or review appraiser shall have any direct or indirect interest in the real property being appraised for the City that would in any way conflict with the preparation of or review of the appraisal. Compensation for making an appraisal shall be neither based on the amount of the valuation, nor subject to contingency fee arrangements, nor based on successful sale of the bonds.

c. The Appraisal Problem

The appraiser will begin each assignment by defining the *appraisal problem* - that is, succinctly stating the objective of the appraisal. The statement of the appraisal problem will identify (1) the property rights to be valued, (2) the operative definition of value, and (3) the specific date of the value estimate.

- i. Property Rights to be Valued: Appraisals undertaken to establish value-to-lien ratios in CFDs and assessment districts will value the fee simple estate within the established district and subject to the special tax or assessment lien.
- ii. Definition of Value: Appraisals undertaken to establish value-to-lien ratios in CFDs and assessment districts will estimate the market value of the subject property. The market value estimate will be the bulk sale value for all vacant properties - both unimproved properties and improved or partially improved but unoccupied properties. The bulk land value will include the property within the district as it is currently entitled with all appropriate zoning and in its current state of development, the value of the improvements to be financed with the proposed bond issue, if any, and the value of other improvements to be financed with any other cash escrow or security whose cash value is entirely controlled by the City.
- iii. Date of the Value Estimate: The date of the value estimate should clearly be identified in the appraisal report. The period between the

date of the appraisal and the financing should be no more than four months, to accurately represent land values to prospective investors.

d. Valuation Methods

The first three valuation methods discussed in this section - the Sales Comparison Approach to Value, the Cost Approach to Value, and the Income Capitalization Approach to Value - form the core of modern real estate appraisal practices. These valuation methods are appropriate for conventional appraisal assignments involving improved real property, but are less well suited to the valuation of unimproved land. Appraisals of unimproved CFDs and assessment districts will additionally employ a Discounted Cash Flow (DCF) analysis based upon the bulk land value of the property appraised, the fourth valuation method discussed in this section. This section concludes with a brief discussion of Mass Appraisal techniques and an assessed value approach alternative. An appraisal may include more than one appraisal method, depending on the status of the project.

- i. Sales Comparison Approach to Value: The Sales Comparison Approach to Value offers the best indication of the market value of the subject property, because it is based on actual sales data. This methodology is appropriate for most improved properties, but the absence of comparable sales data usually constrains its application to appraisals of unimproved CFDs and assessment districts. The Sales Comparison approach, however, provides the analytical basis for estimating future retail value of presently unimproved properties, which may be incorporated into a Discounted Cash Flow analysis.
- ii. Cost Approach to Value: The Cost Approach to Value is not appropriate for appraisals undertaken to establish value-to-lien ratios in CFDs and assessment districts. Cost does not create value. The Cost Approach may be useful, however, for adjusting for physical differences between properties under the Sales Comparison Approach. Sales Comparison appraisals can be adjusted to reflect infrastructure differences between different projects.
- iii. Income Capitalization Approach to Value: The Income Capitalization Approach to Value is appropriate for retail value calculations of income-producing properties. It also may be appropriate for estimating the future retail values of income-producing properties for use in a Discounted Cash Flow analysis.
- iv. Discounted Cash Flow Analysis: Discounted Cash Flow Analysis is appropriate for bulk sale valuations of unimproved properties and improved or partially improved but unoccupied properties. Discounted Cash Flow valuations should rely on an absorption study to estimate how quickly properties can be developed and sold or leased to end users. The expenses of converting raw land to finished product or improved lots must be deducted from gross cash flow to derive net cash flow prior to discounting. The value of the public

facilities to be financed with the contemplated bond financing will be included in the appraisal. The discount rate should reflect the rates of return needed to attract debt and equity participation in the project

- v. Mass Appraisal Techniques: When an entire tract or project has been built and fully absorbed, the appraiser may employ mass appraisal techniques, utilizing conservative per dwelling unit estimates.
- vi. Assessed Value: If, based upon assessed value, the value-to-lien ratio of the project and 90% of the undeveloped parcels is greater than 5:1, then a separate appraisal may not be required at the City's sole discretion. If the assessed value of 90% of the undeveloped parcels is not greater than five times the amount of the lien, then the City can require an appraisal to be completed on the undeveloped portion of the project while it uses the assessed value for the developed portion.

e. Form and Content Of Appraisal

The appropriate format and level of appraisal documentation can vary according to its complexity. A detailed appraisal will reflect nationally recognized appraisal standards, including, to the extent appropriate, the Uniform Standards of Professional Appraisal Practice. Appraisal methodology and presentation of the results of the appraisal shall be presented in writing in either form report or narrative report, as required, by the Finance Director and City Manager.

Appraisals should conform to the following specific criteria:

- i. Appraisals must be in writing, using either a "form report" (Uniform Commercial and Industrial Appraisal Report - Existing Property) or a "narrative report."
- ii. Each appraisal shall clearly state the purpose of the report; a definition of the estate being appraised (i.e., fee, leasehold, etc.); and a description of the limiting conditions and assumptions underlying the appraisal.
- iii. Valuation dates shall be as determined by the City, but in no event more than 120 days prior to the sale of bonds. To the extent practical, valuation dates on all properties shall be synchronized to a specific date, such as "October 1, 2002."
- iv. A physical description of the property being appraised, along with a discussion of its "highest and best use," land use regulations, present use and location.
- v. An opinion of value which specifically considers the value of the property (including individual parcels) with the completed public facilities (bond proceeds and other financial guarantees).

- vi. A certificate of the appraiser stating the absence of any direct or indirect interests in the property, along with a brief description of the appraiser's qualifications.
- vii. Improvement description (to the extent information is practically available)
  - (a) Land parcels which have been developed and subsequently sold should at minimum indicate land parcel size, number of lots, density, number of plans, square footage, year construction was initiated, year of completion, and when sales were initiated.
  - (b) Land parcels with product under construction or with standing inventory should be described as in (a) above and include a summary of the stage of development including: number of residential units or buildings completed, number of buildings, status of buildings under construction, finished lots and mass-graded or raw lots. In addition, a comment on the marketability of the buildings (architecture, size, etc.) is appropriate.
  - (c) Land parcels which have been developed with income-producing (or owner-occupied) commercial, industrial, offices, etc., should be described as follows:
    - 1. Commercial-Retail - Land parcel size; basic construction type; typical tenant improvements (and who is responsible for their construction); leaseable area, when construction was initiated; and date of completion.
    - 2. Industrial - Land parcel size; basic construction type, whether single or multi-tenant; typical office build-out as percentage of total area, when construction was initiated; and date of completion.
    - 3. Office - Land parcel size; basic construction type; typical tenant improvements/allowance; net rentable area, when construction was initiated; and date of completion.
    - 4. Residential - Land parcel size; basic construction type; whether single or multi-family; when construction was initiated; and date of completion

## 9. Value-to-Lien Ratios

The following guidelines describe the City's general policy on value-to-lien ratios, however the requirements will be determined on a project by project basis and are subject to the City's sole discretion.

