



# FINANCIAL & BUDGET POLICIES

## Purpose and Objective:

- To deliver quality services in an affordable, efficient, financially responsible and transparent manner providing full cost accounting.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life.
- 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 develop and maintain sustainable public infrastructure to meet current and future needs.
- To maintain high bond credit ratings in the financial community and assure the City's stakeholders that the City is well managed and financially sound.

## GENERAL FUND FINANCIAL STABILIZATION POLICY

To establish financial policies which are designed to address fiscal stability within the general fund. A portion of unrestricted fund balance will be used to ensure the continued delivery of services, provide funding for emergencies, and provide for stability during downturns in economic cycles. In addition, sufficient reserve funds will be maintained to ensure a positive cash flow at any time during a fiscal year and stabilize interest rates on debt service.

When both restricted and unrestricted funds are available for expenditure, it is the City's policy to expend restricted resources first then unrestricted resources.

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

1. Reserve Fund – maintain an unrestricted ending fund balance at a minimum of 8.3% of annual expenditures, with a goal of 16.7%.
2. Contingency – budget a minimum of \$500,000 annually.
3. Fleet / Equipment Replacement – budget a minimum of 1% of annual expenditures towards the City's fleet / equipment replacement program annually.
4. Operating Expenses (Supplemental Requests) – justifications for new expenses must be related to actual service performance.
5. Stabilization Fund – as allowed by NRS 354.6115 at a level equal to 10% of expenditures from the general fund the previous fiscal year, excluding any federal funds expended.

**LATE MATERIAL**

**Item #: 17**

**Meeting Date: 12/20/18**

# ENTERPRISE FUND FINANCIAL STABILIZATION POLICY

To establish financial policies which will stabilize and manage enterprise funds consistent with the objective of having the full cost (direct and indirect) of providing services supported by each fund.

1. Cash Reserves – Are a necessary and appropriate part of prudent financial management practices. Reserve balances will vary during the course of the year. Calculations are performed at year-end and during budget preparation to ensure each fund is maintaining the guidelines below:
  - a. Operating Reserve - Provides a cushion to ensure sufficient cash flow to meet daily operating expenses. Funding levels industry wide are generally expressed in number of days of cash operating expenses with the minimum requirement varying based on the expected risk of unanticipated needs. The citywide funding level shall be a minimum of 30 days (8.33%) to a maximum of 90 days (25%) of annual operating expenses.
    - i. The Water and Sewer Funds have specific cash flow needs based on industry standards:
      - Water 60-90 Days of operating expenses
      - Sewer 30-45 Days of operating expenses
  - b. Capital Project Reserve – Provides a cushion for existing systems in case of emergency repairs, unanticipated capital needs or capital cost overruns. It holds debt proceeds, connection charge revenues, system reinvestment funding, and transfers from the operating fund designated for capital projects. The capital project reserve is intended to mitigate the impact of unanticipated capital costs on rates. The minimum funding level for each Enterprise fund shall be either the greater of 2.0% of the original cost of capital assets, or \$50,000.
    - i. Debt Proceeds – The unspent proceeds from loan and/or bond debt, including related interest earnings shall be maintained as “restricted” until such time as they are spent.
    - ii. Connection Charge Revenues – Revenue generated from new customer connections or existing customer expansions.
    - iii. System Reinvestment Funding – A component of the rate revenue designated for repair and replacement of aging and failing capital infrastructure. The funding level is equal to the annual depreciation expense (calculated by the Finance Department).
    - iv. Transfers from Operating Fund – Transfers from the operating accounts in excess of the operating reserve deemed necessary.

2. Rate making procedures – Each year during the budget process, the Chief Financial Officer 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 to achieve the stated financial policies.
3. The Utility Financial Oversight Committee will provide a report to the Board of Supervisors regarding compliance with the Enterprise Fund Financial Stabilization policies, for the Water, Sewer and Storm Water Drainage Funds annually as part of the City budget process as well as throughout the year as deemed necessary based on their resolution or at the request of the Board of Supervisors.
4. Water and Sewer Financial policies have a goal of 50/50 debt to equity ratio which is tested annually and projected as part of the budget.

