



TITLE: FINANCIAL & BUDGET POLICIES

Purpose and Objective:

- To deliver quality services in an affordable, efficient and cost-effective manner providing full value for each tax dollar.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in Carson City.
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of the community and to respond to changes in federal and state priorities and funding as they affect the City's residents.
- To maintain high bond credit ratings in the financial community and assure the City's taxpayers that the City is well managed and financially sound.

GENERAL GOVERNMENT FINANCIAL STABILIZATION POLICY

To designate any excess unrestricted general fund balance, at the end of a given year, to be used in the following priority order:

1. Reserve Funds – maintain an Ending Fund Balance at a minimum of 5% of annual expenditures with a goal of 8.3% of expenditures.
2. Contingency – \$500,000 annually.
3. Infrastructure Repair – minimum of \$600,000 or 1% of annual expenditures. The amounts may differ annually based upon need
4. Fleet/Equipment Replacement – up to 2.5% of operation expenditures.
5. Stabilization Fund – as allowed by NRS 354.6115 at a level equal to 10% of expenditures from the general fund for the previous fiscal year, excluding any federal funds expended.
6. Operating Expenses – justifications for new expenses must be related to actual service performance.

ENTERPRISE FUND FINANCIAL STABILIZATION POLICY

To establish financial policies and goals to fund and manage enterprise funds within Carson City consistent with the objective of having the full cost (direct and indirect) of providing services supported by each fund.

1. Reserve Levels - Cash reserves are a necessary and appropriate part of prudent financial management practices. The City maintains separate accounting for operating, capital, and other cash reserves, as described below. Reserve levels are established for each type of reserve.
 - a. Operating reserves – Operating reserves provide a cushion to ensure sufficient working capital to meet daily and periodic expenditures. Reserve levels are generally expressed in number of days of cash operating expenses, with the minimum requirement varying with the expected risk of unanticipated needs. The funding level shall be a minimum of 45 days with a goal of 90 days (25%) of annual O&M expenses.
 - b. Capital Project reserves – Capital reserves hold loan and bond proceeds, other capital-related revenues (such as connection charge revenue), and transfers from the operating fund designated for capital construction projects. The capital reserve is intended to mitigate the impact of unanticipated capital costs on rates. The City's goal is to fund the capital reserve at 2.0% of the total (original) cost of utility fixed assets.
 - c. Emergency reserves - Emergency reserves provide funding for minor equipment failures. These reserves are not intended to cover the costs of system-wide failures resulting from catastrophic events which are ordinarily covered through the purchase of insurance. The minimum emergency reserve balance is \$50,000 with a goal of \$75,000.
 - d. Debt proceeds reserves – Debt proceed reserves provide for the unspent proceeds of the debt, including related interest earnings. Debt proceeds and the interest earned on these proceeds will be maintained in restricted accounts until expended.
 - e. System Replacement reserves – System replacement reserves (annual depreciation) provide for the replacement of aging and failing infrastructure to ensure sustainability of the system for ongoing operations. Collecting the amount of annual depreciation expense through user rates helps to ensure that existing ratepayers pay for the use of the assets serving them (rate equity) with cash flow funding a portion or all of the eventual replacement of those assets.

2. Rate making procedures – Each year during the budget process, the Finance Director and the appropriate director responsible for their enterprise fund, shall present a report to the Board of Supervisors detailing the prior fiscal year's actual revenues and expenses in each of the enterprise funds. This report must address the fiscal condition of the fund and make recommendations to the Board for changes in rates to achieve the stated financial policies.
3. The Utility Financial Oversight Committee will provide a report to the Board of Supervisors regarding compliance with these financial policies annually as part of the City budget process.

BUDGET AUGMENTATION POLICY

1. Board of Supervisors approval is required in advance of expending resources in excess of a department or budget unit's final approved budget. A Budget Action Request must be agendaized before the Board of Supervisors requesting the transfer of contingency funds to augment the requesting department's final approved budget.
2. Before requesting additional resources from the Board of Supervisors, departments must make the case, before the City's Internal Finance Committee, that the need results from unforeseen and uncontrollable circumstances and that every effort has been made to meet service demands using existing budgetary resources, **e.g. departmental savings**.

LITIGATION CLAIMS SETTLEMENT POLICY

The Board of Supervisors approval is required for claims settlements in excess of \$25,000. The City Manager possesses the authority to approve settlements in the amount of \$25,000 or less.

DEBT MANAGEMENT POLICY

Debt is the current commitment of future revenues. As a result, the decision to incur debt limits the City's capacity to respond to changing service priorities, revenue streams or cost structures. Decisions regarding the use of debt will be based in part on the long-term needs of the City and the amount of funding dedicated in a given fiscal year to capital outlay.

