POLICY STATEMENT NO. 2016-04
SUBJECT: Policies of Responsible Financial Management

DATE: 7/28/2016

P O L I C Y   S T A T E M E N T

SUBJECT:	**Policies of Responsible Financial Management**

WHEREAS, the Town of Gilbert values Responsible Financial Management; and

WHEREAS, the Governmental Accounting Standards Board Statement No. 54 requires fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds, and the allowed fund balance classifications are: Nonspendable, Restricted, Committed, Assigned and Unassigned, and accounting policies are required to be established that determine whether restricted, committed, assigned, and unassigned amounts are considered to have been spent, and procedures are required for “committing” and “assigning” fund balance; and

WHEREAS, the Town Council desires to outline procedures that govern Responsible Financial Management.

NOW, THEREFORE, the following policy is hereby established:

PURPOSE

Gilbert’s financial policies establish the framework for overall fiscal planning and management. The policies set forth guidelines for both current activities and long range planning. The purposes of the financial policies are:

- **Balanced Budget** – The Town is required, by Arizona Revised Statute, to adopt a balanced budget each fiscal year. A balanced budget is one in which the sum of estimated revenues and appropriated fund balances is equal to appropriations.
- **Fiscal Conservatism** – To ensure that the Town is at all times in solid financial condition, defined as:
  - **Maximized efficiency** – best possible service at the lowest possible cost
  - **Cash solvency –** the ability to pay bills
  - **Budgetary solvency –** the ability to balance the budget
  - **Long-term solvency –** the ability to pay future costs
  - **Service level solvency –** the ability to provide needed and desired services
- **Flexibility** – To ensure the Town is in a position to respond to changes in the economy or new service challenges without an undue amount of financial stress.
- **Transparency and Communication** – To utilize best practices in communicating financial information to facilitate sound decision-making, to promote openness and transparency, and to inspire public confidence and trust.

- **Adherence to the Highest Accounting and Management Practices** – As set by the Governmental Accounting Standards Board and the Government Finance Officers Association standards for financial reporting and budgeting.

SCOPE

Gilbert has an important responsibility to its citizens to carefully account for public funds, to manage its finances wisely, and to plan for the adequate funding of services desired by the public, including the provision and maintenance of public facilities and infrastructure. In times of tight budgets, of major changes in federal and state policies toward local government, and of limited growth in the Town's tax base, Gilbert needs to ensure that it is capable of adequately funding and providing those government services desired by the community. Ultimately, the Town's reputation and success will depend on the public's awareness and acceptance of the management and delivery of these services.

These adopted Policies of Responsible Financial Management establish guidelines for the Town's overall fiscal planning and management. These principles are intended to foster and support the continued financial strength and stability of the Town of Gilbert as reflected in its financial goals. Gilbert's financial goals are broad, fairly timeless statements of the financial position the Town seeks to attain:

- To deliver quality services in an affordable, efficient and cost-effective manner and to provide full value for each tax dollar
- To maintain an adequate financial base to sustain a sufficient level of municipal services, thereby preserving the quality of life in the Town of Gilbert
- To have the ability to withstand local and regional economic fluctuations, to adjust to changes in the service requirements of our community, and to respond to changes in Federal and State priorities and funding as they affect the Town's residents
- To maintain a high bond credit rating to ensure the Town's access to the bond markets and to provide assurance to the Town's taxpayers that the Town government is well managed and financially sound

Following these policies will enhance Gilbert's financial health as well as its credibility with its citizens; the public in general, bond rating agencies and investors. To achieve these purposes as the Town of Gilbert continues to grow and develop, it is important to regularly engage in the process of financial planning including reaffirming and updating these financial guidelines. Policy changes will be needed as the Town continues to grow and become more diverse and complex in the services it provides, as well as the organization under which it operates to provide these services to its citizens.

POLICY STATEMENTS

1) Accounting, Auditing and Financial Procedures

Gilbert produces a Comprehensive Annual Financial Report in accordance with Generally Accepted Accounting Principles (GAAP) as established by the Governmental Accounting Standards Board (GASB). An independent audit is performed annually, and a request for proposals is prepared every five years to procure services for the annual audit.

2) Budget Administration

The Town Council sets policy and adopts the annual budget at the fund level as a total amount of expenditures. Financial control is set by Council at the fund level, with budgetary control for operating performance administered at the departmental level by the Town Manager. Budget adjustments for special revenue funds, excluding Highway User Revenue Funds, will be administered by the Office of Management and Budget, and will not exceed the available revenues. Budget adjustments between funds, projects, or contingency transactions to accommodate Council-approved actions, such as bond transactions, will be administered by the Office of Management and Budget, and will not exceed available revenues or the maximum approved expenditure authorization. Grants and restricted appropriations are administered by department. Directors may authorize transfers within non-personnel budget lines at the same fund, department, and project level. The Town Manager or his/her designee is authorized to administer a budget adjustment process *within* a fund between departments or projects. The Budget Manager or his/her designee is authorized to approve any adjustments *between* funds, projects, or contingency transactions up to $25,000. The Town Manager or his/her designee is authorized to approve any adjustments between funds, projects, or contingency transactions up to $50,000. Council action is required to approve adjustments between funds, projects, or contingency transactions over $50,000. All annual appropriations lapse at year-end and are considered for inclusion in the subsequent year's budget on a case-by-case basis.