## **INTERNAL FINANCE COMMITTEE**

The Internal Finance Committee (IFC) is comprised of the City Manager, Deputy City Manager, Chief Financial Officer, Human Resources Director and a representative from the District Attorney’s office.

1. IFC’s approval is required in advance of expending resources in excess of a department or budget unit’s approved budget. In order to obtain IFC approval departments must make the case that the need for additional financial resources results from unforeseen and uncontrollable circumstances and that every effort has been made to meet service demands using existing financial resources, (e.g. departmental savings).
2. Approval for funding at IFC does not remove the necessary Board approvals outlined in the purchasing policy.
3. All personnel requests for new or existing positions must be submitted with complete justification for that position, including additional costs such as supplies, equipment, and office space. Only the Board of Supervisor’s can approve new positions which will increase appropriation levels. IFC’s approval is required for the following personnel requests.
  - a. Filling full-time vacant positions.
  - b. Promotions / demotions / reductions in force. (In some cases, promotions also require Board approval)
  - c. Equity adjustments for full-time employees.
  - d. Reclassifications of positions. (Reclassifications to a higher grade also require Board approval)
4. The City Manager will update the Board regularly on the activities of the IFC.

## **BUDGET AUGMENTATION POLICY**

Budget augmentations are done twice a year. The intent or purpose of the augmentation process is to allow funding for unforeseen and/or uncontrollable costs that arise during the fiscal year.

1. The procedures and requirements for augmenting or amending the budget are addressed in NRS 354.598005.
2. Budget augmentations will be presented to the Board of Supervisors for approval a minimum of two times per fiscal year, generally in January and June. A copy of the Board approved resolution will be submitted to the NV Department of Taxation.
3. Transfers of appropriations within the same fund and department may be made at any time by submitting a Budget Transfer Form to the Finance Department. These transfers will be included with the budget augmentations presented to the Board.
4. In the event of a financial hardship the Board of Supervisors grants emergency authority to the City Manager and Chief Financial Officer to work with Department Directors and Elected Officials in order to determine immediate budget reductions. Those budget reductions will be included in the next normal budget augmentation resolution presented to the Board of Supervisors for ratification.

## **LITIGATION CLAIMS SETTLEMENT POLICY**

The Board of Supervisors' approval is required for claim settlements in excess of \$50,000. The City Manager possesses the authority to approve settlements in the amount of \$50,000 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. The City will not use debt to fund operating expenses. 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 needs.

### **Debt Issuance Considerations:**

1. All borrowing requests shall be evaluated by the Finance Department during the annual budget process which begins in December or January. Requests for additional debt must be identified as part of a Capital Improvement Program (CIP) request. Justification, amount, 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 will consider all forms of financing including bonds, traditional bank financing and State programs (Bond Bank, State Revolving Fund, etc.) and will report those considerations regarding the various alternative forms of Debt explored to the Board of Supervisors
7. In order to reduce transaction costs and staff time commitment, the City should strive to issue bonds no more frequently than necessary and 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. To anticipate potential debt needs, a five-year projection of revenues, expenditures, and capital needs for the general and enterprise funds will be prepared in conjunction with the annual budget process.
12. Temporary Interfund Loans will be allowed in accordance with the provisions of NRS 354.6118.
13. Water and Sewer Financial policies have a goal of 50/50 debt to equity ratio which is tested annually and projected as part of the budget.

**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.

### **Funding Sources:**

The City routinely considers various sources for capital funding including Bonds and Grants; however, the following are funding sources built into the budget annually:

1. A property tax rate of \$0.05 cents is set aside for capital projects according to NRS 354.598155,
2. A minimum of \$0.05 of the City’s operating property tax rate posted to the General Fund will be transferred to the Extraordinary Maintenance Fund annually.
3. Landfill revenue less landfill operating expenses in excess of \$1,750,000 will be transferred to the Capital Projects Fund in order to fund capital needs of the Landfill.
  - a. 10% of the total transfer will be held annually for Landfill Closure Costs.

### **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 (CIP) to accomplish the City’s goals and objectives.

The Capital Budget Process formally begins each year with the distribution of the multi-year CIP instructions to departments in December or January. Departments submit capital expenditure requests to Finance for review in January or February.

