

# FINANCIAL POLICIES

## Town of Fairfax Financial Policies Last Amended July 18, 2018

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### **PURPOSE:**

To establish a comprehensive set of financial policies for the Town that will serve as a guideline for operational and strategic decision making related to financial matters. These are the goals that the Town strives for, in an efforts to promote the fiscal sustainability of the Town; the adoption of these policies do not impose a duty.

### **STATEMENT OF POLICY:**

The following financial policies are intended to establish a comprehensive set of guidelines for use by the Town Council and Town staff on decision-making that has a fiscal impact. The goal is to maintain the Town's financial stability in order to be able to continually adapt to local and regional economic changes. Such policies will allow the Town to maintain and enhance a sound fiscal condition. This policy should be implemented in conjunction with associated subsidiary policies, **i.e. Mission Driven Budgeting Policy, Purchasing Policy, Investment Policy, Grants Policy, etc.**

This financial policy will be reviewed annually to ensure that it remains current. The policy will be included as part of the Town's annual Adopted Budget. The Town's comprehensive financial policies shall be in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA).

The following policies are presented:

1. Long Term Financial Planning
2. Operating Budget Policies
3. General Fund Reserve Policy
4. Financial Reporting Policies
5. Operational Management Policies
  - a. User Fees & Charges
  - b. Grant Management
  - c. Revenue Collection
6. Financial Management Policies

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7. Capital Improvement Project Policies
8. Debt Management Policies
9. Internal Service Funds
10. Outsourcing Policy

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## **1. LONG-TERM FINANCIAL PLANNING**

1. The Town shall strive to seek a balance in the overall revenue structure between more stable revenue sources (e.g. Property Tax and Utility Taxes) and economically sensitive revenue sources (e.g. Sales Tax and Transient Occupancy Tax). When new revenue sources are proposed, they should be designed to achieve a desirable balance.
2. The Town shall encourage the economic development of the community as a whole in order to provide stable and increasing revenue streams. It should be the Town's goal to not only attract new businesses but also to retain successful businesses in the Town. Objectives of the revenue strategy should also include: avoiding an overreliance on revenue from any one particular industry; Recruitment and retention efforts to ensure a balance of revenue sources; ensuring compatible uses; encouraging business synergies; and promoting the growth of amenities and ancillary services to support business districts and established industries.
3. The Town will strive to develop and maintain methods for the evaluation of future development and related fiscal impacts on the Town budget.
4. The Town will strive to develop and implement a five-year infrastructure, facilities and equipment maintenance/replacement plan, which shall be updated annually and included in the Town's **Comprehensive Financial Plan**. From this plan a maintenance and replacement schedule will be developed and followed.
5. The Town will strive to develop and implement a financial plan to address its funding needs for issues like deferred maintenance and unfunded liabilities, which will be included in the Town's **Comprehensive Financial Plan**.

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## 2. OPERATING BUDGET POLICIES

1. The Town Manager shall prepare and present a proposed budget to the Town Council within all statutorily prescribed deadlines. The Council will conduct workshops and a public hearing prior to the adoption of the budget no later than the July meeting.
2. A Budget Resolution will be adopted by the Town Council annually, which describes the budget amendment process and also specifies budget amendment authority.
3. All departments will participate in the responsibility of meeting the Town's financial policy goals and ensure the Town's long-term financial health. Budget control is maintained at the department level.
4. It is the Town's policy to adopt a balanced budget where operating revenue is equal to, or exceeds, operating expenditures. In the event a balanced budget is not attainable, and the cause of the imbalance is expected to last for no more than one year, the planned use of reserves to balance the budget is permitted. In the event that a budget shortfall is expected to continue beyond one year, the planned use of reserves must be developed as part of a corresponding strategic financial plan to close the gap through revenue increases and/or expenditure decreases.
5. The operating budget shall serve as the annual financial plan for the Town. It shall serve as the Town's management plan for implementing goals and objectives of the Town Council, Town Manager and departments. The budget shall provide staff the resources necessary to accomplish Town Council determined service levels.
6. During the annual budget development process, the existing base budget should be thoroughly examined to assure removal or reduction of any services or programs that could be eliminated or reduced in cost.
7. The annual review process should include an assessment to determine if funds are available to operate and maintain proposed capital facilities and other public improvements. If funding is not available for operations and maintenance costs, where practicable, the Town will delay construction of new projects.