Debt Issuance Considerations:

1. All borrowing requests shall be evaluated by the Carson City Finance Department during the annual budget process which begins in January. Requests for additional debt must be identified as part of a Capital Improvement Program (CIP) request. Justification, amount and timing of borrowing, and proposed method of repayment must be provided.
2. The Internal Finance Committee will evaluate each debt proposal to determine need and priority. The Finance Department will coordinate the issuance of debt.
3. Debt should only be used after considering alternative funding sources, such as: state, federal and private grants, current revenue and fund balances, state “matching” programs, private sector contributions, public/private partnerships, etc.
4. Debt should be used to finance or refinance only capital improvements or long-term assets that have a useful life of at least five years. The borrowing term of the debt should always be less than the useful life of the asset being financed.
5. Debt should not be issued unless a primary and secondary source of repayment is identified.
6. When contemplating debt, the City should consider all forms of financing including bonds, traditional bank financing and State programs (Bond Bank, State Revolving Fund, etc.).
7. In order to reduce transaction costs and staff time commitment, the City should strive to issue bonds no more frequently than once every two fiscal years. The City should try to group as many projects as possible into a single bond issue.
8. The City will not issue tax or revenue anticipation notes.
9. The City will not issue bond anticipation notes with maturities in excess of two years.
10. The City will strive to maintain a high reliance on pay-as-you-go financing for its capital improvements.
11. A five-year projection of revenues and expenditures for the general and enterprise funds will be prepared to provide strategic perspective to each annual budget process
12. Annually, a five-year capital improvements program will be developed analyzing capital expenditures by year and identifying associated funding sources.
13. Temporary Interfund Loans will be allowed as long as the provisions of NRS 354.6118 are followed.

Debt Service Coverage:

The coverage test is based on a commitment made by the City when it issues bonds to investors. Annual coverage equal to or above the debt service payment is a requirement of bond issues and some other long-term debt. Failure to comply with the

minimum annual coverage requirement can lower the City's bond rating and jeopardize its ability to sell revenue bonds in the future. Higher coverage levels can result in more favorable bond terms.

The minimum required coverage factor assuming debt financing through the Nevada State Bond Bank is 1.0 – meaning no additional cushion above the level of annual debt service is required. However, the City's goal is to set rates sufficient to maintain a coverage factor of at least 1.25. This practice enhances the City's creditworthiness and improves its financial position if the City decides to raise revenue by selling its own revenue bonds, which typically require a factor around 1.25 to 1.35. Excess revenues generated to meet the internal policy can be used to fund capital projects or to help build other under-funded reserves.

CAPITAL IMPROVEMENT PROGRAM POLICY

The Capital Improvement Program (CIP) is the process used to facilitate the planning and acquisition of capital assets. The goals of the program are as follows:

1. To assess capital needs of the City's departments and functions.
2. To identify funding sources for those capital projects/programs which will provide the greatest return on investment in meeting the demand for public facilities, equipment and services.
3. To establish priorities among projects in order to maximize the utility of the City's resources.
4. To facilitate financial planning with respect to funding the long-term capital needs of the City.

The Capital Budget Process

As part of the annual budget process, all departments and funds are required to identify and submit a five-year capital improvement program to accomplish the City's goals and objectives.

The Capital Budget Process formally begins with the distribution of the multi-year CIP instructions to departments in October/November. Departments submit capital expenditure requests to the Internal Finance Committee for review by the end of November.

These capital requests are then presented to the CIP committee comprised of department heads throughout the City. The committee reviews each request and interviews each department regarding their request. The role of this committee is to

prioritize the CIP requests into a recommendation for the City Manager to consider. The committee members consider the Board of Supervisor's goals and objectives in determining the capital spending priorities of the City. The City Manager will then review, modify and forward the recommendations to the Board of Supervisors.

Capital Project Selection Criteria

The Capital Improvement Program Committee selects projects based upon the following criteria:

Essential Projects:

- Critical to remedying or preventing a major health or safety concern.
- Legally mandated (such as compliance with the Americans with Disabilities Act).
- Essential to completing a project.
- Positive fiscal impact such as when a project creates revenues or identifiable savings.
- Facilities/Equipment Maintenance or Replacement Program which is essential to avoid predicted equipment failures.
- Conformance with Plans or Policies.

Discretionary Projects (if funding is available):

- Optional remodeling or construction designed to improve productivity.
- Capital expenditures to increase levels of service to the public.

Major and Minor Capital Expenditures

CIP requests under \$15,000 are classified as minor CIP expenditures and considered to be operational in nature. The IFC will allocate an amount of money annually toward funding minor CIP requests based on funding available. The CIP committee prioritizes and selects the minor capital requests to be funded, if any and presents a recommendation to the City Manager for consideration.

CIP requests of \$15,000 and above are classified as major CIP expenditures and considered to be capital in nature. The CIP committee prioritizes and selects major capital projects, given the level of funding determined by the Internal Finance Committee, and presents a recommendation to the City Manager for consideration.

The City Manager will review, modify and forward the recommendations to the Board of Supervisors. The Board accepts, rejects or modifies the recommendation of major and minor capital project spending by the City Manager.

GENERAL AUTHORITY

Nothing contained within this policy prohibits the Carson City Board of Supervisors from deviating from the City's financial policies and funding goals, as they find reasonably necessary, to address economic conditions, provided any change does not violate state law, existing bond or loan covenants, or generally accepted accounting principles.