3) Interfund Loans

Gilbert may loan resources from one fund to another fund experiencing a temporary cash shortage. Interfund loans differ from a transfer of funds in that the amounts are provided with a requirement for repayment. Loans shall be documented with repayment terms clearly described. The Town Manager or his/her designee is authorized to approve interfund loans up to $50,000 which have a repayment term within the following fiscal year. All other interfund loans must be approved through Council action. Factors to be considered when evaluating an interfund loan may include:

- The borrowing fund's current financial condition;
- Estimates of the borrowing fund's future resources to repay the loan;
- The purpose of the loan;
- The established repayment terms, including whether interest will be paid;
- The loan's current status; and
- The frequency of making loans.

4) Long-Range Planning

Gilbert needs to have the ability to anticipate future challenges in revenue and expense imbalances so that corrective action can be taken before a crisis develops. In order to provide Town officials with pertinent data to make decisions for multi-year policy direction, the Management and Budget Director shall annually develop, with the assistance of Town departments, five-year revenue and expenditure forecasts for General Fund, Enterprise, and Streets funds. These forecasts will identify changes in revenue and expenditures due to projected new development in the Town, economic indicators, legislative or program changes, labor agreements, and capital projects coming online. These forecasts are based on assumptions derived from boundaries set by the Council or Executive Team, economic indicators, anticipated operational needs, capital projects scheduled in the Capital Improvement Plan (CIP), and required rate increases to maintain appropriate service levels.

Departments are required to assess and report annually on needed capital improvement projects for the subsequent five years. Projects will only be included in the five-year CIP if a legitimate source is identified to fund the project. Project needs identified without an available funding source will remain outside of the five-year program. The first year of the CIP is adopted as budget and is constrained by the same legal requirements.

During the budgeting process, all capital improvement projects are analyzed to determine priority based on safety/liability, cost effectiveness, community support, and urgency.

The Office of Management and Budget (OMB) reviews all Council Communication documents to determine the financial impact of requests.

The OMB reviews grant applications to determine whether matching funds are available and whether Gilbert will be responsible for funding a program after grant funding ceases.

5) Repair and Replacement Funding

Gilbert shall budget annually for the repair and replacement of fleet and capital infrastructure items. Appropriate funding levels for repair and replacement shall be established through the Capital Improvement Plan and annual operating budget processes. Funding will be prioritized each year to reflect the needs of the Town in accordance with plans established to manage the repair and replacement cycles of fleet and infrastructure.

A) Infrastructure

1. Purpose – To provide for fiscally responsible infrastructure repair and replacement program that will enable Gilbert to maintain service delivery to citizens.
2. Objective(s) – A consistent, comprehensive framework to
    - Support the stewardship of public assets
    - Meet established standards and ensure regulatory compliance
    - Accurately forecast future financial requirements
3. The Repair and Replacement Funds in Water, Wastewater, and Environmental Service are funded through an Infrastructure Replacement Fund Cost Allocation. The replacement fund cost allocation is determined using annual depreciation of the actual assets in the funds. The replacement fund allocation ensures sufficient fund balance to fund the infrastructure replacement program. The Infrastructure Replacement Fund fund balance will be reviewed annually to determine if it is over/under funded.

B) Fleet and Rolling Stock

1. Purpose – To provide for fiscally responsible vehicle and equipment replacement that will enable the Town of Gilbert to maximize vehicle utilization, ensure public/employee safety and maintain a positive public image.
2. Objective(s) – Vehicles and equipment are kept in service as long as economically feasible and are retired at the optimum point of useful life. This policy is applicable to all departments.
3. All town vehicles and equipment maintained by Fleet Services are governed by this policy and the Fleet Replacement Procedure.
4. Fleet Services will evaluate the fleet annually, through maintenance records review and physical evaluations. Vehicles will also be evaluated based on years of service, miles or hours as outlined in the Fleet Replacement Procedure. A

determination will be made to replace or retain the vehicle. A listing of vehicles recommended for replacement will be sent to the Office of Management and Budget for inclusion in the budget process.

5. Vehicles that are replaced will be declared as surplus and sold at auction or another disposal method as chosen by the Purchasing Agent.
6. Vehicles will be replaced on a 'like for like' basis unless a business need is demonstrated and approved.
7. All replacement vehicles are funded using the Replacement Fund. The Replacement Fund is funded using the five year plan as determined by the Fleet Department and annual depreciation of rolling stock assets in the Streets and General Funds. This ensures sufficient fund balance to fund the vehicle/equipment replacement program. The Replacement Fund fund balance will be reviewed annually to determine if the fund is over/under funded.
8. The Town Council is responsible for final approval of all vehicle/equipment replacement as part of the formal budget adoption.

C) Information Technology (IT) Equipment

1. Purpose – To provide for fiscally responsible IT equipment repair and replacement to protect the Town of Gilbert's investment in information technology as a tool for conducting the Town's business and providing service to our citizens.
2. Objective(s) – IT equipment will be repaired or replaced in accordance with the appropriate replacement cycles to ensure that the Town of Gilbert is positioned to be a technology leader, providing the most efficient and cost effective technology solutions to citizens and staff.
3. IT Equipment Useful Life and Recommended Replacement Cycle
    a. All equipment is on a schedule for replacement based on useful life. IT Equipment Useful Life will vary based on the type of use, location etc. The recommended cycle is a guideline. Discretion is given to the Information Technology Director in making the final determination.
        i. Includes routers, switches, firewalls, etc.
        ii. Disk storage is implemented in pairs. Each pair has a primary and secondary component. The primary component will be replaced every three years. The unit being replaced will be used to replace the secondary component. The result is six years of useful life for each investment, three years as primary and three years as secondary.
        iii. Microwave equipment will be replaced by:
            1. Fiber optic when near the Town's fiber optic network.
            2. Commercial provider (Century Link, Cox, etc.) when fiber optic is not available.
            3. New microwave equipment when the fiber optic network and commercial provider options are not available.
        iv. Software applications have varied life depending on the development and support by the vendor. Therefore, software application replacements will be evaluated by IT and the business unit utilizing the software.
        v. Radio equipment is typically replaced due to changes in infrastructure, regulatory changes, or device durability. The proposed schedule is based on device durability. Replacement due to infrastructure changes and / or regulatory changes should

be reviewed annually to determine if they will have an impact on the replacement schedule of the equipment.

