RESOLUTION 21-05

A RESOLUTION OF THE CITY OF ALACHUA, FLORIDA; MAINTAINING FISCAL POLICIES TO BE UTILIZED IN FINANCIAL MONITORING AND REPORTING; PROVIDING AN EFFECTIVE DATE.

WHEREAS, the City of Alachua Commission wishes to maintain sound financial management practices that complement statutory requirements and professional standards; and,

WHEREAS, the City of Alachua Commission wishes to maintain a set of fiscal policies to be followed in financial monitoring and reporting;

NOW, THEREFORE, BE IT RESOLVED BY THE CITY OF ALACHUA COMMISSION:

1. That the Fiscal Policies, attached hereto as Exhibit A, shall constitute the guidelines, procedures, and requirements that shall govern financial monitoring and reporting for the City of Alachua.
2. That the Fiscal Policies, attached hereto as Exhibit A, shall be in effect commencing with FY 2020-2021 and remain in effect until modified or repealed by resolution.
3. That any resolution, or portion thereof, in conflict with the guidelines, procedures, and requirements established by this resolution is hereby repealed.
4. That this resolution shall take effect immediately upon its adoption.

DULY ADOPTED in regular session, this 11th day of January, 2021.

CITY COMMISSION OF THE CITY OF ALACHUA, FLORIDA

Gib Coerper, Mayor

SEAL

ATTEST:

Adam Boukari, City Manager/Clerk

FISCAL POLICIES

The City Manager, through the Finance and Administrative Services (hereinafter referred to as "FAS") Department, has responsibility for all financial planning on behalf of the City of Alachua (hereinafter referred to as the "City") Commission. This includes: the operating, capital, and debt service budgets; and, the allocation of resources to facilitate accomplishing Commission goals and strategic initiatives. To execute these responsibilities and maintain sound financial management practices, it is important to have fiscal policies and related procedures that complement the statutory requirements and professional standards, which establish local governments' financial framework.

POLICIES AND GUIDELINES

DEBT MANAGEMENT POLICY

Debt management policies are intended to provide comprehensive and viable debt management which recognizes the capital improvement needs of the City and the taxpayers' ability to pay while taking into account existing legal, economic, financial, and debt market considerations.

I. PURPOSE OF THE DEBT MANAGEMENT POLICY:

The purpose of this policy is to establish guidance regarding the issuance and management of City debt. . Debt includes short-term and long-term obligations issued by the City and any associated financing entities. The policy includes, but is not limited to, traditional financing vehicles such as General Obligation Bonds, Revenue Bonds, Special Tax Bonds and short-term notes. This policy is designed to:

- Set forth a liability management structure to facilitate the sound and efficient management of City debt, addressing both practical aspects of liability management and philosophical aspects.
- Provide guidelines that control the overall debt management process so that all liabilities are managed in accordance with stated objectives.
- Encourage and require communication between staff, the City Commission and the City's advisors (both legal and financial).
- Develop formalized criteria for evaluating and establishing the basis for comparing actual performance results achieved by debt management.

II. SCOPE AND AUTHORITY

The City's FAS Director on behalf of the City Manager shall be responsible for the implementation of the policies set forth in this Debt Management Policy (hereinafter referred to as the "Debt Policy").

The Debt Policy shall be reviewed and revised as needed due to evolution of the financial markets

III. PERMISSIBLE DEBT

Debt is an integral part of the City's ongoing financial management program. Both short-term and long-term debt are intended to help the City accomplish its core goals and strategic initiatives. While the City rarely uses short-term debt, it can be a tool to facilitate the match of revenues and expenses.

A. Short-Term Debt

The City may issue obligations with a maturity of not more than one year to fund anticipated short-term cash flow needs due to the timing of the receipts of the annual current year ad valorem tax collections and other revenues. The principal of the short-term obligations and the interest thereon will be payable from and secured by a pledge of such ad valorem taxes and other revenues, as may be appropriate.