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8. Any year-end operating surpluses will revert to un-appropriated balances for use in maintaining reserve levels set by policy and will be available for capital projects and/or one-time General Fund expenditures upon approval of the Town Council.
9. Where practical, the Town's annual budget will include performance measures of workload, efficiency, and effectiveness.
10. The Town's **Comprehensive Financial Plan** (Plan) is a long-term picture of the Town's finances and will be updated annually as part of the annual budget development. The Plan shall include forecasted expenditures and revenues of at least five (5) years for each fund; however, a ten (10) year forecast is preferred. The update will include an analysis of any substantial discrepancies of previous projections.

## **Revenues:**

1. The Town will estimate annual General Fund revenues using an objective, analytical process; specific assumptions will be documented and maintained. Budgeted revenues will be estimated conservatively using accepted standards and estimates provided by the state, other governmental agencies, and/or reliable economic forecasters when available.
2. Specific revenue sources will not be dedicated for specific purposes, unless required by law or Generally Accepted Accounting Principles (GAAP), and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA). All non-restricted revenues will be deposited in the General Fund and appropriated through the budget process.
3. On-going revenues will fund on-going expenditures and a diversified and stable revenue system will be developed and maintained to protect programs from short-term fluctuations in any single revenue source.
4. The Town shall prepare monthly financial reports which discuss revenue receipts compared to budget and a midyear budget report to update projections in light of actual receipts, and shall provide new projections, as appropriate.

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## **Appropriations:**

1. The Town shall, to the extent possible, pay for current year expenditures with current year revenues. Where authorized activities/equipment remain incomplete and/or un-purchased, revenues and/or fund balance may be carried forward at the Town Manager's direction to the next fiscal year to support such an activity/purchase.
2. The Town shall avoid budgetary procedures which rely on financial strategies that defer payment of current operating expenses to future years.
3. Department Heads are responsible for ensuring department expenditures stay within the department's budgeted appropriation. Approval from the Town Manager is required to move funds between personnel and operating expense sections of each department budget.
4. Any increase to the total departmental/fund appropriation will require prior approval by the Town Council. The staff report shall identify the funding sources and budget amendment required for the specific action.
5. The Town shall prepare monthly financial reports which shows actual expenditure receipts compared to budget and a midyear budget report to update projections in light of actual receipts, and shall provide new projections, as appropriate.

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### **3. GENERAL FUND RESERVE POLICY**

1. It is a goal of the Town to maintain a general operating reserve of, at a minimum, 20% of projected General Fund operating expenditures for each fiscal year and an additional 5% for emergency situations (excluding debt service, fund transfers, and encumbered funds). These reserves are designed to be used in the event of a significant financial emergency. Should the General Fund reserve fall below 25%, the Town will implement measures to restore the reserve percentage to 25% in the following fiscal year.
2. The Town shall establish, at the beginning of each fiscal year, an "appropriated reserve" to provide funding for special projects/programs approved by Town Council after the annual budget is adopted, for unanticipated expenditures of a non-recurring nature, or to meet unexpected increases in current service delivery costs. The amount of this reserve will be approved annually by the Town Council.
3. A portion of any uncommitted fund balance in excess of 25% of annual revenues resulting from the previous fiscal year's operations will strive to be committed to capital improvement projects or should be used to retire existing debt, fund future liabilities or potential legislative impacts, establish or replenish equipment replacement funds, and/or establish or replenish deferred maintenance funds.
4. The Town will strive not to use one-time funds to fund ongoing Town programs. Any onetime revenue receipt during the fiscal year should be recognized and recorded in a "non-recurring revenue source" category. One-time revenue windfalls include: sales of Town-owned real estate, CalPERS rebates, lump sum (net present value) savings from debt restructuring, litigation settlement, unexpected revenues, and other similar sources of revenue as designated by the Town Council. These one-time funds should be used to fund one-time projects and expenditures; however Council reserves the right to utilize these funds in an emergency.