Description	**Useful Life (Years)**	**Recommended Replacement Cycle**
Personal Computers		
Police Dispatch	2	2-3
Police Dispatch Radio	3	3-4
Knowledge Workers	3	3-4
Shared Use	4	4-5
Public Safety Mobile Data Computers	5	5-6
Public Safety Tablet Computers	3	3-4
Tablets (iPad, Droid, etc.)	When broken	2-3
Copy and Print Devices		
Copy Machines / Multifunction Printers / Plotters	No longer economical to support and / or repair	Typically 6+
Printers	No longer economical to support and / or repair	Typically 6+
End User Devices		
Mobile Phones	N/A	Managed by each department.
Desktop Phones	10	10-11
Data Center Equipment		
Server	5	5-6
Network Equipment [1]	End Of Support as determined by the manufacturer	Typically 5+
Disk Storage [2]	6	6-7
Telephone Hardware	End of Support as determined by the manufacturer	Typically 5+
Software Applications [4]	Business Need	
Wide Area Network Equipment		
Microwave Equipment[3]	10	
Radio Communication		

Devices		
Radio Consoles[5] (used in PD Dispatch)	10	10-11
Mobile Radios[5] (mounted in vehicles)	8	8-10
Portable Radios[5] (carried by individuals)	5	5-7

4. The Replacement Fund Allocation is determined using the five-year plan generated by the IT Department Director. The five year plan will be evaluated annually to determine the replacement fund allocation for the upcoming fiscal year.
5. All IT replacement equipment is funded using the IT Replacement fund. The IT Replacement Fund is funded through a Replacement Fund Cost Allocation. The replacement fund cost allocation is determined using the five year plan generated by the IT Department. The five year plan will be evaluated annually to determine the replacement fund allocation for the upcoming fiscal year. The replacement fund allocation ensures sufficient fund balance to fund the IT Equipment replacement program. The IT replacement fund balance will be reviewed annually to determine if it is over/under funded.

D) Facilities

1. Purpose – To provide for fiscally responsible facilities repair and replacement to protect the Town's investment in buildings/facilities, and to ensure that the physical buildings are fit for their intended purpose.
2. Objective(s) – Facilities are repaired as long as economically feasible to ensure the safety of the citizens and staff. Facilities will be retired from service when it is in the best interest of the Town.
3. All Town facilities are governed by this policy.
4. Repairs to facilities/buildings will be done with the intention of:
    a. Re-instating the physical condition of the facility to a specified standard;
    b. Preventing further deterioration or failure;
    c. Replacing components at the end of their useful life; and
    d. Making temporary repairs for immediate health, safety, and security reasons.
5. The Facilities Replacement fund is funded through a Replacement Fund Cost Allocation. The replacement fund cost allocation is determined using the five year plan generated by the Facilities Department. The five year plan will be evaluated annually to determine the replacement fund allocation for the upcoming fiscal year. The replacement fund allocation ensures sufficient fund balance to fund the facilities replacement program. The facilities replacement fund balance will be reviewed annually to determine if it is over/under funded.

6) Contingency

Gilbert appropriates dollars in the major operating funds—General, Water, Wastewater, Streets, and Environmental Services Funds for emergency and unforeseen events and opportunities. The amount of contingency is calculated excluding non-operating items such as capital project transfers and debt service payments. Sufficient funds shall be allocated each year in the budget process. Budgeting for contingency funds will be based on most-likely occurrences and levels of service for the following fiscal year.

7) Revenue Diversification

Gilbert values a diversified mix of revenue sources to mitigate the risk of volatility. Gilbert's goal is a diversified General Fund revenue base which includes sales taxes, state shared revenues, and other revenue sources. Gilbert has a secondary property tax which can only be used for voter-authorized general obligation debt and not for for operating expenditures.

The major source of revenue for the General Fund is sales tax. Since sales tax is a direct function of business cycles and inflation, it is important to make every effort to improve the diversity of the Town's revenue sources.

Gilbert will strive to maintain a diversified and stable revenue base to shelter it from economic changes or short-term fluctuations by doing the following:

- Periodically conducting a cost of service study to determine if all allowable fees are being properly calculated and set at an appropriate level.
- Establishing new charges and fees as appropriate and as permitted by law.
- Pursuing legislative change, when necessary, to permit changes or establishment of user charges and fees.
- Aggressively collecting all revenues, related interest and late penalties as authorized by the Arizona Revised Statutes.

8) Use of Revenue

Gilbert avoids dependence on temporary revenue sources to fund recurring government services. One-time revenues should be used only for one-time expenditures and not for ongoing expenditures. By definition, one-time revenues cannot be relied on in future budget years. Examples of one-time revenues are unexpected audit collections for sales tax, sales of Town assets, or one-time payments to the Town.

Sales tax revenue is a volatile source of revenue since it is a direct function of economic cycles. Sales tax revenues that exceed the normal growth rate should be used for one-time expenditures or to increase reserves for the inevitable economic downturns. When sales tax revenue growth is less than the normal growth rate, it may be necessary to use reserves until appropriate expenditure reductions or other measures can be implemented. Interest income is also volatile. Any interest earnings that exceed the average annual earnings over the last ten years should be used for one-time expenditures or to increase reserves.