Unless the City's desire is to issue taxable obligations, the City will comply with Internal Revenue Code (hereinafter referred to as the "IRS Code") requirements prior to and subsequent to the issuance of the Notes in order that the interest on the Notes not be included in gross income for federal income tax purposes and that proceeds are spent in a manner consistent with exceptions to the IRS Code.

B. Long-Term Debt

The City will not issue long-term debt obligations or use long-term debt proceeds to finance current operations (except when using excess proceeds to make debt service/lease payments as provided for in the financing documents). For purposes of this Debt Policy, long-term debt includes bonds, notes, leases and other similar obligations of a duration exceeding one (1) fiscal year.

The City may utilize long-term debt for the acquisition, construction or renovation of facilities or the acquisition of equipment that cannot be funded from current revenue sources or in such cases where it is more equitable to finance the facility or equipment over its useful life. The City may also issue long-term debt to refund all or a portion of its outstanding debt subject to limitations detailed in this Debt Policy.

When debt is used to finance capital improvements, the financing term will be for a period not to exceed the useful life of the facilities or equipment, but shall never be greater than thirty (30) years.

IV. MEASURES OF DEBT LEVELS AND DEBT ISSUANCE LIMITS

A. Short-term Debt

The City will not exceed the maximum allowable issuance size, if any, as determined by regulations governing the federal taxability of the interest earned by holders of such debt.

B. Long-term Debt

1. General Obligation Bonds

The measure shall be the outstanding debt-to-taxable property ratio and shall not exceed 10%.

2. Revenue Bonds

Each revenue is unique and debt levels will be driven by rating and bond insurer requirements for debt service coverage, reserve requirements and rate covenants.

Additionally, the City will comply with the various Florida statutory requirements, and take into account any other factors suggested or required by the credit rating agencies and/or bond insurers when preparing its capital budget and each specific financing plan.

V. SELECTING DEBT SALE METHODS

A. Short-Term Debt

Short-term debt shall be issued through a competitive bid process, except in instances where a private placement or a negotiated sale is more cost effective because of unique market conditions or other extraordinary factors.

B. Long-Term Debt

The City and its Financial Advisor(s) will determine whether the sale of long-term debt shall be via competitive sale or negotiated sale after considering such factors as the size, complexity of the offering, market conditions and timing of the transaction.

VI. FINANCING STRUCTURE

The financing structure, consisting of principal amortization, call provisions, coupons/yields, credit enhancement, will be developed for each financing plan after considering relevant market conditions and current practices. Each structure will be developed to provide the lowest long-term effective financing cost while providing the greatest flexibility to extract additional value as market conditions change over time.

A. Amortization Structure

Principal should be structured to provide level debt service payments for the life of the transaction, if at all possible. "Wrapped debt service" and "bullet maturities" may be appropriate for certain financings, but should only be employed when absolutely deemed necessary.

B. Issuing Variable Rate Debt

The City may issue variable rate obligations in amounts and in proportion to its fixed rate debt that the City and its Financial Advisor(s) determine are appropriate to achieve the City's goals.

C. Credit Ratings

The credit review process incorporates both quantitative analysis (fund balance, debt levels, and wealth levels) and qualitative factors (management experience, political climate and policies/procedures). As a result, credit ratings provide an indication of both the short-term and long-term financial health of the City. Higher credit ratings also result in reduced borrowing costs and decreased cost of bond insurance. The City will exercise prudence and diligence in preparing its budget and managing its finances to maintain credit ratings consistent with Florida local governments of similar size and demographic makeup.

D. Credit Enhancements

Credit enhancements (insurance, letters of credit, etc.) will be used only in those instances where the anticipated present value savings in terms of reduced interest expense exceeds the cost of the credit enhancement.

E. Investing Debt Proceeds

Safety of capital shall be the highest priority in handling of investment of debt proceeds. All other investment objectives are secondary to the safety of capital. City staff and the Financial Advisor(s) will develop investment strategies that are consistent with the investment policy and provide the maximum return while complying with the IRS Code. Specifically City staff and the Financial Advisor(s) will attempt to structure investments that allow the City to meet exceptions to the rebate requirements in the IRS Code.