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**5 The Town will strive to establish and maintain a designated reserve fund for any anticipated future expenses that will require a certain level of steady funding source, i.e. unfunded future retiree medical cost and pension cost. It is prudent to set aside these funding needs each year in order to maintain Town's financial stability. 4. FINANCIAL REPORTING POLICIES**

## **Accounting Standards:**

1. The Town's accounting and financial reporting systems shall be maintained in conformance with all state and federal laws, generally accepted accounting principles (GAAP) and standards of the Governmental Accounting Standards Board (GASB) and the Government Finance Officers Association (GFOA). The Town will make every attempt to implement all changes to governmental accounting practices at the earliest practicable time.

## **Annual Audit:**

1. An annual audit will be performed by an independent public accounting firm with an audit opinion to be included with the Town's published Comprehensive Annual Financial Report (CAFR).
2. The independent firm will be selected through a competitive bidding process at least once every five years. The contract will be for an initial period of three years with two additional one-year options at the Town Council's discretion. The Finance subcommittee and Town Manager will review the qualifications of prospective firms and make a recommendation to the Town Council. The audit contract, and any extensions, will be awarded by the Town Council.

## **5. OPERATIONAL MANAGEMENT POLICIES**

1. The Town shall endeavor to avoid committing to new spending for operating or capital improvement purposes until an analysis of all current and future cost implications relating to those programs and projects is completed.
2. All departments will participate in the responsibility of meeting policy goals and ensuring long-term financial health. Future service plans and program initiatives



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will be developed to reflect current policy directives, projected resources and future service requirements.

3. Departmental requests for increases in staffing will be thoroughly analyzed; only those that meet adopted program initiatives and policy directives will be considered. To the extent feasible, personnel cost reductions will be achieved through attrition.

## **a. User Fees and Charges:**

1. All non-enterprise user fees and charges will strive to be examined or adjusted annually to determine the direct and indirect cost of service recovery rate. Where direct services to users can be measured, the Town shall consider use of appropriate fees, charges or assessments rather than general tax funds.
2. Except where the Town Council has determined there is a public benefit to subsidize the service with tax based revenue, the user fees and charges for specialized services shall be established at a level related to the cost of providing such service. The acceptable recovery rate and any associated changes to user fees and charges will be approved by the Town Council following public review.

## **b. Grant Management:**

1. The Town will strive to actively pursue federal, state and other grant opportunities when deemed appropriate. Before accepting any grant, the Town shall thoroughly consider the implications in terms of ongoing obligations that will be required in connection with acceptance of said grant.
2. The term of Grant funded positions should be clearly identified and presented to the Town Council for approval. It is mandatory to disclose if General Fund revenues will be needed to fund a position after the Grant expires.

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3. Grant funding will be considered to leverage Town funds. Inconsistent and/or fluctuating grants should not be used to fund ongoing programs. Programs financed with grant monies will be budgeted in separate cost centers, and the service program will be adjusted to reflect the level of available funding. In the event of reduced grant funding, Town resources may be substituted only after all program priorities and alternatives are considered.
4. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

## **c. Revenue Collection Policy:**

1. The Town will pursue revenue collection and auditing to assure that monies due the Town are accurately received in a timely manner.
2. The Town will seek reimbursement from the appropriate agency for State and Federal mandated costs whenever possible.
3. The Town should centralize accounts receivable/collection activities within the Finance Dept. so that all receivables are handled consistently.
4. Accounts receivable management and diligent oversight of collections from all revenue sources are imperative. Sound financial management principles include the establishment of an allowance for doubtful accounts. Efforts should be made to pursue the timely collection of delinquent accounts. When such accounts are deemed uncollectible, they should be written-off from the financial statements.

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## **6. FINANCIAL MANAGEMENT POLICIES**

1. Staff shall keep Town Council apprised of financial opportunities available to the Town and shall develop appropriate recommendations.
2. All requests for Town Council action shall include an analysis of the immediate and future fiscal impact of such action. No appropriation for new or expanded programs or staffing levels shall be approved without identifying the amount and source of available funds.
3. All externally mandated services for which funding is available shall be fully costed out, including overhead, to allow for complete reimbursement of expenses.