- a. The District (or improvement area) property value-to-lien ratio should be at least 3:1 after including in the appraisal the value of the financed public facilities to be installed and including as part of the lien any prior or pending special taxes or improvement liens. Individual properties within the boundaries of the proposed District must also meet the minimum value-to-lien ratio test of 3:1 on a parcel by parcel basis.

- b. If the value-to-lien ratio is 3:1 or greater for the entire district and if there is a value-to-lien ratio of 3:1 on at least 90% of vacant land in the district, the City may not require, at the City's sole discretion, letters of credit or other security to secure payment of the special taxes to be levied annually on properties within the district.
- c. If the value-to-lien ratio is less than 3:1 for the district as a whole or on at least 90% of approved parcels in the district, the City may require either letters of credit or other security (assigned deposits, deposits to escrow) to secure payment of the special taxes/special assessments on properties within the district or may elect to abandon the district.

## 10. Credit Enhancement

Each bond issue shall be structured to adequately protect bondholders and to not negatively impact the bonding capacity or credit rating of the City through some combination of credit enhancement, foreclosure covenant, special reserve fund or deposits and/or a contractual commitment by the proponents and successors to pay the special taxes or assessments during at least the first four years of the bonds. Specifically:

- a. Financial Plan: Prior to City approval of the district or project, the applicant/developer may be required to submit a financial plan which demonstrates to the City's satisfaction the applicant/developer's ability to pay all assessments and/or special taxes through build out of the project.
- b. Credit Enhancement Requirements: In general, where credit enhancement is required for the bond issue as a whole, in the opinion of the City, the applicant/developer shall provide such enhancement in such form as is approved by the City and the underwriters. Such enhancement may, for example, be required in cases where the value-to-lien ratio for property within the district or project area is insufficient, and may take the form of letters of credit, policies of insurance, or other vehicles.
- c. Letter of Credit Requirements: With regard to the formation of either a Community Facilities District pursuant to the Mello-Roos Community Facilities Act of 1982, as amended, or a Special Assessment District pursuant to the Municipal Improvement Act of 1913, as amended, if a person or persons owning property within the proposed boundaries of a District will be responsible for payment of thirty-three percent (33%) or more of the total annual special tax or special assessment to be levied, then said property owner or owners may be required to provide a Letter of Credit naming the City as beneficiary. In general, the following requirements apply to letters of credit:
  - i. The term shall be the longer of one year, the length of time anticipated for the completion of the improvements, or the length of time anticipated for the subject parcel(s) to reach a sufficient value-to-lien ratio, as determined by the City, an appraiser and market absorption consultant retained by the City, with automatic renewal



unless canceled in writing by the City. In addition, the letter of credit will terminate when the obligated party's property holding has an annual special tax or special assessment liability of below thirty-three percent (33%) of the total annual special tax or special assessment to be levied. New property owners responsible for thirty-three percent (33%) or more of the total annual special tax or special assessment may be required to provide a substitute Letter of Credit under the same terms and conditions described herein.

- ii. The Letter of Credit is to be in an amount equivalent to the gross debt service on the bonds allocable to the person's property for the current fiscal year and the succeeding fiscal year or in such other amount as is determined by the City. The amount of the Letter of Credit will be proportionately reduced as the property owner sells portions of his or her property.
- iii. The letter of credit must be posted with the City in final form, properly authorized and executed, prior to City authorization to issue bonds for the district or project. Irrevocable credit commitments, commitment letters, in-lieu letter of credit guarantee forms, or other similar instruments, will not be accepted.
- iv. The letter of credit shall be irrevocable, and issued for the benefit of the City on or before the date of the delivery of the bonds.
- v. The issuer of any Letter of Credit or other credit enhancement shall be a bank legally operating within the State of California, and which has a rating that is acceptable to the City Treasurer, including a Thompson Bank Watch rating of "C" or higher, or an equivalent rating by any other nationally recognized financial institution rating agency, and whose letters of credit are deemed marketable by the City for public financing purposes.
- vi. The City reserves the right to consider other forms of credit enhancement or bond guarantee which are determined by the City, in its sole discretion, to be a lawful and adequate substitute for a letter of credit. An irrevocable credit commitment, commitment letter or in-lieu Letter of Credit guarantee will not be accepted irrespective of whether capitalized interest is funded from bond proceeds.

## 11. Refunding of Prior Issues

The City may require that each new district or conduit project bond issue refund any prior issues, if they exist on properties included in the district or project area, in order to avoid subordinated liens. Instances where prior issues may not require refunding are:

- a. Where refunding of prior issues will result in higher interest costs;
- b. Where there can be assurance that prior liens may pose no marketing problems for the new district or project area bonds; or

- c. Where refunding of prior issues may present future administrative difficulties to the City or other affected public entities

## 12. Security Supporting Financings

- a. Conduit Financings - Bonds issued through conduit financing mechanisms are to be supported by the flow of payments from the developer to whom the issuer of the bonds has loaned the bond proceeds. Frequently, the repayment of the loaned proceeds is guaranteed by a letter of credit or similar credit support (as described in Section J: "Credit Enhancement," above). The requirement for a letter of credit on conduit financings shall be determined on a project by project basis and shall be at the sole discretion of the City.
- b. Limited Obligations - All statements and materials related to the sale of special tax bonds (CFDs) and Assessment District bonds shall emphasize and state that neither the faith, credit nor the taxing power of the City of Folsom, Sacramento County, the State of California, nor any other taxing entity, is pledged to the repayment of the bonds, nor is there an obligation of the City to replenish the reserve fund from revenue sources other than special taxes, annual assessments or proceeds from foreclosure proceedings.
- c. Technical Defaults - Concerning each CFD with outstanding bonds, all City departments and agencies with administrative responsibilities will notify the Finance Director and file a written report of the circumstances if an event of technical default has occurred or is likely to occur.
- d. Foreclosure Covenant - A foreclosure covenant may be required as follows:

The City covenants for the benefit of the owners of the Bonds that it will commence appropriate foreclosure proceedings within one-hundred-and-eighty (180) days of notice of a delinquency from the Auditor-Controller of the County of Sacramento in the Special Tax or Assessment Collections Department identifying the parcel(s) with respect to which the Special Tax has not been paid, and once existing delinquencies amount to at least (5%) of annual debt service and the City determines that the benefits are greater than the costs of pursuing foreclosure proceedings, the City will diligently pursue to completion such foreclosure proceedings.