Debt proceeds are only to be invested in permitted investments, as defined by financing agreements, escrow agreements, resolutions, law and the City's written investment policy. Neither the City nor any other person under its control or direction will make any investment of bond proceeds in any manner that would cause the bonds to be deemed private activity bonds or arbitrage bonds by the Internal Revenue Service. The City will comply with all federal tax arbitrage regulations.

VII. DEBT REFUNDING

The City will monitor outstanding debt in relation to existing conditions in the debt market and may refund any outstanding debt when sufficient cost savings can be realized. Outstanding debt may be refunded as long as the net present value savings is equal to or greater than 3% of the refunded obligation's par amount. This general criterion will be adjusted as outlined in the Guidelines.

VIII. COMPLIANCE AND REPORTING

A. Disclosure Policy

The City will provide full and fair disclosure in connection with the initial sale and distribution of its publicly marketed debt instruments and to provide ongoing secondary market information, in compliance with the requirements of applicable federal and state securities laws, rules and regulations, including Securities and Exchange Commission (hereinafter referred to as the "SEC") Rule 15c 2-12, and in accordance with the City's Municipal Securities Disclosure Policy. The City of Alachua Municipal Securities Disclosure Policy will be administratively updated by the FAS Department, as needed, to ensure continued compliance with SEC regulations.

B. Budget Debt Service Payments

The City Manager will include in the annual proposed budget presented to the City Commission the amounts necessary to make the required debt service payments during the fiscal year for its consideration and approval.

C. Compliance with Financing Covenants, Federal and State Law

The City shall comply with all covenants and requirements of financing resolutions, State and Federal laws authorizing and governing the issuance and administration of debt obligations, and in accordance with the City of Alachua Tax-Exempt Debt Post-Issuance Compliance Policies and Procedures.

D. Bond Yield Arbitrage Monitoring

The City shall contract for arbitrage calculation services to monitor the earnings on its debt proceeds as may be required to determine whether a rebate is necessary pursuant to IRS Code. The City's Tax Exempt Debt Post-Issuance Compliance Policy will be administratively updated by the FAS Department, as needed, to ensure continued compliance with IRS Code.

INVESTMENT POLICY

I. PURPOSE

The purpose of this Investment Policy is to set forth the investment objectives and parameters for the management of public funds of the City. These policies are designed to ensure the prudent management of public funds, the availability of operating and capital funds when needed, and an investment return competitive with comparable funds and financial market indices.

II. SCOPE

In accordance with Section 218.415, Florida Statutes, as may be amended. This Investment Policy applies to all cash and investments held or controlled by the City with the exception of Pension Funds and funds related to the issuance of debt where there are other existing policies or indentures in effect for such funds. Funds held by state agencies (e.g., Department of Revenue) are not subject to the provisions of this Policy.

III. INVESTMENT OBJECTIVES

Safety of Principal

The foremost objective of this investment program is the safety of the principal of those funds within the portfolios. Investment transactions shall seek to keep capital losses at a minimum, whether they are from securities defaults or erosion of market value. To attain this objective, diversification is necessary so that potential losses on individual securities do not exceed the income generated from the remainder of the portfolio.

Maintenance of Liquidity

The portfolios shall be managed in such a manner that funds are available to meet reasonably anticipated cash flow requirements in an orderly manner. Periodical cash flow analyses will be completed in order to ensure that the portfolios are positioned to provide sufficient liquidity.

Return on Investment

Investment portfolios shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, while taking into account the investment risk constraints and liquidity needs. Return on investment is of least importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

IV. DELEGATION OF AUTHORITY

In accordance with the Charter of the City of Alachua, the responsibility for providing oversight and direction in regard to the management of the investment program resides with the City Manager. The daily management responsibility for all City funds in the investment program and investment transactions is delegated to the FAS Director. The FAS Director shall establish written procedures for the operation of the investment portfolio and a system of internal accounting and administrative controls to regulate the activities of employees. The City may employ a Financial Advisor(s) to assist in managing some of the City's portfolios. Such Financial Advisor(s) must be registered pursuant to the Investment Advisors Act of 1940.