### **Cash Management Investment:**

1. Cash and investment programs will be maintained in accordance with California Government Code Section 53600 et seq. and the Town's adopted investment policy and will ensure that proper controls and safeguards are maintained.
2. Reports on the Town's investment portfolio and cash position will be developed and presented to the Town Council on a quarterly basis, in conformity with the California Government Code.

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## **7. CAPITAL IMPROVEMENT PROJECT POLICIES**

1. A five-year Capital Improvement Plan will strive to be developed and updated annually, including anticipated funding sources. Capital improvement projects are defined as infrastructure or equipment purchases or construction which result in a capitalized asset and have a useful (depreciable) life of five years or more.
2. The capital improvement plan will identify, where applicable, current operating maintenance costs and funding streams available to repair and/or replace deteriorating infrastructure and to avoid significant unfunded liabilities.
3. The Town should develop and implement a post-implementation evaluation of its infrastructures condition on a specified periodic basis, estimating the remaining useful life, and projecting replacement costs.
4. The Town will strive to actively pursue outside funding sources for all Capital Improvement Projects. Outside funding sources, such as grants, shall be used to finance only those Capital Improvement Projects that are consistent with the five- year Capital Improvement Project and local governmental priorities, and whose operating and maintenance costs have been included in future operating budget forecasts.
5. Capital improvement lifecycle costs will be coordinated with the development of the Operating Budget. Future operating, maintenance and replacement costs associated with new capital improvements will be forecasted, matched to available revenue sources, and included in the Operating Budget. Capital project contract awards will include a fiscal impact statement disclosing the expected operating impact of the project and when such cost is expected to occur.
6. The Town must carefully seek and analyze the appropriate type of financing instrument appropriate for financing capital projects. Several options are available – general obligation debt, fee-supported debt, fund reserves, etc. All debt financing mechanisms shall be carefully considered and analyzed for fiscal benefit and cost effectiveness. Long-term borrowing shall be restricted to projects too large to be financed from current revenues (pay-as-you-go). Where

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possible, special assessment, revenue or other self-supporting bonds shall be used in lieu of general obligation bonds.

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## **8. DEBT MANAGEMENT POLICIES**

With the exception of funding for prudent cash flow needs in the form of Tax and Revenue Anticipation Notes (TRAN), a ratio of current assets to current liabilities of at least 2 to 1 will be maintained to ensure the Town's ability to pay short-term obligations (i.e., current asset/current liabilities greater than or equal to 2).

### **Issuance of Debt:**

This Debt Management Policy (the "Debt Policy") of the TOWN OF FAIRFAX (the "Town") was amended by the Town Council of the Town (the "Council") on August 2, 2017. The Debt Policy may be amended by Council as it deems appropriate from time to time in the prudent management of the debt of the Town.

This Debt Policy will also apply to any debt issued by the Fairfax Financing Authority and any other public agency for which the Council acts as its legislative body.

The Debt Policy has been developed to provide guidance in the issuance and management of debt by the Town or its related entities and is intended to comply with Section 8855(i) of the California Government Code effective on January 1, 2017.

The main objectives are:

- to establish conditions for the use of debt;
- to ensure that debt capacity and affordability are adequately considered;
- to minimize the Town's interest and issuance costs;
- to maintain the highest possible credit rating;
- to provide complete financial disclosure and reporting;
- and to maintain financial flexibility for the Town.

Debt, properly issued and managed, is a critical element in any financial management program. It assists in the Town's effort to allocate limited resources to provide the highest quality of service to the public. The Town understands that poor debt management can have ripple effects that hurt other areas of the Town. On the other hand, a properly managed debt program promotes economic growth and enhances the vitality of the Town for its residents and businesses.

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## 1. Findings

This Debt Policy shall govern all debt undertaken by the Town. The Town hereby recognizes that a fiscally prudent debt policy is required in order to:

- Maintain the Town's sound financial position.
- Ensure the Town has the flexibility to respond to changes in future service priorities, revenue levels, and operating expenses.
- Protect the Town's credit-worthiness.
- Ensure that all debt is structured in order to protect both current and future taxpayers, ratepayers and constituents of the Town.
- Ensure that the Town's debt is consistent with the Town's planning goals and objectives and capital improvement program or budget, as applicable.
- Encourage those that benefit from a facility/improvement to pay the cost of that facility/improvement without the need for the expenditure of limited general fund resources.