The best use of one-time revenues is to invest in projects that will result in long term operating cost savings. Appropriate uses of one-time revenues include strategic investments, such as early debt retirement, capital expenditures that will reduce operating costs, information technology projects that will improve efficiency and special projects that will not incur ongoing operating costs. If projects are deemed appropriate strategic investments and do include increased ongoing operating costs, these costs should be acknowledged and planned for in long-range planning efforts prior to approval.

9) Fees and Charges

User fees and charges are payments for purchased, publicly provided services that benefit specific individuals. Gilbert relies on user fees and charges to supplement other revenue sources in order to provide public services.

- Indirect cost charges will be assessed to reflect the full cost of identified services.

- Gilbert may establish user fees and charges for certain services provided to users receiving a specific benefit.
- On a regular basis, Gilbert will conduct a cost of service study to identify the full cost of providing a service for which fees are charged. The calculation of full cost will include all reasonable and justifiable direct and indirect cost components.
- User fees shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary.
- Gilbert shall establish cost allocation models to determine the administrative service charges due to the appropriate operating fund for overhead and staff support provided to another fund.
- User fees in Enterprise Fund operations are calculated to recover the entire cost of operations, including indirect costs, debt service, reserve for replacement, and overhead costs.
- The general policy of the Town of Gilbert regarding fees and charges is based upon the following considerations:
    - Tax dollars should support essential Town services that benefit and are available to everyone in the community (such as parks, police, and fire protection).
    - For most services that largely or solely benefit individuals, Gilbert should recover full or partial costs of service delivery through user fees.

The full cost of providing a service includes the following:

- Direct costs associated with providing the service, including:
    - The cost of the time all employees spend on the service, including fringe benefits.
    - Other direct costs, such as supplies and materials, contractual services, or internal service fund charges associated with the service.
- Department, division supervision, or clerical support, etc.
- Departmental indirect costs.
- Town-wide indirect costs.

10) Debt Management

Purpose - Gilbert utilizes long term debt to finance capital projects with long useful lives. Financing capital projects with debt provides opportunities for: intergenerational equity, inter-jurisdictional equity, cash flow requirements, and strategic opportunities or leveraging of funding sources.

Objective(s) - The objective of this debt management policy is to provide guidelines for the:

- Issuance of bonds to finance necessary long-term capital projects;
- Preservation of the Town’s bond ratings;
- Maintenance of adequate debt reserves; and
- Compliance with debt instrument covenants and provisions, and required disclosures to investors, underwriters and rating agencies.

These policy guidelines will also be used when evaluating the purpose, necessity and condition under which debt will be issued. These policies are meant to supplement the legal framework of public debt laws provided by the Arizona Constitution, State statutes, Federal tax laws and Gilbert's current bond resolutions and covenants. The Finance and Management Services Director is charged with carrying out this policy. Finance and the OMB departments work collaboratively in implementing the policy.

Conditions and Process of Debt Issuance:
While the issuance of bonds is frequently an appropriate method of financing long-term capital projects, such issuance must be carefully monitored to preserve the Town's credit strength and to provide the necessary flexibility to fund future capital needs.

- The Finance and Budget Departments will work together with the Engineering Services Department to identify and prioritize potential capital investments, the related costs and benefits.
- Finance, OMB and Town Managers Office will identify potential funding sources for each improvement as outlined in the Capital Improvement Plan.
- Finance and OMB will utilize other professionals as necessary to ensure compliance with the requirements of the issuance of bonds. Approval from Town Council must also be obtained.
- The Finance Department will utilize other professionals as necessary to determine whether the bonds will be sold competitively, or as a negotiated sale, or as a direct placement with a financial institution. The determination will be based on the financing needs and prevailing market conditions.
- Other conditions that need to be considered include: market conditions, financial limits (see below under "Restrictions on Debt Issuance"), long-term forecasts and specific funding sources. Finance and OMB will be responsible for reviewing the funding sources and financial forecasts to ensure compliance with existing bond covenants, debt limits and the potential impact on existing bond ratings prior to the issuance of any new bonds.
- Finance and OMB will ensure that pledged resources of the Town are adequate, in any general economic situation, so as to not hinder the Town's ability to pay its debt when due.

Types of Debt Instruments Utilized by the Town:

- General Obligation (G.O.) Bonds. GO bonds are backed by the full-faith and credit of the Town and are secured by secondary property taxes. The term of any bond will not exceed the useful life of the capital project/facility for which the borrowing is intended. The general target for maturity of G.O. bonds will be between 15 and 30 years, with consideration given to statutory restrictions to the system development fee planning period. Reserve funds, when required, will be provided to adequately meet debt service requirements in subsequent years. Interest earnings on bond fund balances will primarily be used to pay for other uses or purposes of the project; secondarily, it will be used for payment of debt service on the bonds. Secondary property tax levy and corresponding tax rates will be determined each year as part of the budgetary process (pursuant to State law) to pay the necessary debt service payments of the G.O. bonds currently outstanding or expected to be issued within the fiscal year.