These capital requests are then presented to the CIP committee comprised of Department Directors / Department Elected Officials 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 direct the Chief Financial Officer to 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 facility or equipment failures that could result in more costly and complex problems.
- Conformance with existing 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 \$5,000 are classified as minor CIP expenditures and considered to be operational in nature. 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 \$5,000 or more and which have a useful life of more than one (1) year 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 direct the Chief Financial Officer to 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. Once approved these expenditures are incorporated into the annual budget.

## **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.



## FINANCIAL & BUDGET POLICIES

### Purpose and Objective:

- To deliver quality services in an affordable, efficient, financially responsible and transparent manner providing full cost accounting.
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life.
- 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 develop and maintain sustainable public infrastructure to meet current and future needs.
- To maintain high bond credit ratings in the financial community and assure the City's stakeholders that the City is well managed and financially sound.

### GENERAL FUND FINANCIAL STABILIZATION POLICY

To establish financial policies which are designed to address fiscal stability within the general fund. A portion of unrestricted fund balance will be used to ~~establish a reserve fund and maintained to~~ ensure the continued delivery of services, ~~address provide funding for~~ emergencies, ~~address a temporary revenue shortfall or and~~ provide for stability during ~~downturns in~~ economic cycles. ~~In addition,~~ Sufficient reserve funds/cash flow-reserve funds will be ~~managed-maintained to ensure a positive cash flow at any time during a fiscal year, and to provide adequate cash flow,~~ ~~the City will~~ stabilize the interest rates on debt service ~~and provide for continuity in service delivery. The City shall maintain adequate cash reserves to maintain a positive cash position at any time during a fiscal year and at year-end to manage cash flow.~~

When both restricted and unrestricted funds are available for expenditure, it is the City's policy to expend restricted resources first then unrestricted resources.

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

1. Reserve Fund – maintain an unrestricted ending fund balance at a minimum of 8.33% of annual expenditures, with a goal of 16.7%.
- ~~2. Contingency – budget a minimum of \$500,000 annually.~~
- ~~3-2. Asset Management Program – budget a minimum of \$0.05 of the City's operating property tax rate toward the City's asset management program annually.~~
3. Fleet / Equipment Replacement – budget a minimum of 1% of annual expenditures towards the City's fleet / equipment replacement program annually.



~~4. Asset Management Program – budget a minimum of \$0.05 of the City’s operating property tax rate toward the City’s asset management program annually~~

~~5.~~

~~6.4~~ Operating Expenses (Supplemental Requests) – justifications for new expenses must be related to actual service performance.

~~7.5~~ Stabilization Fund – as allowed by NRS 354.6115 at a level equal to 10% of expenditures from the general fund the previous fiscal year, excluding any federal funds expended.

Formatted: Indent: Left: 0.5", No bullets or numbering

## ENTERPRISE FUND FINANCIAL STABILIZATION POLICY

To establish financial policies which will stabilize and manage enterprise funds consistent with the objective of having the full cost (direct and indirect) of providing services supported by each fund.

1. Cash Reserves – Are a necessary and appropriate part of prudent financial management practices. Reserve balances will vary during the course of the year. Calculations are performed at year-end and during budget preparation to ensure each fund is maintaining the guidelines below:

a. Operating Reserve - Provides a cushion to ensure sufficient cash flow to meet daily operating expenses. Funding levels industry wide are generally expressed in number of days of cash operating expenses with the minimum requirement varying based on the expected risk of unanticipated needs. The citywide funding level shall be a minimum of 30 days (8.33%) to a maximum of 90 days (25%) of annual operating expenses.

i. ~~The Water and Sewer Funds have specific more or cash flow needs based on industry standards:~~

- ~~• Water 60-90 Days of operating expenses~~
- ~~• Sewer 30-45 Days of operating expenses~~

Formatted

Formatted: Strikethrough

Formatted

Formatted: Indent: Left: 2", No bullets or numbering

Formatted: Normal, No bullets or numbering

Formatted: Normal, Indent: Left: 0"

~~a.~~

b. Capital Project Reserve – Provides a cushion for existing systems in case of emergency repairs, unanticipated capital needs or capital cost overruns. It holds debt proceeds, connection charge revenues, system reinvestment funding, and transfers from the operating fund designated for capital projects. The capital project reserve is intended to mitigate the impact of unanticipated capital costs on rates. The funding minimum level for each Enterprise fund shall be either the greater of a minimum of 2.0% of the total (original) cost of fixed-capital assets, or \$50,000, whichever is greater.