As used herein "benefits" are defined as either monetary (more revenue is generated than costs incurred) or non-monetary (prevention of bonds issued in the City's name from going into default).

## 13. Special Taxes and Assessments

Land-secured bonds are termed "limited obligations" whose primary repayment is secured, in the case of community facilities districts, by a special tax, or in case of assessment districts, by a confirmed assessment lien.

The rate and method of apportionment of the special tax must be both reasonable and equitable in apportioning the costs of the public facilities to be financed to each of the parcels within the boundaries of the proposed district. For an assessment district, as State Law requires, the apportionment of the assessment lien among the parcels comprising the proposed assessment district shall be based upon the direct and special benefit each parcel receives from the public facilities to be financed. For community facilities districts, the City prefers that this apportionment of costs be based on the benefit that each parcel is to receive from the public facilities financed.

The projected special assessment and/or special tax, when added to the ad valorem property tax and other benefit assessments, special taxes levied for authorized but unissued debt, and any other anticipated special assessments, fees, taxes or charges which may be included on a property owner's annual property tax bill, should not exceed two percent (2%) of the projected assessed value of each improved parcel within the district. A backup special tax to protect against changes in densities resulting in insufficient annual special tax revenues to pay annual debt service and administrative expenses shall be required. A formula to reimburse the special tax payments may be permitted.

#### 14. Special Tax Formula for Land-Secured Financing

##### a. Maximum Overall Tax Burden

The total of the following should not exceed two percent (2%) of the projected assessed value of the subject properties:

- i. Ad valorem property taxes levied by the City.
- ii. Voter approved ad valorem taxes levied by the City in excess of one percent (1%) of the assessed value.
- iii. Special taxes levied by any existing CFD for the payment of bonded indebtedness or on-going services.
- iv. Assessments levied for any assessment district or maintenance district for the payment of bonded indebtedness or services.
- v. The maximum special tax for the proposed CFD.
- vi. Any other fees or charges secured by the property.

##### b. Maximum Special Tax

The maximum special tax formula shall adhere to the following requirements:

- i. The maximum special tax submitted to the qualified voters of the district shall not exceed one percent (1%) of the projected assessed value of the developed properties at the time of full build-out of district formation.

- ii. In regard to CFDs, the total projected annual special tax revenues, less estimated annual administrative expenses, must exceed the projected annual gross debt service on the bonds by ten percent (10%). Projected annual interest earnings (at current treasury yields) on bond reserve funds may also be included as revenue for the purpose of structuring the special tax. Reserve fund interest earnings credit in excess of the foregoing will only be permitted if an investment agreement, satisfactory to the City, is secured at the time any bonds are sold and delivered.
- iii. The maximum special tax may be established when a developed parcel is first subject to the tax and shall include reasonable annual administrative expenses and other direct costs to the CFD.
- iv. Under limited circumstances, an increase in the maximum special tax will be permitted, not to exceed two percent (2%) annually for residential property.
- v. The City shall have discretion to allow a special tax in excess of the two percent (2%) maximum tax burden limits for any commercial or industrial lands within the district. The City may allow exceptions to the maximum tax burden in situations where the excess tax burden would not affect the marketability of the district lands, or the credit quality or flexibility of future City financing.
- vi. All property not otherwise statutorily exempted or owned (or to be owned) by a public entity shall bear its appropriate share of the special tax liability. The special tax may be apportioned on the basis of benefit to all categories and classes of property within the CFD. The apportionment should be based upon ultimate use of the property.

## 15. Special Tax Consultant Report

The City shall retain a special tax consultant to prepare a report which:

- a. Recommends a special tax for the proposed CFD, and
- b. Evaluates the proposed special tax in light of its ability to adequately fund identified public facilities, City administrative costs and services (if applicable) and other related expenditures. Such analysis shall also address the resulting aggregate tax burden of all proposed special taxes plus existing special taxes, ad valorem taxes and assessments on the properties within the CFD.

## 16. Disclosure and Notification Requirements

- a. Proposal  
At the time of proposal submission and prior to the sale and issuance of any bonds, the applicant/developer must demonstrate the financial wherewithal to complete the project by meeting the City's requests for information which

may include but not be limited to the following: a pro forma of the project, a Dunn and Bradstreet Report, and disclosure of material events, including bankruptcy filings and outstanding liens. In addition, the applicant for a land-secured or conduit debt issue and all property owners within the boundaries of the proposed financing district or project area that will be responsible for twenty percent (20%) or more of the debt service on the bonded indebtedness to be incurred shall, at the request of the City, provide financial statements (preferably audited) for the current and prior two fiscal years if such financial statements are already done in the normal course of business (as covered in SEC rule 15(c)2-12). This requirement may be adjusted appropriately if the proposed debt issue is to be rated or insured or otherwise guaranteed by an appropriate credit enhancement. The applicant shall also provide all other financial information related to the proposed project that may be requested by the City. The City reserves the right to reject a project based on failure to comply with the City's disclosure requirements if the City determines, in the City's sole discretion, that facts or circumstances relating to disclosure may have a material effect on the applicant/developer's ability to implement the project.

In order to obtain appropriate disclosure information on the developer/applicant, the City shall require the developer/applicant to complete an information questionnaire similar to Attachment A. Failure to fill out the questionnaire to the City's sole satisfaction will be the basis for the City's rejection of the application.

b. Notification of Intention to Form a District

When an assessment district or CFD is formed by petition of the property owners or by direct action of the City Council, all property owners and holders of first deeds of trust on property within the proposed district will be notified of the procedures undertaken to establish such a district and the public hearing to be held not less than thirty (30) days after the City adopts the Resolution of Intention.

c. Offering Statements

It is the intent of the City to comply with all applicable federal or state requirements regarding disclosure to insure that fair and accurate descriptions of debt issues are provided to the purchasers of the bonds. Decisions as to the adequacy of the disclosure will be determined by the Finance Director, the City Attorney, bond counsel, financial advisor and underwriter or disclosure counsel. No preliminary or final offering statement for a particular land-secured financing will be released for circulation unless it is deemed final by the City.