V. STANDARDS OF PRUDENCE

The standard of prudence to be used by investment officials shall be the "Prudent Person" standard and shall be applied in the context of managing the overall investment program. Investment officers acting in accordance with written procedures, this Policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectation are reported to the City Manager in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this Policy. The "Prudent Person" rule states the following:

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

While the standard of prudence to be used by investment officials who are officers or employees is the "Prudent Person" standard, any person or firm hired or retained to invest, monitor, or advise concerning these assets shall be held to the higher standard of "Prudent Expert". The standard shall be that in investing and reinvesting moneys and in acquiring, retaining, managing, and disposing of investments of these funds, the contractor shall exercise: the judgment, care, skill, prudence, and diligence under the circumstances then prevailing, which persons of prudence, discretion, and intelligence, acting in a like capacity and familiar with such matters would use in the conduct of an enterprise of like character and with like aims by diversifying the investments of the funds, so as to minimize the risk, considering the probable income as well as the probable safety of their capital.

VI. ETHICS AND CONFLICTS OF INTEREST

Employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the investment program, or which could impair their ability to make impartial investment decisions. Also, employees involved in the investment process shall disclose to the City Manager and the Mayor any material financial interests in financial institutions that conduct business with the City, and they shall further disclose any material personal financial/investment positions that could be related to the performance of the City's investment program.

VII. INTERNAL CONTROLS AND INVESTMENT PROCEDURES

The FAS Director shall establish a system of internal controls and operational procedures that are in writing and made a part of the City's operational procedures. The internal controls should be designed to prevent losses of funds, which might arise from fraud, employee error, and misrepresentation, by third parties, or imprudent actions by employees. The written procedures should include reference to safekeeping, repurchase agreements, separation of transaction authority from accounting and record keeping, wire transfer agreements, banking service contracts and collateral/depository agreements. The FAS Director may not perform any investment action without written consent from the Mayor and/or City Manager. No person may engage in an investment transaction except as authorized under the terms of this Investment Policy.

Independent auditors as a normal part of the annual financial audit to the City shall conduct a review of the system of internal controls to ensure compliance with policies and procedures.

VIII. CONTINUING EDUCATION

The FAS Director and other appropriate staff shall annually complete eight (8) hours of continuing education in subjects or courses of study related to investment practices and products.

IX. AUTHORIZED INVESTMENT INSTITUTIONS AND DEALERS

Authorized City staff and any Investment Advisors shall only purchase securities from financial institutions, which are qualified as public depositories by the Treasurer of the State of Florida, institutions designated as "Primary Securities Dealers" by the Federal Reserve Bank of New York, or from direct issuers of commercial paper and bankers' acceptances.

Authorized City staff and Investment Advisors shall only enter into repurchase agreements with financial institutions that are state qualified public depositories and primary securities dealers as designated by the Federal Reserve Bank of New York.

X. MATURITY AND LIQUIDITY REQUIREMENTS

To the extent possible, an attempt will be made to match investment maturities with known cash needs and anticipated cash flow requirements. Investments of current operating funds shall have maturities of no longer than twenty-four (24) months.

Investments of bond reserves, construction funds, and other non-operating funds ("core funds") shall have a term appropriate to the need for funds and in accordance with debt covenants, but in no event shall exceed five (5) years.

The maturities of the underlying securities of a repurchase agreement will follow the requirements of the Master Repurchase Agreement.

XI. COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS

Upon determination by the FAS Director and the Financial Advisor(s) of the approximate maturity date, cash flow needs, market conditions and most optimal types of investments, a minimum of three (3) qualified banks and/or licensed broker/dealers shall be contacted and asked to provide bids/offers on securities in question. The City may also elect to have the Financial Advisor(s) perform the bidding process. Bids will be held in confidence until the bid deemed to best meet the investment objectives is determined and selected.