## 2. Policies

### A. Purposes For Which Debt May Be Issued

The Town will consider the use of debt financing primarily for capital improvement projects (CIP) when the project's useful life will equal or exceed the term of the financing and when resources are identified sufficient to fund the debt service requirements. An exception to this CIP driven focus is the issuance of short-term instruments such as tax and revenue anticipation notes, which are to be used for prudent cash management purposes and conduit financing, as described below. Bonded debt should not be issued for projects with minimal public benefit or support, or to finance normal operating expenses.

If a department has any project which is expected to use debt financing, the department director is responsible for expeditiously providing the Town Manager and the Finance Director with reasonable cost estimates, including specific revenue accounts that will provide payment for the debt service. This will allow an analysis of the project's potential impact on the Town's debt capacity and limitations. The department director shall also provide an estimate of any incremental operating and/or additional maintenance costs associated with the project and identify sources of revenue, if any, to pay for such incremental costs.

- (i) Long-Term Debt. Long-term debt may be issued to finance or refinance the

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construction, acquisition, and rehabilitation of capital improvements and facilities, equipment and land to be owned and/or operated by the Town, or to produce overall debt savings by refinancing other existing debt i.e., pension liability.

(a) Long-term debt financings are appropriate when the following conditions exist:

- When the project to be financed is necessary to provide basic services.
- When the project to be financed will provide benefit to constituents over multiple years.
- When total debt does not constitute an unreasonable burden to the Town and its taxpayers and ratepayers.
- When the debt is used to refinance outstanding debt in order to produce debt service savings or to realize the benefits of a debt restructuring.

(b) The Town will not use long-term debt financings for current operating expenses or routine maintenance expenses.

(c) The Town may use long-term debt financings subject to the following conditions:

- The project to be financed has been or will be approved by the Council.
- The weighted average maturity of the debt (or the portion of the debt allocated to the project) will not exceed the average useful life of the project to be financed by more than 20%, unless specific conditions exist that would mitigate the extension of time to repay the debt and it would not cause the Town to violate any covenants to maintain the tax-exempt status of such debt, if applicable.
- The Town estimates that sufficient income or revenues will be available to service the debt through its maturity.
- The Town determines that the issuance of the debt will comply with the applicable requirements of state and federal law.
- The Town considers the improvement/facility to be of vital, time-sensitive need of the community and there are no plausible alternative financing sources

(d) Periodic reviews of outstanding long-term debt will be undertaken to identify refunding opportunities. Refunding (e.g., refinancing) will be considered (within federal tax law constraints, if applicable) if and when there is a net economic benefit of the refunding. Refundings which are non-economic may be undertaken to achieve Town objectives relating to changes in covenants, call provisions, operational flexibility, tax status of the issuer, or the debt service profile.

In general, refundings which produce a net present value savings of at least three (3) percent of the refunded debt will be considered economically viable. However, the



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Town may determine that the non-economic benefits/objectives derived or achieved from refunding support a less than three percent net present value savings.

## (ii) Long-term Debt/OPEB

(a) Other Postemployment Benefits (OPEB) provide eligible retired employees of the Town of Fairfax with retiree health care benefits. The Town will prepare bi-annual actuarial reports to determine the Town's Annual Required Contribution (ARC) toward OPEB. The Governmental Accounting Standards Board (GASB) has released GASB 75 as a required standard for determining OPEB accounting, beginning with the 2017-18 fiscal year. Under GASB 75, an Actuarially Determined Contribution (ADC) replaces the ARC.

(b) Since 2010, the Town has met its required ARC and has, at times, prefunded OPEB accrued liabilities. It is the Town's policy to continue to pay the Actuarially Determined Contribution per GASB 75 and, based on availability of resources, consider annually pre-funding its OPEB unfunded liabilities. The Town budgets for the ADC payment in each fiscal year budget.