The proponent(s) of a particular land-secured or conduit financing and all principal participants therein are expected to provide the information requested by the Finance Director, the City Attorney, financial advisor, the underwriter, disclosure counsel or bond counsel that is deemed necessary for disclosure purposes. Failure on the part of the proponent and any principal

participants to comply with such requests will jeopardize completion of the debt issue.

The proponent of a particular land-secured financing and all principal participants therein will be required to execute those certificates and provide those written opinions of their respective counsel that are required by the terms of the bond purchase agreement. Failure to do so will result in the bonds not being issued and sold.

d. Continuing Disclosure

The developer will comply with federal and state securities laws and SEC rule 15(c)2-12 requirements concerning secondary market (continuing) disclosure as those requirements are interpreted by the City and its counsel.

e. Notice to Future Purchasers of District Properties

The following provisions apply to land-secured financings. The applicant/developer shall be responsible for compliance with all applicable federal and state statutory disclosure requirements, as well as any additional City requirements, in transactions with purchasers of properties within the district.

i. *Community Facilities Districts*: The Mello-Roos Community Facilities Act requires that certain disclosure certificates regarding the existence of a community facilities district and the special tax obligation be provided to those individuals purchasing property within the district. The City will require that the statutorily prescribed disclosure be made to the initial purchaser of property within a community facilities district, and it will make available the information necessary to complete the disclosure certificate required for secondary transfers. In its sole discretion, the City may require additional disclosure if to do so will aid subsequent purchasers to be made aware of the existence of the community facilities district and the lien obligations created by the special tax.

ii. *Assessment Districts*: Consistent with the applicable provisions of the Streets and Highways Code dealing with notice as to the existence of an assessment district, the City considers the recordation of the notice of assessment lien with regard to a parcel sufficient notice as to the existence of an assessment district and the amount of the lien.

## **IX. Strengthening Financial Position**

Development projections indicate that the City shall reach build-out in approximately 2009-2010. At this time, revenue sources shall begin to stabilize. To preserve General Fund revenues, the City will need to take proactive steps to strengthen its financial condition. The following policies shall guide those efforts.

### **A. Diversified Economy and Revenues**

#### **1. Preservation of Commercial and Industrial Development Opportunities**

The City shall diversify its economic base by encouraging a broad range of private sector commercial and industrial employment. While it is important to maintain an inventory of land zoned for residential use, the City shall carefully consider economic impacts before rezoning any commercial or industrial land to residential use with any proposed rezoning from commercial or industrial land use to residential land use. The City Council shall be presented with an analysis of trend data comparing percentages of residential development to commercial/industrial development.

#### **2. Jobs/Housing Balance**

The City shall implement growth principles designed to encourage an equal ratio of jobs to housing, and shall encourage the expansion of businesses that will provide opportunities for Folsom residents to work in their home community.

#### **3. Effect of Fees/Charges/Rates on Commercial and Industrial Development**

In setting fees, charges, and/or rates on commercial and industrial development, the City shall evaluate the comparative fee structure of other neighboring jurisdictions. The City shall strive to implement fees, charges and/or rates that are competitive with other jurisdictions and that shall not have a negative impact on sales tax or other valuable sources of revenue.

### **B. Economic Incentives for Commercial and Industrial Development**

The City shall provide economic incentives for commercial and/or industrial development when such incentives shall lead to a positive economic return for the City in terms of jobs, workforce housing opportunities, enhanced revenues, a more diversified economic base, or enhanced transportation or other public services. Any economic incentive policies shall be attached as an Appendix to this document.

## C. Redevelopment Revenues

Within the boundaries of the Redevelopment Agency, property tax increment revenues are a resource for housing-related subsidies, and also provide resources to support commercial and industrial business expansion. Consistent with the statutory goal of eliminating blight and the adopted Redevelopment Plan, the Redevelopment Agency shall develop and implement a long-term economic plan that leverages the use of available property tax increment and other redevelopment revenues in a manner that sustains ongoing property tax growth and provides increased opportunities for enhancement of property values within the Redevelopment Agency boundaries. The Redevelopment Agency shall develop an appropriate balance between investment of Redevelopment revenues in public projects within the Redevelopment Agency boundaries and private development opportunities. The Redevelopment Agency shall also consider the generation of increased sales tax revenues and the creation of a stable and diverse economic base in evaluating opportunities for the investment of property tax increment.

## D. Intergovernmental Revenues

### 1. Grants

Grants from federal, state or private organizations are an appropriate and desirable means of enhancing available revenues. However, grant funding is rarely a long-term, stable economic base. The following policies shall ensure that grant funding is appropriately leveraged to enhance City services.

#### a. Grant Applications

Requests to the City Council for approval of a grant application shall identify anticipated long-term maintenance and/or renovation costs, required City matching funds, and additional personnel that may be needed if the grant is awarded for a capital project. With respect to grants for staffing, the source of funds for long-term staffing after the expiration of the grant shall also be identified in the request for approval of the grant application.

#### b. Grant Administration

All grants and other federal and state funds shall be managed to comply with the laws, regulations, and guidance of the grantor, and all gifts and donations shall be managed and expended according to the wishes and instructions of the donor.

#### c. Grant Project Resolutions

All grants received from the Federal or State government for operating or capital purposes shall be recognized in separate grant project resolutions. A balanced grant project resolution must be adopted prior to beginning the



project. A grant project resolution is balanced when estimated expenditures do not exceed estimated revenue. Information on each grant project resolution shall be included in the Annual Budget.

d. Review by Finance Department

All grant applications on behalf of the City shall be reviewed by the Finance Director before submittal to the City Council or the grantor.

2. State Shared Revenues

To protect against fluctuations in intergovernmental revenues. The City shall maintain fifteen percent in undesignated fund balance as a reserve against unanticipated or uncontrollable reductions in state subventions.

E. Cost Allocation Charges

The City Council recognizes that certain administrative functions are performed for services that are funded by fees, rates or other service charges. The General Fund should be reimbursed for the cost of such services when the administrative functions are performed by City staff paid out of General Fund revenues (e.g., legal, finance and personnel). To preserve General Fund revenue and to properly allocate the cost of such administrative services, Enterprise and Special Revenue Funds shall be charged for administrative services in an amount equal to the value of the time spent on such services. The process for determining Cost Allocation shall be determined by the Finance Director, and shall be revised from time to time as may be necessary. In each Annual Budget, the amount charged to an Enterprise or Special Revenue Fund shall be separately identified as a "Transfer Out." The Cost Allocation amount shall be examined annually and adjusted as deemed necessary to respond to changes in cost of service.