However, if obtaining bids/offers are not feasible and appropriate, securities may be purchased utilizing the comparison to current market price method on an exception basis. Acceptable current market price providers include, but are not limited to:

A. Telerate Information System

B. Bloomberg Information Systems

C. Wall Street Journal or a comparable nationally recognized financial publication providing daily market pricing

D. Daily market pricing provided by the City's custodian or their correspondent institutions

The FAS Director or the Financial Advisor(s) shall utilize the competitive bid process to select the securities to be purchased or sold. Selection by comparison to a current market price, as indicated above, shall only be utilized when, in judgment of the FAS Director or the Financial Advisor(s), competitive bidding would inhibit the selection process.

Examples of when this method may be used include:

A. When time constraints due to unusual circumstances preclude the use of the competitive bidding process

B. When no active market exists for the issue being traded due to the age or depth of the issue

C. When a security is unique to a single dealer, for example, a private placement

D. When the transaction involves new issues or issues in the "when issued" market

Overnight sweep repurchase agreements will not be bid, but may be placed with the City's depository bank relating to the demand account for which the repurchase agreement was purchased. Overnight sweeps shall be performed with consent and acknowledgement from the City Manager and executed by the FAS Director.

XII. AUTHORIZED INVESTMENTS AND PORTFOLIO COMPOSITION

Investments should be made subject to the cash flow needs and such cash flows are subject to revisions as market conditions and the City's needs change. However, when the invested funds are needed in whole or in part for the purpose originally intended or for more optimal investments, the FAS Director may direct the sale of the investment at the then-prevailing market price and place the proceeds into the proper account at the City's custodian.

Investment requirements and allocation limits on security types, issuers, and maturities shall be as established within this policy. The FAS Director shall have the option to further restrict investment percentages periodically based on market conditions, risk, and diversification investment strategies. The percentage allocations requirements for investment types and issuers are calculated based on the original cost of each investment. Investments not listed in this Policy are prohibited.

A. The Florida Local Government Surplus Funds Trust Fund ("SBA")

1. Investment Authorization

The FAS Director may invest in the SBA.

2. Portfolio Composition

A maximum of 100% of available funds may be invested in the SBA.

B. United States Government Securities

1. Purchase Authorization

The FAS Director may invest in negotiable direct obligations, or obligations the principal and interest of which are unconditionally guaranteed by the United States Government. Such securities will include, but not be limited to the following:

Cash Management Bills
Treasury Securities – State and Local Government Series ("SLGS")
Treasury Bills
Treasury Notes
Treasury Bonds
Treasury Strips

2. Portfolio Composition

A maximum of 50% of available funds may be invested in the United States Government Securities.

3. Maturity Limitations

The maximum length to maturity of any direct investment in the United States Government Securities is five (5) years from the date of purchase.

C. United States Government Agencies

1. Purchase Authorization

The FAS Director may invest in bonds, debentures, notes or callables issued or guaranteed by the United States Governments agencies, provided such obligations are backed by the full faith and credit of the United States Government. Such securities will include, but not be limited to the following:

United States Export – Import Bank
  -Direct obligations or fully guaranteed certificates of beneficial ownership
Farmer Home Administration
  -Certificates of beneficial ownership
Federal Financing Bank
  -Discount notes, notes and bonds
Federal Housing Administration Debentures
General Services Administration
United States Maritime Administration Guaranteed
  -Title XI Financing
New Communities Debentures
  -United States Government guaranteed debentures
United States Public Housing Notes and Bonds
  -United States Government guaranteed public housing notes and bonds
United States Department of Housing and Urban Development
  -Project notes and local authority bonds

2. Portfolio Composition

A maximum of 50% of available funds may be invested in United States Government agencies.

3. Limits on Individual Issuers

A maximum of 25% of available funds may be invested in individual United States Government agencies.

4. Maturity Limitations

The maximum length to maturity for an investment in any United States Government agency security is five (5) years from the date of purchase.