- i. Debt Proceeds – The unspent proceeds from loan and/or bond debt, including related interest earnings shall be maintained as “restricted” until such time as they are spent.
  - ii. Connection Charge Revenues – ~~Unspent~~ Revenue generated from new customer connections or existing customer expansions.
  - iii. System Reinvestment Funding – A component of the rate revenue designated for repair and replacement of aging and failing capital infrastructure. The funding level is equal to the annual depreciation expense (~~C~~calculated by the Finance Department).
  - iv. Transfers from Operating Fund – Transfers from the operating accounts in excess of the operating reserve deemed necessary.
2. Rate making procedures – Each year during the budget process, the Chief Financial Officer 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 the Enterprise Fund Financial Stabilization policies, for the Water, Sewer and Storm Water Drainage Funds annually as part of the City budget process as well as throughout the year as deemed necessary based on their resolution or at the request of the Board of Supervisors.
4. Water and Sewer Financial policies have a goal of 50/50 debt to equity ratio which is tested annually and projected as part of the budget.

Formatted: List Paragraph

Formatted: List Paragraph, No bullets or numbering

## INTERNAL FINANCE COMMITTEE

The Internal Finance Committee (IFC) is comprised of the City Manager, Deputy City Manager, Chief Financial Officer, Human Resources Director and a representative from the District Attorney’s office.

- 1. IFC’s approval is required in advance of expending resources in excess of a department or budget unit’s approved budget. In order to obtain IFC approval departments must make the case that the need for additional financial resources results from unforeseen and uncontrollable circumstances and that every effort has been made to meet service demands using existing financial resources, (e.g. departmental savings).

2. Approval for funding at IFC does not remove the necessary Board approvals outlined in the purchasing policy.
3. All personnel requests for new or existing positions must be submitted with complete justification for that position, including additional costs such as supplies, equipment, and office space. Only the Board of Supervisor's can approve new positions which will increase appropriation levels. IFC's approval is required for the following personnel requests.
  - a. Filling full-time vacant positions.
  - b. Promotions / demotions / reductions in force. (In some cases, promotions also require Board approval)
  - c. Equity adjustments for full-time employees.
  - d. Reclassifications of positions. (Reclassifications to a higher grade also require Board approval)
4. The City Manager will update the Board regularly on the activities of the IFC.

## BUDGET AUGMENTATION POLICY

Budget augmentations are done twice a year. The intent or purpose of the augmentation process is to allow funding for unforeseen and/or uncontrollable costs that arise during the fiscal year.

1. The procedures and requirements for augmenting or amending the budget are addressed in NRS 354.598005.

1.

2. The Internal Finance Committee is comprised of the City Manager, Deputy City Manager, Chief Financial Officer, Human Resources Director and a representative from the District Attorney's office.

3. Internal Finance Committee (IFC) approval is required in advance of expending resources in excess of a department or budget unit's approved budget. In order to obtain IFC approval departments must make the case that the need for additional financial resources results from unforeseen and uncontrollable circumstances and that every effort has been made to meet service demands using existing financial resources, (e.g. departmental savings).

4. Budget augmentations will be presented to the Board of Supervisors for approval a minimum of two times per fiscal year, generally in January and June. A copy of the Board approved resolution will be submitted to the NV Department of Taxation.

2.

Formatted: Font: Not Bold

Formatted: Font: 11 pt, Not Bold

Formatted: Indent: Left: 0.5", No bullets or numbering

Formatted: Font: 9 pt

Formatted: Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

3. Transfers of appropriations within the same fund and department may be made at any time by submitting a Budget Transfer Form to the Finance Department. ~~These transfers will be included with the information~~ budget augmentations presented ~~during augmentation~~ to the Board.