- Revenue Bonds. Revenue bonds are defined as bonds on which the debt service is payable from the revenue generated from the operation of the project being financed or a category of facilities, from other non-tax sources of the Town, or from other designated taxes such as highway user revenues, excise tax, or special fees or taxes. Revenue bonds will be analyzed carefully by the Finance and Budget Departments for fiscal soundness. Part of this analysis may include a feasibility report prepared by an independent consultant prior to the issuance of "utility" supported revenue bonds to ensure the generation of sufficient revenues to meet debt service requirements, compliance with existing bond covenants and to protect the bondholders. Debt Service Reserve Funds should be utilized if required by existing bond covenants when necessary or as prevailing market conditions dictate. Interest earnings on the reserve fund balances will primarily be used for other uses or purposes of the project; secondarily, it will be used for payment of debt service on the bonds. The target for maturity of Revenue bonds may be between 15 and 30 years in length but will not exceed the useful life of the capital project or facility for which the borrowing is intended.
- Municipal Property Corporation (MPC) Bonds. An MPC is a non-profit corporation created by the Town as a financing mechanism for the purpose of financing the construction or acquisition of Town capital improvement projects. The MPC is governed by a board of directors consisting of citizens from the community appointed by the Town Council. MPC bonds are secured by excise taxes and/or other undesignated general fund revenues.
- Improvement District Bonds. Improvement District bonds shall be issued only when the formation of the district demonstrates a clear and significant purpose for the Town. It is intended that Improvement District bonds will be primarily issued for neighborhoods desiring improvements to their property such as roads, water lines, sewer lines, streetlights, and drainage. The District must provide a specific benefit to the property owners and the creation of an Improvement District must be approved by Town Council. The Town will review each project through active involvement of Town staff and/or selected consultants to prepare projections, review pro-forma information and business plans, perform engineering studies, analyze minimum debt coverage and value to debt ratios, and conduct other analyses necessary to consider the proposal against specified criteria. Principal and interest owed on the bonds are paid from assessments on the property benefiting from the particular bond-funded project.

Restrictions on Debt Issuance:

- Where appropriate, Gilbert will consider "pay as you go" capital financing and/or the use of system development fees.
- Gilbert will not issue bonds to fund current operations.
- Gilbert will comply with applicable debt service coverage limitations in the bond covenants for Revenue bonds.
- Under the provisions of the Arizona Constitution, outstanding general obligation bonded debt for combined water, wastewater, electric, parks and open space, streets and public safety purposes may not exceed 20% of Gilbert's net secondary assessed valuation, nor

may outstanding general obligation bonded debt for all other purposes exceed 6% of Gilbert's net secondary assessed valuation.

Debt Management Process:

- Gilbert will monitor the debt portfolio for restructuring or refunding opportunities. Refunding bonds will be measured against a standard of the net present value debt service savings exceeding 3% of the principal amount of the bonds being refunded, or if the net present value savings exceed $500,000, or for the purposes of modifying restrictive covenants or to modify the existing debt structure to the benefit of the Town.
- Gilbert will maintain regular contact with rating agencies through telephonic conferences, meetings, or visits on and off-site. Gilbert will secure ratings on all bonds issued when economically feasible.
- The Finance Department shall maintain a debt book for all bonds issued and update the book on an annual basis. This debt book shall include specific information regarding the size and type of debt issued, projects financed by the bonds, debt service schedules and other pertinent information related to each specific bond issue.
- This policy shall be reviewed and updated each year by the Finance and Budget Departments.

11) Post-Issuance Compliance for Tax-Exempt Governmental Bonds

Purpose - Tax-exempt bonds are bonds that receive preferential tax treatment. These bonds, issued by or on behalf of state and local governments, are subject to applicable federal tax requirements both at the time of issuance and for so long as the bonds remain outstanding. The on-going nature of post-issuance compliance requirements applicable to tax-exempt governmental bonds requires Gilbert to actively monitor compliance throughout the entire period the bonds remain outstanding. This due diligence significantly improves Gilbert's ability to identify noncompliance and prevent violations from occurring, or correct identified violations in a timely manner (when prevention is not possible), to ensure the continued tax-advantaged status of the bonds. Post-issuance tax compliance begins with the debt issuance process itself and provides for continuing focus on investment of bond proceeds and use of bond-financed property.

Objective(s) – The objective of this policy is compliance with:

- The terms of Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and the U.S. Treasury Regulations promulgated thereunder (the "Treasury Regulations"), to take certain actions subsequent to the issuance of such bonds to ensure the continuing tax-exempt status of such bonds;
- Section 6001 of the Code and Section 1.6001-1(a) of the Treasury Regulations impose record retention requirements on Gilbert with respect to its tax-exempt governmental bonds.

Responsible Parties

The Finance Director shall be the Compliance Coordinator (the "Coordinator") and shall be the party primarily responsible for ensuring that the Issuer successfully carries out its post-issuance compliance requirements under applicable provisions of the Code and Treasury Regulations with regard to all tax-exempt governmental obligations of the Issuer. The Coordinator shall identify any additional Town employees who will be responsible for each section of the Policy, notify the current holder of that position of the responsibilities, and provide that person a copy of the Policy. The Coordinator will also be assisted in carrying out post-issuance compliance requirements by other professionals such as bond counsel, financial advisor, paying agent, trustee and rebate analyst. The Coordinator shall utilize any other professionals as are necessary to ensure compliance with the post-issuance compliance requirements of the Issuer. In addition,

- The Issuer will maintain a copy of the transcript of proceedings in connection with the issuance of any tax-exempt obligations. The Coordinator will obtain such records as are necessary to meet the requirements of this policy.
- The Coordinator shall examine IRS publications and such other resources as are necessary to understand and meet the requirements of this policy.
- The Coordinator shall periodically review this Policy for any necessary changes due to revisions made to the Code.
- Training and education of Coordinator and responsible parties will be sought and implemented annually.