D. Federal Instrumentalities (United States Government sponsored agencies)

1. Purchase Authorization

The FAS Director may invest in bonds, debentures, notes or callables issued or guaranteed by United States Government sponsored agencies (Federal Instrumentalities) which are non-full faith and credit agencies limited to the following:

Federal Farm Credit Bank (FFCB)
Federal Home Loan Bank or its district banks (FHLB)
Federal National Mortgage Association (FNMA)
Federal Home Loan Mortgage Corporation (Freddie-Macs) including Federal -Home Loan Mortgage Corporation participation certificates
Student Loan Marketing Association (Sallie-Mae)

2. Portfolio Composition

A maximum of 80% of available funds may be invested in Federal Instrumentalities.

3. Limits on Individual Issuers

A maximum of 40% of available funds may be invested in any one issuer.

4. Maturity Limitations

The maximum length to maturity for an investment in any Federal Instrumentality security is five (5) years from the date of purchase.

E. Interest Bearing Time Deposit or Saving Accounts

1. Purchase Authorization

The FAS Director may direct investment in non-negotiable interest bearing time certificates of deposit or savings accounts in banks organized under the laws of this state and/or in national banks organized under the laws of the United States and doing business and situated in the State of Florida, provided that any such deposits are secured by the Florida Security for Public Deposits Act, Chapter 280, Florida Statutes. These banks must be authorized Qualified Public Depositories (QPD). Additionally, the bank shall not be listed with any recognized credit watch information service.

2. Portfolio Composition

A maximum of 25% of available funds may be invested in non-negotiable interest bearing time certificates of deposit.

3. Limits on Individual Issuers

A maximum of 15% of available funds may be deposited with any one issuer.

4. The maximum maturity on any certificate shall be no greater than one (1) year from the date of purchase.

F. Repurchase Agreements

1. Purchase Authorization

a. The FAS Director may direct investment in repurchase agreements composed of only those investments based on the requirements set forth by the City's Master Repurchase Agreement. All firms are required to sign the Master Repurchase Agreement prior to the execution of a repurchase agreement transaction.

b. A third party custodian with whom the City has a current custodial agreement shall hold the collateral for all repurchase agreements with a term longer than one (1) business day. A clearly marked receipt that shows evidence of ownership must be supplied to the FAS Director and retained.

c. Securities authorized for collateral are negotiable direct obligations of the United States Government, Government Agencies, and Federal Instrumentalities with maturities under five (5) years and must have a market value for the principal and accrued interest of 102 percent of the value and for the term of the repurchase agreement. Immaterial short-term deviations from 102 percent requirement are permissible only upon the approval of the FAS Director.

2. Portfolio Composition

A maximum of 50% of available funds may be invested in repurchase agreements excluding one (1) business day agreements and overnight sweep agreements.

3. Limits on Individual Issuers

A maximum of 25% of available funds may be invested with any one institution.

4. Limits on Maturities

The maximum length to maturity of any repurchase agreement is 90 days from the date of purchase.

a. Registered Investment Companies (Money Market Funds)

1. Investment Authorization

The FAS Director may direct investment in shares of open-end and no-load money market funds provided such funds are registered under the Federal Investment Company Act of 1940 and operated in accordance with 17 C.F.R. § 270.2a-7.

2. Portfolio Composition

A maximum of 50% of available funds may be invested in money market funds.

3. Rating Requirements

The money market funds shall be rated "AAm" or "AAm-G" or better by Standard & Poor's, or the equivalent by another rating agency.

4. Due Diligence Requirements

A thorough review of any investment money market funds is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the FAS Director that will contain a list of questions that covers the major aspects of any money market fund.

b. Intergovernmental Investment Pool

1. Investment Authorization

The FAS Director may direct investment in any of the local governmental investment pools (LGIP's) that are authorized pursuant to the Florida Interlocal Cooperation Act, as provided in Section 163.01, Florida Statutes and provided that said funds contain no derivatives. Investment in LGIP's do not require any form of competitive bidding.

2. Portfolio Composition

A maximum of 25% of available funds may be invested in LGIP's.

3. Due Diligence Requirements

A thorough review of any investment pool/fund is required prior to investing, and on a continual basis. There shall be a questionnaire developed by the FAS Director that will contain a list of questions that covers the major aspects of any investment pool/fund.