F. User Fee Cost Recovery

The City provides certain services to Folsom residents and business that are funded in whole or in part by fees that are intended to cover all or a portion of the cost of providing such services. To the extent User Fees do not cover the entire cost of providing such services; the General Fund subsidizes the additional expense. Careful examination of User Fees shall enhance the stability of the General Fund. The following policies shall be implemented to ensure that User Fees keep pace with changes in the cost-of-living as well as changes in methods or levels of service delivery.

1. General Principles

a. Revenues derived from User Fees shall not exceed the reasonable cost of providing the service.

b. Cost recovery goals shall be based on the total cost of delivering the service, including all direct costs, departmental administration costs, and organization-

wide support costs such as accounting, personnel, data processing, building and/or vehicle maintenance, and insurance.

- c. The method of assessing and collecting fees shall be as simple as possible in order to reduce the administrative cost of collection. Although a high cost of recovery may be appropriate for specific services, if it is impractical or costly to charge the user, a lower level of cost recovery shall be appropriate.
  - d. Fee levels shall be sensitive to the “market” for similar services, including the provision of services by private sector service or program providers. User Fees shall not be set so high that services shall not be used. Conversely, User Fees shall not be set so low that the City is stimulating a demand by artificially low prices. Specifically, the City shall carefully consider whether it is appropriate to provide services at a subsidized cost (or a cost that does not include all cost of services, such as room rental costs, building maintenance or personnel charges) if such services are available through the private sector.
  - e. Fee levels shall be sensitive to smaller, infrequent users of the service, for example, small businesses that may have less of an opportunity to recover the cost of User Fees through ordinary business income.
  - f. The level of cost recovery should consider the community-wide versus special benefit of the program or activity that is the subject of the User Fee. The use of general-purpose revenues shall be appropriate for community-wide services, while User Fees at some level shall be appropriate for services that are of special benefit to easily identified individuals or groups. (For example, it would be unusual to charge a User Fee for a community-wide event such as an Easter Egg Hunt, while it would be appropriate to charge a User Fee at some level for an adult recreational program with a limited number of participants.)
  - g. The level of cost recovery shall consider the financial benefit to the service user, and whether the user is a service driver or a service recipient. In cases where there user benefits financially from the provision of the service, and the service would not be provided but for the expanded business or revenue opportunities, the level of User Fee should more closely approximate 100% cost recovery. (For example, a developer receives financial benefit at the conclusion of the development review process, and the City would not provide the review of development applications but for the expanded business or revenue opportunity for the developer. While the community may be the actual service recipient of the review of development applications, the developer is the service driver.)
2. Factors Favoring High Levels of Cost Recovery. High cost recovery levels are especially appropriate in the following circumstances:
    - a. The service is similar to services provided through the private sector.

- b. Other private or public sector alternatives could or do exist for the delivery of the service.
  - c. The demand for the service is high and cost of service is needed as a mechanism to help control demand.
  - d. The cost of service can be used as a mechanism for encouraging compliance with the law. (For example, police response to false burglary alarm calls.)
  - e. The service is regulatory and voluntary compliance is not expected to be the primary method of detecting failure to meet regulatory requirements. (For example, building permit, plan checks and subdivision review services.)
3. Factors Favoring Low Levels of Cost Recovery. In addition to the general policy considerations noted above, low cost recovery levels are appropriate in the following circumstances:
- a. The program or services falls within the range of general public services which are provided to the community to promote the general safety, health and well-being of the community, and there is no intended relationship between the amount paid and the benefit received. (For example, police and fire services, general access to park facilities.)
  - b. The service is not generally available through private sources and is necessary to promote the general safety, health and well-being of the community. (For example, teen after school programs.)
  - c. The service is generally non-recurring, delivered on a “peak demand” or emergency basis, cannot reasonably be planned for on an individual basis, and is not readily available from a private sector source. (For example, police and fire services in response to emergencies.)
  - d. Collecting fees would discourage compliance with regulatory requirements and adherence to regulatory requirements is not readily identified by the City. (For example, home-based business licenses.)
4. Periodic Adjustment of User Fees. A comprehensive analysis of User Fees shall be made at least every three years. In the interim, if applicable, fees shall be adjusted by no less than the amount of the annual change in the Consumer Price Index. Fees may also be adjusted more frequently than every three years based on supplemental analysis whenever there has been significant change in the method, level or cost of service delivery. A schedule reporting the rate of all User Fees shall be included as an Appendix to the mid-year budget review, and the City Council may direct adjustment in User Fees as part of the annual budget process.
5. Recreation Programs. Consistent with the policies described above, the following cost recovery policies apply to the City’s recreation programs.

- a. Cost recovery for activities directed to adults should be relatively high.
- b. Cost recovery for activities directed to youth and seniors should be relatively low. In those circumstances where services are similar to those provided in the private sector, cost recovery levels should be higher.
- c. Differential rates may be established for User Fees for non-residents whenever there is not full cost recovery for a program. Differential rates may not be appropriate if the higher User Fee for non-residents reduces attendance and there is no appreciable savings in the cost of providing the program with a lower number of participants.
- d. The following cost recovery goals shall be considered in establishing recreational User Fees. These goals are not mandatory, and given appropriate analysis may not apply to a particular program.

High-Range Cost Recovery Activities (75-100%):

- i. Adult and special interest classes
- ii. Day care services
- iii. Adult sports

Mid-Range Cost Recovery Activities (50-75%):

- i. City library room rentals.
- ii. Fee based special events sponsored by the City.
- iii. Youth sports and special interest classes
- iv. Indoor and outdoor facility and equipment rentals

Low-Range Cost Recovery Activities (0-50%)

- v. Teen services.
- vi. Senior Services.
- vii. Zoo Entrance Fees
- viii. Non fee based special events sponsored by the City

- e. Charges shall be assessed for the use of rooms, swimming pool, gymnasiums, ball fields, special-use areas, and recreational equipment for activities that are not sponsored or co-sponsored by the City. Such charges shall generally conform to the guidelines for cost recovery described above. However, the Parks and Recreation Director is authorized to charge fees that are closer to full cost recovery for facilities that are heavily used at peak times and include a majority of non-resident users.
- f. A vendor charge shall be assessed from individuals or organizations that use City facilities for money-making activities based on mutual agreement between the City and the vendor.
- g. The Parks and Recreation Director is authorized to offer reduced fees such as introductory rates, family discounts and coupon discounts on a pilot basis to

promote new recreation programs or to increase attendance at existing programs. All such special rate programs shall be enumerated in the mid-year budget report to the City Council.