Financing Transcripts

The Coordinator shall confirm the proper filing of an IRS Form 8038 and maintain a transcript of proceedings for all tax-exempt obligations of the Issuer. The transcript of proceedings shall include, at a minimum:

- IRS Form 8038
- Minutes, resolutions, affidavits, agreements and certificates
- Certifications of issue price from the underwriter
- Formal documents from the elections required by the IRS
- Correspondence relating to bond financings
- Official Statement
- Debt retirement schedule
- Continuing disclosure undertaking
- Trust indenture (if applicable)
- Rating letters

Proper Use of Proceeds

The Coordinator shall review the resolution authorizing the issuance for each tax-exempt obligation. The Coordinator shall perform or oversee the following:

- Create separate projects into which the proceeds of the bond issue shall be deposited.
- Determine whether the Issuer needs to reimburse itself for pre-issuance expenditures; if within 60 days of the original expenditure, the Issuer must adopt an "official intent" that the reimbursement should occur.
- Review all requisitions, draw schedules, draw requests, invoices and bills requesting payment from the project.
- Determine whether payment from the project is appropriate, and if so, make payment from the project.
-
- Obtain a computation of the bond yield on the bond issue from the Town's financial advisor.
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- Ensure that all investments acquired with proceeds are purchased at fair market value.

- Identify bond proceeds or applicable debt service allocations that must be invested with a yield-restriction and monitor the investments of any yield-restricted funds to ensure that the yield on such investments does not exceed the yield to which such investments are restricted.

Timely Expenditure and Arbitrage/Rebate Compliance

The Coordinator shall review the Tax-Exemption Certificate (or equivalent) for each tax-exempt obligation issued and the records provided in Section 2 of this policy, above, and shall:

- Monitor and ensure that proceeds of each such issue are spent within the temporary period set forth in such certificate.
- Monitor and ensure that the proceeds are spent in accordance with one or more of the applicable exceptions to rebate as set forth in such certificate.
- During the temporary period, compare investment earnings to bond yield.
- Not less than 60 days prior to a required expenditure date, confer with Finance staff if it will fail to meet the applicable temporary period or rebate exception expenditure requirements of the Tax-Exemption Certificate.
- If bond proceeds held longer than temporary period, then would need to restrict yield.
- Contact the rebate analyst, if necessary (and, if appropriate, bond counsel) prior to the fifth anniversary of the date of issuance of each issue of tax-exempt governmental bonds of the Issuer and each fifth anniversary thereafter to arrange for calculations of the rebate requirements with respect to such tax-exempt governmental bonds.
- In the event the Issuer fails to meet a temporary period or rebate exception:
    - Procure a timely computation of any rebate liability and, if rebate is due, file an IRS Form 8038-T and arrange for payment of such rebate liability.
    - Arrange for timely computation and payment of "yield reduction payments" (as such term is defined in the Code and Treasury Regulations), if applicable.

Proper Use of Bond Financed Assets

The Coordinator shall:

- Maintain appropriate records and a list of all bond financed assets. Such records shall include the actual amount of proceeds (including investment earnings) spent on each of the bond finance assets.
- With respect to each bond financed asset, the Coordinator will monitor and confer with bond counsel (including legal counsel review) with respect to all proposed:
    - Management contracts
    - Service agreements
    - Research contracts
    - Naming rights contracts
    - Ownership documentation
    - Leases or sub-leases
    - Leasehold improvement contracts
    - Joint venture, limited liability or partnership arrangements
    - Sale of property

    - Any other change in use of such asset
- Maintain a copy of the proposed agreement, contract, lease or arrangement, together with the response by bond counsel with respect to said proposal for at least three (3) years after retirement of all tax-exempt obligations issued to fund all or any portion of bond financed assets.
- Monitor the use of all bond financed assets. Ensure training and educational resources to any staff that have the primary responsibility for the operation, maintenance or inspection of bond financed assets with regard to the limitations on the private business use and on the private security or payments with respect to bond financed assets.
- In the event the Issuer takes an action with respect to a bond financed asset, which causes the private business tests or private loan financing test to be met, the Coordinator shall contact bond counsel and ensure timely remedial action under IRS Regulation Section 1.141-12.
- Monitor any changes in the tax law compliance with regards to bond financed assets throughout the term of tax-exempt bonds.

Record Retention Requirements

The Coordinator shall collect and retain the following records with respect to each issue of tax-exempt governmental bonds of the Issuer and with respect to the assets financed with the proceeds of such bonds:

- Audited financial statements of the Issuer
- Appraisals, demand surveys or feasibility studies, if any, with respect to the facilities to be financed with the proceeds of such bonds
- Bond election publications and brochures (if applicable)
- Trustee or paying agent statements
- Records of all investments and the gains (or losses) from such investments and allocations of investment earnings
- Applications, approvals and other documentation of grants
- Allocations of proceeds to expenditures (including costs of issuance) and the dates and amounts of such expenditures (including any changes to the allocations)
- Contracts entered into for the construction, renovation, or purchase of bond financed assets
- Payment requests and corresponding records showing payment
- An asset list or schedule of all bond-financed depreciable property and any depreciation schedules with respect to such assets
- Investment contracts, credit enhancement transactions, and the bidding of financial products related to the proceeds (if applicable)
- Arbitrage rebate reports and records of rebate and yield reduction payments, if any
- Copies of all Form 8038 returns filed with the IRS
- Reports of any prior IRS examiniations of the bond financings
- Transcript prepared with respect to such tax-exempt governmental bonds
- These records collected by the Issuer shall be stored in any format deemed appropriate by the Coordinator and shall be retained for a period equal to the life of the tax-exempt governmental bonds with respect to which the records are collected (which shall include

the life of any bonds issued to refund any portion of such tax-exempt governmental bonds or to refund any refunding bonds) plus five (5) years.