XIII. DERIVATIVES AND REVERSE REPURCHASE AGREEMENTS

Investments in any derivative products or the use of reverse repurchase agreements are prohibited, with the exception of those risk mitigation actions transacted in accordance with the Bulk Power Purchase Risk Management Policy. A "derivative" is defined as a financial instrument the value of which depends on, or is derived from, the value of one or more underlying assets or indices or asset values.

XIV. PERFORMANCE MEASUREMENTS

In order to assist in the evaluation of the portfolio's performance, the City will use performance benchmarks for short-term and long-term portfolios. The use of benchmarks will allow the City to measure its returns against other investors in the same markets.

A. The State Board of Administration's Local Government Surplus Funds Trust Fund ("SBA Pool") will be used as a benchmark as compared to the portfolios' net book value rate of return for current operating funds.

B. Investment performance of funds designated as core funds and other non-operating funds that have a longer-term investment horizon will be compared to an index comprised of U. S. Treasury or Government securities. The appropriate index will have a duration and asset mix that approximates the portfolios and will be utilized as a benchmark to be compared to the portfolio's total rate of return.

C. Investment advisors will report performance on both book value and total rate of return basis and compare results to the above-stated benchmarks.

XV. REPORTING

The FAS Director shall provide the City Commission and City Manager with investment reports regularly. These reports should be presented at least quarterly. Schedules in the reports should include the following:

A. A listing of individual securities held at the end of the reporting period;

B. Percentage of available funds represented by each investment type;

C. Coupon, discount or earning rate, if appropriate;

D. Average life or duration and final maturity of all investments, if appropriate; and,

E. Par value and market value, if appropriate.

Investment reports shall disclose any changes made in the composition of investments and shall be available to the public.

XVI. THIRD-PARTY CUSTODIAL AGREEMENTS

Securities, with the exception of certificates of deposits, shall be held with a third party custodian; and all securities purchased by, and all collateral obtained by, the City should be properly designated as an asset of the City. The securities must be held in an account separate and apart from the assets of the financial institution. A third party custodian is defined as any bank depository chartered by the Federal Government, the State of Florida, or any other state or territory of the United States which has a branch or principal place of business in the State of Florida as defined in Section 658.12, Florida Statutes, or by a national association organized and existing under the laws of the United States which is authorized to accept and execute trusts and which is doing business in the State of Florida. Certificates of deposits will be placed in the provider's safekeeping department for the term of the deposit.

The custodian shall accept transaction instructions only from those persons who have been duly authorized by the FAS Director and which authorization has been provided, in writing, to the custodian. No withdrawal of securities, in whole or in part, shall be made from safekeeping, shall be permitted unless by such a duly authorized person.

The custodian shall provide the FAS Director with safekeeping receipts that provide detail information on the securities held by the custodian. Security transactions between a broker/dealer and the custodian involving the purchase or sale of securities by transfer of money or securities must be made on a "delivery vs. payment" basis, if applicable, to ensure that the custodian will have the security or money, as appropriate, in hand at the conclusion of the transaction. Securities held as collateral shall be held free and clear of any liens.

XVII. INVESTMENT POLICY ADOPTION

The Investment Policy shall be adopted by a City resolution. The FAS Director shall review the Policy annually and the City Commission shall approve any modification made thereto.

BUDGET ADOPTION PROCESS AND REQUIREMENTS

An annual budget shall be prepared, approved and adopted for each fiscal year. The budget controls the levy of taxes and expenditure of money for all City purposes. The budget shall be conducted in accordance with Chapters 166, 200 and 218 of the Florida Statutes, as amended.

By July 1, the Property Appraiser must certify the (initial) taxable value of property within each taxing district.

Within 35 days of either July 1, or the date the Property Appraiser certifies the taxable value of property, whichever is later, the City Commission must set proposed millage rates. At that time, a date, time and place is set for a public hearing on the proposed budget and millage rates.