- h. Fees for City facilities and/or programs shall only be waived if the City Manager or his/her designee determines in writing that an undue hardship exists or overriding circumstances justify the benefits.
6. Development Review Programs. Cost recovery for development review programs shall be very high, and in most cases the goal for cost recovery should be 100%. The City shall also impose clear performance standards to ensure that there is high value for services rendered. This cost recovery principle applies to the following types of development review programs:
- a. Planning (planned development permits, tentative and parcel maps, rezonings, general plan amendments, variances, use permits, etc.)
  - b. Building and safety inspections (building permits, structural plan checks, fire inspections, etc.)
  - c. Engineering (public improvement plan checks, inspections, subdivision requirements, encroachments, etc.)

#### G. Enterprise Fund Rates

The City operates sewer, water and solid waste Enterprise Funds. Each of the Enterprise Funds shall be operated in a manner to fully cover the total direct and indirect costs (including operations, capital outlay and debt service) for operating such functions so as to avoid General Fund subsidies for enterprise operations.

- 1. Rates shall be reviewed on an annual basis and shall be adjusted as appropriate and equitable.
- 2. Rates charged for enterprise activities shall be compared periodically against rates charged by other public agencies for purposes of benchmarking cost of service and operations. Private contracting opportunities shall be evaluated as appropriate as a means of reducing expenses, while remaining in compliance with Sections 5.04 *Purchasing and Contracting* and 7.01 *Conflicts of Interest* of the Charter.
- 3. Collections

The City shall implement a uniform collection policy pursuant to the Folsom Municipal Code section 1.09.062. The costs of this collection procedure shall be reviewed annually to ensure the total direct and indirect costs are fully covered. The costs shall be passed on to the delinquent customers as a penalty in the collection process.

The following options for collection are defined in the Folsom Municipal Code section 1.09.062.

- a. **Property Liens.** After a small claims judgment, a lien shall be placed on the property should the owner fail to pay utility charges, penalties and interest charges.
- b. **Special Assessments.** A resolution must be presented to the City council to declare a special assessment on a delinquent customer's real property. Upon passage and adoption a certified copy shall be recorded with the Sacramento County recorder's office. The assessment shall be collected at the same time and in the same manner as ordinary municipal taxes.
- c. **Withholding Entitlements.** The City may withhold issuing any licenses, permits and other entitlements until payment for the utility charges, penalty and interest is received.
- d. **Collection Agency (other enforcement procedures).** The City can take other actions allowed for enforcement of a civil judgment. Collection agency fees shall be passed on to the customer through penalty and interest charges therefore avoiding gifting of public funds.

## **X. Investments**

The Investment Policy provides operating guidelines for the investment of City monies. It is the primary duty of the City officers having investment responsibility to protect, preserve and maintain the cash and investments placed in their trust on behalf of the citizens of the City.

### **A. Policy Adoption**

Annually, in accordance with the Folsom Municipal Code, Chapter 30.30.030 (I.), and the California Government Code, Section 53646, the City Council shall consider and approve a Statement of Investment Policy at a public meeting. Any modifications made to the investment policy must be approved by the City Council during this annual process.

### **B. Delegation of Authority**

The California Government Code allows for the delegation of investment authority to the Treasurer for a one-year period, to be renewed annually. This action shall be performed in conjunction with the City Council's annual adoption of the investment policy, unless otherwise necessary throughout the year.

Authority to manage the City's investment program is derived from Section 2.11.080 of the Municipal Code. Management responsibility for the investment program is hereby delegated to the Finance Director/Treasurer, who may delegate investment program management functions to others.

The Finance Director/Treasurer shall be responsible for all transactions undertaken and shall maintain a system of internal controls to regulate the activities of subordinate officials to whom investment management functions have been delegated.

### **C. Scope**

This investment policy applies to all financial assets of the City of Folsom, including the Folsom Redevelopment Agency and the Folsom Public Financing Authority. These assets are accounted for in the City of Folsom Comprehensive Annual Financial Report and include:

1. General Fund
2. Special Revenue Funds
3. Capital Project Funds
4. Enterprise Funds
5. Debt Service Funds
6. Trust and Agency Funds
7. Internal Service Funds

#### D. Prudence

Investments shall be made with judgment and care – under circumstances then prevailing – that persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment, considering the probable safety of their capital, their liquidity needs, as well as the probable income to be derived.

The standard of prudence to be used by investment officials shall be the *Prudent Investor Standard* as set out in Government Code Section 53600.3. This standard shall be applied in the context of managing an overall portfolio. Investment officers acting in accordance with written procedures and the investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

#### E. Objectives

The City's primary investment objectives, in priority order as per Government Code Section 53600.5, are:

1.     **Safety**  
Safety of principal is the primary objective of the investment program. Investment transactions shall be made in a manner that seeks to minimize credit risk, and ensure the preservation of capital in the overall portfolio. To attain this objective, the City shall limit investments to the safest types of investment grade securities and diversify investments among a variety of securities and financial institutions offering independent returns.
2.     **Liquidity**  
The investment portfolio shall remain sufficiently liquid to enable the City to meet all reasonably anticipated operating requirements. Liquidity is accomplished by investing the City's operating funds primarily in shorter-term securities and structuring the portfolio so that investments mature concurrent with cash needed to meet anticipated demands. Emphasis should be on securities with a low sensitivity to market risk by considering the investment's overall issue size, denomination, market of issuance and form of security.
3.     **Return on Investments**  
Investment earnings on the portfolio shall be tertiary to the basic requirements of safety and liquidity. The investment portfolio shall be designed and managed with the objective of attaining a benchmark market rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the cash flow characteristics of the portfolio.

#### F. Ethics and Conflicts of Interest

Officers and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or



which could impair their ability to make impartial investment decisions. These officers and employees shall disclose to the City Manager any material financial interests in financial institutions that conduct business within their jurisdiction, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's investment portfolio.