Continuing Disclosure

The Coordinator shall ensure compliance with each continuing disclosure certificate and annually, per continuing disclosure agreements, file audited annual financial statements and other information required by each continuing disclosure agreement. The Coordinator will monitor material events as described in each continuing disclosure agreement and ensure compliance with material event disclosure. Events to be reported shall be reported promptly, but in no event not later than ten (10) business days after the day of the occurrence of the event. Currently, such notice shall be given in the event of:

- Principal and interest payment delinquencies
- Non-payment related defaults, if material
- Unscheduled draws on debt service reserves reflecting financial difficulties
- Unscheduled draws on credit enhancements relating to the bonds reflecting financial difficulties
- Substitution of credit or liquidity providers, or their failure to perform
- Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the bonds, or material events affecting the tax-exempt status of the bonds
- Modifications to rights of holders of the bonds, if material
- Bond calls (excluding sinking fund mandatory redemptions), if material, and tender offers
- Defeasances of the bonds
- Release, substitution, or sale of property securing repayment of the bonds, if material
- Rating changes on the bonds
- Bankruptcy, insolvency, receivership or similar event of the Issuer
- The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material
- Appointment of a successor or additional trustee or the change of name of a trustee, if material
- Notices of failures to provide annual financial information on or before the date specified in the written agreement

12) Purchasing

The Town shall require adequate financial controls to be included in the Town's standard contract terms so as to provide assurance of minimum risk and access to review compliance with contract terms and conditions. Among these controls are the right to audit all provisions of contracts, the right to require appropriate levels of insurance, and the right to require complete financial reports if appropriate for the solicitation. All Purchasing transactions in the Town shall adhere to the adopted Purchasing Code.

13) Capital Improvement Plan

Gilbert adopts a Capital Improvement Plan and Program that provides for all improvements needed. The Capital Improvement Plan is a public document that communicates timing and costs associated with constructing, staffing, maintaining, and operating publicly financed facilities and improvements with a total cost over $100,000. The Capital Improvement Program includes the first five years of the Capital Improvement Plan. The combination of the Capital Improvement Plan and Capital Improvement Program serve as the basis for Gilbert's System Development Fee calculations and associated Infrastructure Improvement Plan (IIP). The IIP is adopted as a separate document which meets and follows the requirements outlined in A.R.S 9-463.05.

Projects included within the five-year program must have sound cost estimates, an identified site, and verified financing sources, as well as confirmation it can be operationally staffed and maintained within the budget resources. The first five years of projected costs are combined with other data gathering techniques to project operating results for five years. This information is the basis for developing the next year's budget and is incorporated into the five-year financial forecasts.

The purpose of the Capital Improvement Plan is to systematically identify, plan, schedule, finance, track and monitor capital projects to ensure cost-effectiveness as well as conformance to established policies.

- The Town Manager will annually submit a financially balanced, multi-year Capital Improvement Plan for review by the Town Council pursuant to the timeline established in the annual budget preparation schedule. The Capital Improvement Plan will incorporate a methodology to determine a general sense of project priority according to developed criteria.
- The Capital Improvement Plan shall provide:
    - A statement of the objectives of the Capital Improvement Plan, including the relationship with the Town's General Plan, department master plans, necessary service levels, and expected facility needs, as appropriate.
    - An implementation program for each of the capital improvements that provides for the coordination and timing of project construction among various Town departments.
    - An estimate of each project's costs, anticipated sources of revenue for financing the project, and an estimate of the impact of each project on Town revenues and operating budgets. No capital project shall be funded unless operating impacts have been assessed and the necessary funds can be reasonably anticipated to be available when needed.
    - For the systematic improvement, maintenance, and replacement of the Town's capital infrastructure as needed.
    - A summary of proposed debt requirements.
- The Town will match programs and activities identified in the Capital Improvement Plan with associated funding sources. Reimbursements shall be applied to like projects and activities.
- The performance and continued use of capital infrastructure is essential to delivering public services. Deferring essential maintenance and/or asset replacement can negatively impact service delivery and increase long term costs. As such, the Town will periodically assess the condition of assets and infrastructure and appropriately plan for required major maintenance and replacement needs. Efforts will be made to allocate sufficient funds in

the multi-year capital plan and operating budgets for condition assessment, preventative and major maintenance, and repair and replacement of critical infrastructure assets.

14) Fund Balance Classifications

The Governmental Accounting Standards Board (GASB) Statement No. 54 establishes accounting and financial reporting standards for all governments that report governmental funds. Governmental funds are defined as funds generally used to account for activities supported by taxes, grants, and similar resources and include the general fund, special revenue funds, debt service funds, and capital projects funds. GASB 54 does not apply to proprietary or fiduciary funds which include the enterprise, internal service, trust and agency funds.

Definitions of Fund Balance Classifications

Nonspendable: Amounts that cannot be spent because they are either (a) not in spendable form such as inventory or (b) legally or contractually required to be maintained intact.

Restricted: Amounts that can only be used for specific purposes pursuant to constraints imposed *externally* by creditors, grantors, contributors, or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation.

Committed: Amounts that can only be used for specific purposes pursuant to constraints imposed *internally* by formal action of the governing body.

Assigned: Amounts that are constrained by the government's intent to be used for specific purposes, but are neither restricted nor committed.

Unassigned: This residual classification is specific for the general fund and represents fund balance that has not been assigned to other funds; and that has not been restricted, committed, or assigned to specific purposes within the general fund.

For purposes of this policy and in accordance with GASB No. 54, unrestricted fund balance shall consist of the "committed", "assigned" and "unassigned" portions of fund balance.

- When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, as a general rule, the Town would consider the restricted amount to have been spent first.
- When an expenditure is incurred for purposes for which committed, assigned and unassigned fund balances are available, as a general rule, the Town would first reduce the committed amounts, followed by assigned amounts, and then unassigned.
- For *committed* fund balance: formal action by Council through resolution is required to establish, modify or rescind *committed* fund balance. Such Council resolution must occur before the end of the reporting period.
- For *assigned* fund balance: The Council authorizes the Finance Director to assign fund balance amounts to a specific purpose.