(iii) Short-term debt. Short-term borrowing may be issued to generate funding for cash flow needs in the form of Tax and Revenue Anticipation Notes (TRAN).

Short-term debt may also be used to finance short-lived capital projects or equipment; for example, the Town may undertake lease-purchase financing for equipment, and such equipment leases may be longer than seven (7) years.

Short-term borrowing, includes commercial paper, and lines of credit, or other short-term loans. Short-term debt may be issued for any purpose for which long-term debt may be issued, including capitalized interest and other financing-related costs. Prior to issuance of the short-term debt, a reliable revenue source shall be identified to secure repayment of the debt. The final maturity of the debt issued to finance the project shall be consistent with the economic or useful life of the project and, unless the Council determines that extraordinary circumstances exist, must not exceed seven (7) years.

(iv) Financings on Behalf of Other Entities. The Town may also find it beneficial to issue debt on behalf of other governmental agencies or private third parties in order to further the public purposes of Town. In such cases, the Town shall take reasonable steps to confirm the financial feasibility of the project to be financed and the financial solvency of any borrower and that the issuance of such debt is consistent with the policies set forth herein. In no event will the Town incur any liability or assume responsibility for payment of debt service on such debt.

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## B. Types of Debt

In order to maximize the financial options available to benefit the public, it is the policy of the Town of Fairfax to allow for the consideration of issuing all generally accepted types of debt, including, but not exclusive to the following:

- General Obligation (GO) Bonds: General Obligation Bonds are suitable for use in the construction or acquisition of improvements to real property that benefit the public at large. Examples of projects include libraries, parks, and public safety facilities. All GO bonds shall be authorized by the requisite number of voters in order to pass.
- Revenue Bonds: Revenue Bonds are limited-liability obligations tied to a specific enterprise or special fund revenue stream where the projects financed clearly benefit or relate to the enterprise or are otherwise permissible uses of the special revenue. An example of projects that would be financed by a Revenue Bond would be improvements to a water system, which would be paid back with money raised from the rates and charges to water users. Generally, no voter approval is required to issue this type of obligation but in some cases, the Town must comply with proposition 218 regarding rate adjustments.
- Lease-Backed Debt/Certificates of Participation (COP/Lease Revenue Bonds): Issuance of Lease-backed debt is a commonly used form of debt that allows a Town to finance projects where the debt service is secured via a lease agreement and where the payments are budgeted in the annual budget appropriation by the Town from the general fund. Lease-Backed debt does not constitute indebtedness under the state or the Town's constitutional debt limit and does not require voter approval.
- Special Assessment/Special District Debt: The Town may consider requests from developers for the use of debt financing secured by property based assessments or special taxes in order to provide for necessary infrastructure for new development only under strict guidelines adopted by the Council, which may include minimum value-to-lien ratios and maximum tax burdens. Examples of this type of debt are Assessment Districts (AD) and Community Facilities Districts (CFD) or more commonly known as Mello-Roos Districts. In order to protect bondholders as well as the Town's credit rating, the Town will also comply with all State guidelines regarding the issuance of special district or special assessment debt, as well as any policy required to be adopted under Government Code Section 53312.7.

The Town may in exceptional circumstances make findings that other forms of debt would be beneficial to further its public purposes and may approve such debt without

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an amendment of this Debt Policy.

To maintain a predictable debt service burden, the Town will give preference to debt that carries a fixed interest rate. An alternative to the use of fixed rate debt is variable rate debt. The Town may choose to issue securities that pay a rate of interest that varies according to a pre-determined formula or results from a periodic remarketing of securities. When making the determination to issue bonds in a variable rate mode, consideration will be given in regards to the useful life of the project or facility being financed or the term of the project requiring the funding, market conditions, credit risk and third party risk analysis, and the overall debt portfolio structure when issuing variable rate debt for any purpose. The maximum amount of variable-rate debt should be limited to no more than 20 percent of the total debt portfolio.

The Town will not employ derivatives, such as interest rate swaps, in its debt program. A derivative product is a financial instrument which derives its own value from the value of another instrument, usually an underlying asset such as a stock, bond, or an underlying reference such as an interest rate. Derivatives are commonly used as hedging devices in managing interest rate risk and thereby reducing borrowing costs. However, these products bear certain risks not associated with standard debt instruments.