Pursuant to Government Code Section 53637, deposits in financial institutions where a member of the City's governing body or employees with investment decision-making authority serve on the board of directors or the specified committees of that financial institution are prohibited.

#### G. Investment Procedures

The Finance Director/Treasurer shall maintain written investment procedures for the operation of the investment program consistent with this policy. The procedures should include reference to: safekeeping, repurchase agreements, wire transfers, banking service contracts and collateral/depository agreements. Such procedures shall include explicit delegation of authority to persons responsible for investment transactions. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Finance Director/Treasurer.

#### H. Authorized Financial Dealers and Institutions

The Finance Director/Treasurer shall maintain a list of financial institutions authorized to provide investment services. In addition, a list shall also be maintained of approved security broker/dealers who are authorized to provide investment services to the City. These broker/dealers must be registered to provide investment services in the State of California and may include primary dealers or regional dealers that qualify under Securities & Exchange Commission Rule 15C3-1 (uniform net capital rule). No public deposit shall be made except in a qualified public depository as established by State laws.

All financial institutions and broker/dealers who desire to become qualified bidders to provide investment services to the City must submit the following:

1. Audited financial statements
2. Proof of National Association of Securities Dealers (NASD) certification
3. Proof of State registration
4. Completed City Broker/Dealer Questionnaire
5. Certification of having read and agreeing to comply with the City's Investment Policy and depository contracts

#### I. Authorized and Suitable Investments

1. Authorized Investments

The City of Folsom is authorized to invest in securities allowable under the California State Government Code. Investments that are authorized and suitable for inclusion in the City's investment portfolio are listed in the table below. A

complete copy of Government Code Sections 53600-53609, *Investment of Surplus*, and Section 16429.1 *Local Agency Investment Fund* are provided in Exhibits 1 and 2 of this policy.

<b>Investment Type</b>	<b>Conditions and Limitations</b>	<b>Term</b>
California State Treasurer's Local Agency Investment Fund (LAIF)	Portfolio Limit: 80%	n/a
Bonds Issued by the City	Portfolio Limit: 80%	5 Years
U.S. Treasury Bills, Notes and Bonds	Portfolio Limit: 80%	5 Years
Registered State Warrants, Treasury Notes or Bonds of the State	Portfolio Limit: 20%	5 Years
Bonds, Notes or Warrants of any Local Agency within the State	Portfolio Limit: 20%	5 Years
Federal Agency Securities or U.S. Government Sponsored Enterprise Obligations	Portfolio Limit: 50% with no more than 20% invested in a single agency	5 years
Bankers Acceptances	Portfolio Limit: 40% and no more than 10% in a single commercial bank	180 Days
Commercial Paper	Portfolio Limit: 15% and no more than 10% in a single corporation. An additional 15%, or a total of 30%, may be invested in commercial paper if the dollar weighted dollar average maturity of the entire amount does not exceed 31 days.  Conditions: Must be a domestic corporation with assets in excess of \$500 million and have an investment grade rating of A or higher on its debt other than commercial paper.	270 Days
Negotiable Certificates of Deposit	Portfolio Limit: 30%  Conditions: Maximum dollar amount of deposits are subject to various conditions set forth in Government Code Section 53678. Must be a national or state chartered bank, state or federal association, or a state licensed branch of a foreign bank	5 Years
Repurchase Agreements	Portfolio Limit: 20%  Conditions: A master repurchase agreement is required, with securities	1 year

	underlying the agreement valued daily at 102 percent. Securities limited to U.S. Treasury and Federal Agencies.	
Reverse Repurchase Agreements	Portfolio Limit: 20%  Conditions: Requires prior approval of the governing body. Various conditions apply if the security was not owned or specifically committed to purchase prior to 12/31/1994, as set forth in Govt. Code Section 53601.	92 Days
Medium Term Notes	Portfolio Limit: 30%  Conditions: May invest in domestic corporations or financial institutions only and must be rated "A" or better by a nationally recognized rating service.	5 Years
Mutual Funds	Portfolio Limit: 20%, no more than 10% in a single mutual fund.  Conditions: Must invest in securities authorized by Govt. Code Section 53601 (a-j, m, n). Must have highest letter and number rating by at least two nationally recognized rating agencies, and must have investment advisor registered with the Securities and Exchange Commission and at least 5 years experience.	n/a
Monies Held by Trustee or Fiscal Agent	Conditions: Pledged for payment of bonds, other indebtedness, lease obligations, installment sale, and certificates of participation or other agreement of a local agency invested with the statutory provisions governing the issuance of the indebtedness.	Per Bond Issue
Notes, Bonds or Obligations for Purpose of Securing Local Agency Deposits	Conditions: Must at all times be secured by first priority interest in securities listed in Government Code Section 53651. Market value must be at least equal to requirements set out in Section 53652.	5 Years
Mortgage Backed or Consumer Pass-through Securities	Limitation: 20% of portfolio  Conditions: Must have an investment grade rating of at least AA with the issuer's other debt rated at least A by a nationally recognized rating agency.	5 Years

2. Diversification

To mitigate credit risk in the investment portfolio, the City shall diversify investments by security type and issuer. With the exception of U.S. Treasury securities, the Local Agency Investment Fund and bonds issued by the City, no more than 50% of the City's total investment portfolio shall be invested in a single security type or with a single issuer.

3. Maximum Maturities

The investment portfolio shall be structured so that securities mature to meet the City's anticipated cash flow requirements. The City shall maintain a minimum of 50 percent of the investment portfolio in securities with a maturity of one year or less as required by Municipal Code Section 3.30.020. Investments with a maturity of more than five-years must be specifically authorized by the City Council no less than three months prior to the purchase of such an investment as required by the Government Code.

4. Prohibited Investments

Investments in inverse floaters, range notes or mortgage derived interest-only strip securities are prohibited as set forth in Government Code Section 53601.6. Also prohibited are investments in any security that could result in zero interest accrual if held to maturity. A local agency may hold previously purchased prohibited investments until their maturity dates.

J. Investment Pools/Mutual Funds Due Diligence

A thorough evaluation of an investment pool or mutual fund is required prior to investing, and on a continual basis, to ascertain the following:

1. A description of eligible investments, and a written statement of investment policy and objectives.
2. A description of interest calculations and distribution method, and how gains and losses are treated.
3. A description of how securities are safeguarded (including the settlement process), and how often the securities are priced and the program audited.
4. A description of who may invest in the program, how often, what size deposits and withdrawals are allowed.
5. A schedule for receiving statements and portfolio listings.
6. Whether reserves, retained earnings, etc. are utilized by the pool/fund.
7. A fee schedule, including when and how it is assessed.
8. Whether the pool/fund is eligible for the investment of bond proceeds and/or shall it accept such proceeds.