15) Minimum Unrestricted Fund Balance for the General Fund

Governmental Accounting Standards Board Statement No. 54 requires entities to create a formal policy that establishes a minimum level at which unrestricted general fund balance is to be maintained.

Fund balance is an important indicator of Gilbert's financial position. Maintaining reserves is considered a prudent management practice. Adequate fund balances are maintained to allow Gilbert to continue providing services to the community in case of unexpected emergencies or requirements and/or economic downturns.

A minimum unrestricted fund balance policy ensures the continuance of sound financial management of public resources when faced with unanticipated events that could adversely affect the financial condition of Gilbert and jeopardize the continuation of public services. This policy will ensure Gilbert maintains adequate unrestricted fund balance in the general fund to provide the capacity to:

- Provide funds for unforeseen expenditures related to emergencies
- Mitigate significant economic downturns or revenue shortfalls
- Stabilize the volatility of primary revenue streams
- Allow for responsiveness to legislative changes
- Secure and maintain investment grade bond ratings
- Provide for long-term stability of the Town's financial status

Gilbert shall establish and maintain a minimum unrestricted fund balance for the General Fund. This fund balance shall be adjusted for nonspendable funds to ensure adequate balance is retained based on actual cash available. For purposes of initially establishing the balance and maintaining hereafter, Gilbert shall retain a minimum requirement of 90 days working capital of the current fiscal year, which is equal to approximately 25% of General Fund budgeted expenditures, plus one year's worth of General Fund debt service payments. Current fiscal year expenditures shall be less capital outlay and transfers out budgeted for the General Fund. For purposes of this calculation, the expenditures shall be the budget as originally adopted by ordinance. Appropriation from the minimum unrestricted fund balance shall require the approval of Council. The Council may authorize use of the minimum unrestricted fund balance for unanticipated events threatening the public health, safety or welfare. The use of minimum unrestricted fund balance should be utilized only after all budget sources have been examined for available funds.

Any use of the minimum unrestricted fund balance must include a repayment plan based on a multi-year financial projection that plans to restore the fund balance to the minimum adopted level within the three fiscal years following the fiscal year in which the event occurred.

Compliance with the provisions of this policy shall be reviewed as part of the annual budget adoption process.

16) Debt Service Reserve Policy

Revenues from the secondary property tax rate are used exclusively to pay debt service on the Town's general obligation bonds. In 2013, the Legislature passed HB 2347 which requires that the property tax levy not exceed the amount necessary to pay that year's principal and interest payments and may include a reasonable delinquency factor. In 2016, the Legislature passed HB 2538 which allows the property tax levy to include projected payments of principal and interest on new debt planned for the ensuing year and an amount necessary to correct prior year error or shortages in the levy. Annual changes in debt service payments and property valuation will result in volatility of the property tax rate. The changes in statute also do not allow for municipalities to purposefully create reserve funds to smooth annual rate volatility or to proactively protect against unexpected collection risk or delinquency.

The Town has reserve funds to protect against unforeseen risk in the debt service fund. These reserves were in place prior to HB 2347. The Town's debt service reserve policy moving forward will be as follows:

After current year debt service payments are encumbered, if the debt service fund balance exceeds 5% of next year's debt service cost, Council may consider the use of fund balance (in excess of the 5%) for the following purposes in order:

1. Reduce total interest cost
2. Reduce total term of debt outstanding
3. Reduce the proposed levy/tax rate, and/or
4. Hold the balance to leverage for future opportunities.

17) Economic Development Reserve

Recognizing the importance of investment in local economic development activities, the Town shall annually budget an Economic Development Reserve of $5 million in the General Fund for the purpose of supporting economic development activities in Gilbert. Utilization of this funding shall occur within existing Town policies on expenditures and use of funding, requiring Council approval for expenditures exceeding $50,000.

18) Cost Containment

Gilbert values its history and emphasis of maximizing cost containment opportunities, as demonstrated by its continual placement amongst the lowest cost per citizen of comparative communities in the Phoenix metropolitan area. As a trendsetter in this regard, comparisons with other communities will be important, but they will only be used as an indication of how the town can improve. Gilbert will continually strive to improve upon this performance, embedding cost containment into its budget strategies and daily operations.

19) Acceptance and Use of Federal Funds

The Town of Gilbert recognizes its duty to be a responsible steward of taxpayer dollars. This is demonstrated throughout these policies, with emphasis on cost containment and conservative revenue projections. That responsibility is not limited to local taxes. As such, the town will assess each instance of the acceptance and use of federal funding considering:

- Tax impact
- Value to the local taxpayer
- Resulting financial and regulatory burden
- Appropriate use of temporary funding
- Resolution of genuine problem/need

Prior to recommending acceptance and use of federal funds, staff will consider and be prepared to discuss any additional requirements or "strings" attached to the use of the funds. A thorough review will be conducted, with considerations that include, but are not limited to:

- Matching fund requirements

- Additional environmental, historic preservation, performance, audit, and/or reporting requirements
- Federal employment, non-discrimination, preference, and/or hiring requirements
- Compliance with National Incident Management System (NIMS)
  With regard to the taxpayers' expectations and their ability to trace the use of the dollar as it is taxed, additional consideration will be given to:
- Dedicated revenue source for the granted purpose (vs. general fund)
- Competitive vs. entitlement funds
- Funding for federal mandates

Council communications, items taken before Council for action, will address the requirements and stipulations associated with the acceptance of the grant.

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John W. Lewis, Mayor

ATTEST:

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Lisa Maxwell, Town Clerk