## **C. Relationship of Debt to Capital Improvement Program and Budget**

The Town intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the Town's capital budget and the capital improvement plan.

The Town shall strive to fund the upkeep and maintenance of its infrastructure and facilities due to normal wear and tear through the expenditure of available operating revenues. The Town shall seek to avoid the use of debt to fund infrastructure and facilities improvements that are the result of normal wear and tear, unless a specific revenue source has been identified for this purpose, such as Gas Tax funds.

The Town shall integrate its debt issuances with the goals of its capital improvement program by timing the issuance of debt to ensure that projects are available when needed in furtherance of the Town's public purposes.

The Town shall seek to issue debt in a timely manner to avoid having to make unplanned expenditures for capital improvements or equipment from its general fund.

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## **D. Policy Goals Related to Planning Goals and Objectives**

The Town is committed to financial planning, maintaining appropriate reserves levels and employing prudent practices in governance, management and budget administration. The Town intends to issue debt for the purposes stated in this Debt Policy and to implement policy decisions incorporated in the Town's annual operating budget.

It is a policy goal of the Town to protect taxpayers, ratepayers and constituents by utilizing conservative financing methods and techniques so as to obtain the highest practical credit ratings (if applicable) and the lowest practical borrowing costs.

The Town will comply with applicable state and federal law as it pertains to the maximum term of debt and the procedures for levying and imposing any related taxes, assessments, rates and charges.

It shall be the policy goal of the Town to realize net present value savings whenever refinancing or refunding debt. In determining the appropriate level of net present value savings, the Town Council should consider any non-financial policy considerations in their decision making process.

## **E. Internal Control Procedures**

When issuing debt, in addition to complying with the terms of this Debt Policy, the Town shall comply with any other applicable policies regarding initial bond disclosure, continuing disclosure, post-issuance compliance, and investment of bond proceeds.

The Town will periodically review the requirements of and will remain in compliance with the following:

- any continuing disclosure undertakings under SEC Rule 15c2-12,
- any federal tax compliance requirements, including without limitation arbitrage and rebate compliance, related to any prior bond issues, and
- the Town's investment policies as they relate to the investment of bond proceeds.

Whenever reasonably possible, proceeds of debt will be held by a third-party trustee and the Town will submit written requisitions for such proceeds. The Town will submit a requisition only after obtaining the signature of the Town Manager or the Finance

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## **F. Waivers of Debt Policy**

There may be circumstances from time to time when strict adherence to a provision of this Debt Policy is not possible or in the best interests of the Town and the failure of a debt financing to comply with one or more provisions of this Debt Policy shall in no way affect the validity of any debt issued by the Town in accordance with applicable laws.

## **G. Credit Rating**

1. The Town will seek to maintain and, if possible, improve its current bond rating(s) in order to minimize costs and preserve access to credit.

It is the Town's goal to maintain the highest possible credit rating, given the Town's financial position, from a major rating agency. The Town may pay the bond insurance which is considered as part of the rating, however, the rating agency does evaluate the structure of the bond to validate the bond rating. The factors that contribute to a high rating include the Town's financial management practices, low debt levels, budgetary and fiscal controls, and accountability. To support this policy, the Town will continue to maintain its position of full financial disclosure and proactive fiscal planning.

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## **9. INTERNAL SERVICE FUNDS**

### **Equipment Replacement Fund:**

1. The Town shall maintain a fund with a sufficient balance for replacement of vehicles, equipment (including technology and communication equipment).
2. Vehicle replacement will be accomplished through the use of an amortization methodology structure. The rates will be revised annually to ensure that charges to operating departments are sufficient for operation and replacement of vehicles and other capital equipment (fleet, computers, phones, copiers, etc.). Replacement costs will be based upon equipment lifecycle financial analysis.

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## **10. OUTSOURCING POLICY**

The Town will consider outsourcing services if it cannot be provided by existing staff or it is deemed to be more cost effective. Staff will follow the Town's adopted administrative purchasing policy and environmental purchasing & practices policy.