K. Collateralization

Collateralization is required for investments in repurchase agreements. To anticipate market changes and provide a level of security for all funds, a collateralization level of 102% of daily market value of principal and accrued interest is required. Collateral is limited to the following types of securities:

1. United States Treasury securities, certificates of indebtedness or those for which the full faith and credit of the United States is pledged for the payment of principal and interest.
2. Securities issued by United States Federal Agencies or U.S. Government Sponsored Enterprises

#### L. Safekeeping and Custody

All investment transactions, including collateral for repurchase agreements, entered into by the City shall be conducted on a delivery-versus-payment (DVP) basis. Securities shall be held by a third party custodian designated by the Finance Director/Treasurer and evidenced by safekeeping receipts.

#### M. Internal Controls

The Finance Director/Treasurer shall maintain a written system of internal controls over investments designed to prevent losses of public monies from fraud, error, theft or misuse. The Finance Director/Treasurer shall provide for an annual process of independent review by an external auditor to ensure compliance with the internal control system.

#### N. Performance Standards

The investment portfolio shall be managed with the objective of obtaining a market-average rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and cash flow needs.

The City's investment strategy is generally passive, and securities shall not be sold prior to maturity with the following exceptions:

1. To minimize the loss of principal from a declining credit security
2. To swap a security to improve quality, yield or portfolio target duration
3. To meet portfolio liquidity needs

Given this strategy, the basis used to determine whether an appropriate rate of return is being achieved shall be to identify a benchmark comparable to the duration or the average weighted maturity of the investment portfolio for the period evaluated.

#### O. Reporting

The Finance Director/Treasurer shall provide monthly investment reports to the City Council on a quarterly basis. The investment reports shall include the elements required by California Government Code Section 53646 and Municipal Code Section 3.30.030. The investment reports should also include information on the fixed income markets and economic conditions, changes in the portfolio structure and investment strategies. Schedules in the report should include:

1. Individual securities held, by authorized investment category
2. Par value, amortized book value and market value
3. Average life and final maturity of investments listed
4. Coupon, discount or earnings rate
5. Interest earnings to date
6. Average portfolio weighted yield
7. Percentage of portfolio represented by each investment category
8. Investment transactions

## **XI. Financial Reporting**

Clear, accurate and understandable financial reporting provides accountability over all components of the City's financial affairs and ensures compliance with applicable statutory and other regulatory requirements. Financial reports shall meet requirements established by various governmental regulatory oversight organizations. Financial reports that are understandable by the public shall also be generally available.

### **A. Accounting Practices**

The City shall establish accounting practices that conform to Generally Accepted Accounting Principles (GAAP) as set forth by the authoritative standard setting body for units of local government.

### **B. Annual Financial Audit**

As required by Folsom Municipal Code Section 3.02.160, an annual audit shall be performed by an independent certified public accounting firm. An official comprehensive annual financial report (CAFR) shall be issued no later than 6 months following year-end. The CAFR shall contain the independent auditor's report and financial statements of the City, along with operating results, statistical and demographic information about the City. This report shall be prepared under the guidelines of GAAP and the GFOA for Certificate of Achievement for Excellence in Financial Reporting Program. A management letter, the by-product of an annual audit, shall be provided by the independent certified public accounting firm no later than March 31.

### **C. Quarterly Financial and Management Report**

As required by Folsom Municipal Code Section 3.02.050 (b), the City Manager shall submit a quarterly financial and management report to the City Council within 30 days from the end of each quarter.

### **D. Availability of Reports to the Public**

The CAFR and other financial reports shall be available for public inspection and, to the extent practicable, shall be posted on the City website.

## **XII. Productivity**

The City shall constantly monitor and review methods of service delivery to ensure that services continue to be delivered in the most cost-effective manner possible. The review process shall encompass a wide range of productivity considerations, including:

### **A. Technology**

Evaluating and implementing appropriate technology to improve customer service and productivity.

### **B. Contracting for Services**

Evaluating the ability of the private sector to perform city services at a similar or expanded service level at a lower cost.

### **C. Customer Service**

Evaluating and implementing changes to business systems to enhance service to the residents, businesses and developers that interact with City government. Efforts to streamline and eliminate duplicative review process shall be a high priority.

### **D. Training**

Identifying and budgeting for training that shall enhance service delivery and reduce cost of providing services by developing the skills and abilities of all City employees.

### **E. Performance Measurement**

Employees at all levels of City government shall be evaluated on a regular basis. The City is committed to being a high performing organization, and all efforts shall be made to improve the productivity of the City's programs and its employees through performance measurement. The City is committed to continuous improvement of productivity and service through analysis and measurement of actual performance objectives and customer feedback.



### **XIII. Risk Management**

Continuing growth in the City's assets and operations increases the possibility of significant property losses as well as exposure to liability to third parties for injuries to person or property. In recognition of this, the City has adopted a policy of professional and prudent management of risk exposures. Prudent risk management program objectives are as follows:

#### **A. Insurance**

The City shall maintain worker's compensation insurance as required by law, shall insure its real property, vehicles and other capital assets, and shall participate in a general liability insurance program (through self-insurance or participation in an appropriate insurance pool.)

#### **B. Safety Training and Risk Management**

The City shall train its work force on safety measures and shall institute all practical measures to eliminate or control injury to persons, loss to property or other loss-producing conditions.

#### **C. Third Party Indemnification**

Whenever appropriate, the City shall shift liability for injury to property or person to third parties through appropriate indemnification language in contracts or entitlements issued by the City. The City shall require insurance in forms satisfactory to the City Attorney and with carriers of approved standing prior to executive of any contract. The City shall also require the right to audit all provisions of contracts, to review any financial /escrow accounts, bank letters of credit or other credit instruments, and the right to require complete financial reports if appropriate for the situation.

#### **D. Emergency Operations Plan**

The City shall implement an Emergency Operations Plan consistent with regional, state and federal requirements. To the extent possible, the City shall cooperate with regional agencies in preparing for emergency situations and shall endeavor to share emergency equipment and facilities to the extent practicable. Appropriate City personnel and officials shall be trained in the conduct of emergency operations procedures.

# Appendix A

## Appendix B

## Appendix C