Formatted: Indent: Left: 0.5", No bullets or numbering

5.4. In the event of a financial hardship the Board of Supervisors grants emergency authority to the City Manager and Chief Financial Officer to work with Department Directors and Elected Officials in order to determine immediate budget reductions. Those budget reductions will be included in the next normal budget augmentation resolution presented to the Board of Supervisors for ratification.

~~— Boutlined~~

~~— IFC's approval is also required for the following personnel requests:~~

Formatted: Indent: Left: 0.5", No bullets or numbering

~~— Filling full time vacant positions.~~

Formatted

~~— Promotions / demotions / reductions in force. (In some cases, promotions also require Board approval)~~

~~— Equity adjustments for full time employees.~~

~~Reclassifications of positions. (Reclassifications to a higher grade also require Board approval) The~~

## LITIGATION CLAIMS SETTLEMENT POLICY

~~The Board of Supervisors' approval is required for claim settlements in excess of \$50,000. The City Manager possesses the authority to approve settlements in the amount of \$50,000 or less.~~

Formatted: Font: Not Bold

Formatted: Font: Not Bold

## **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. The City will not use debt to fund operating expenses. 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 needs.

### **Debt Issuance Considerations:**

1. All borrowing requests shall be evaluated by the Finance Department during the annual budget process which begins in December or 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 will~~ consider all forms of financing including bonds, traditional bank financing and State programs (Bond Bank, State Revolving Fund, etc.) and will report those considerations regarding the various alternative forms of Debt explored to the Board of Supervisors-
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 necessary-~~ The City should and 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. To anticipate potential debt needs, A five-year projection of revenues, ~~and~~ expenditures, ~~including and~~ capital needs for the general and enterprise funds will be prepared ~~to provide strategic perspective to in conjunction with each the~~ annual budget process.

~~12. Annually, a five-year capital improvement program plan will be developed analyzing capital expenditures by year and identifying associated funding sources-~~

12. Temporary Interfund Loans will be allowed in accordance with the provisions of NRS 354.6118.

13. Water and Sewer Financial policies have a goal of 50/50 debt to equity ratio which is tested annually and projected as part of the budget.

**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

Formatted: Normal, Indent: Left: -0.25"

Formatted: Normal

Formatted: Indent: Left: 0.5", No bullets or numbering

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.

### **Funding Sources:**

The City routinely considers various sources for capital funding including Bonds and Grants; however, the following are funding sources built into the budget annually:

1. A property tax rate of \$0.05 cents is set aside for capital projects according to NRS 354.598155.
2. A minimum of \$0.05 of the City's operating property tax rate posted to the General Fund will be transferred to the Extraordinary Maintenance Fund annually.
3. Landfill revenue less landfill operating expenses in excess of \$1,750,000 will be transferred to the Capital Projects Fund in order to fund capital needs of the Landfill.
  - a. 10% of the total transfer will be held annually for Landfill Closure Costs.

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: Font: Not Bold

Formatted: List Paragraph, Numbered + Level: 1 + Numbering Style: 1, 2, 3, ... + Start at: 1 + Alignment: Left + Aligned at: 0.25" + Indent at: 0.5"

Formatted: Font: Bold

Formatted: Font: Bold

Formatted: Font: Bold

Formatted: List Paragraph, Numbered + Level: 2 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.75" + Indent at: 1"

**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 (CIP) to accomplish the City’s goals and objectives.

The Capital Budget Process formally begins each year with the distribution of the multi-year CIP instructions to departments in December or January. Departments submit capital expenditure requests to Finance for review in January or February.

These capital requests are then presented to the CIP committee comprised of Department Directors / Department Elected Officials, ~~(Not including the Board of Supervisors)~~ 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 direct the Chief Financial Officer to 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 facility or equipment failures that could result in more costly and complex problems.
- Conformance with existing 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 CIP committee prioritizes and selects the minor capital requests to be funded, as long as they are reasonable, if any and presents a recommendation to the City Manager for consideration.

CIP requests of ~~\$15,000~~ or more and which have a useful life of more than one (1) year and above are classified as major CIP expenditures and considered to be capital in nature. The CIP committee

Formatted: Normal, No bullets or numbering

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 direct the Chief Financial Officer to 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. Once approved # these expenditures are incorporated into the annual budget.

## **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.