Within 65 to 80 days of July 1, or the date the Property Appraiser certifies the taxable value, the City Commission must hold a public hearing, after 5:00 p.m., to hear public testimony and to adopt a proposed budget and proposed millage rates. The percentage increase in the proposed millage rate over the rolled-back rate and the specific purpose for which ad valorem tax revenues are being increased must be discussed in a public hearing. The City

Commission may amend the proposed budget as it deems necessary, adopt the amended proposed budget, recomputed its proposed millage rates and publicly announce the percent, if any, by which the recomputed proposed millage exceeds the rolled-back rate. A date, time, and place for a second public hearing is set at this hearing, also to be held after 5:00 p.m.

Within fifteen days after the first public hearing, the City must publish two adjacent budget ads in a newspaper of the general circulation in the County. One advertisement notifies City residents of the City Commission's intent to finally adopt millage rates and a budget, identifying any increase in property taxes. The second advertisement summarizes the proposed budget, showing for each budget and for the total of all budgets, the proposed millage rates, balances, reserves, and major revenues and expenditures classifications. Specific size, placement, and working requirements apply, as set forth in Chapter 200.065(2)(g) of the Florida Statutes, as amended.

Within two to five days after the advertisements are published, a second public hearing is held to hear public testimony and to adopt a final budget and final millage rates. If, for any reason, the adoption of the final budget is delayed beyond the start of the next fiscal year, the City Commission can expend moneys as outlined in Chapter 200.065(2)(g) of the Florida Statutes, as amended.

Copies of completed resolutions adopting the final millages are forwarded to the Property Appraiser and the Tax Collector by the City Manager within approximately 100 days of certification of preliminary taxable value by the Property Appraiser.

Within 30 days following adoption of a resolution establishing a property tax levy, the City Commission shall certify to the Florida Department of Revenue, compliance with the provisions of Chapter 200 of the Florida Statutes, as amended. This includes a statement of compliance, a copy of the adopted millage resolution, a copy of the budget advertisements including proof of publication, and a copy of the Certification of Taxable Value form.

Upon final adoption of the budget, the budget shall regulate the expenditures of the City and the budget shall not be amended, except as provided for in Chapter 166, Florida Statutes, as amended, unless otherwise specified in the City's charter.

BUDGETARY REPORTING

The City will establish and maintain a system of budgetary and financial reporting to:

1. Maintain accounting and reporting practices in conformance with the Uniform Accounting System of the State of Florida and Generally Accepted Accounting Principles (GAAP).

2. Maintain budget and financial reporting system records on a basis consistent with the accepted standards for local government accounting according to Governmental Accounting and Financial Reporting (GAFR), the National Council on Governmental Accounting (NCGA), the Governmental Accounting Standards Board (GASB), and in compliance with Florida Statutes Chapters 129 and 200.

3. Maintain a system of quarterly reporting to the City Commission by the Finance Department on the operating condition of the City, and, where applicable, identify potential trends and, if necessary, recommend options for corrective action.

4. The FAS Department shall submit, when possible, the City's Comprehensive Annual Financial Report to GFOA for the Certificate of Achievement for Excellence in Financial Reporting Program.

5. An annual audit will be performed by an independent public accounting firm in accordance with Florida Statutes with an audit opinion to be included with the City's published Comprehensive Annual Financial Report (CAFR).

BUDGET AMENDMENTS

The City will establish and maintain practices for the administration and amendment of the annual budget to:

1. Provide that all budget amendments/transfers will first be reviewed by the director (or authorized designee) of the requesting department/division, followed by a second review from the FAS Department, prior to the subsequent approval/denial by the City Manager and/or the City Commission, as set forth by the following provisions of this policy.

2. Budgetary Levels of Authority:

   a. Budget Transfer: Transfers requested within a major expenditure categories, and/or between divisions within the same Department, or between activity codes within the same department require approval by the FAS Director and City Manager.
   b. Budget Amendment: Transfers between Departments or from Reserve for Contingency require City Commission approval.
   c. Budget Amendment: Establishing a budget for revenues that were not anticipated during the annual budget process requires that the City Commission adopt a resolution to recognize the revenue, appropriate the revenue, and establish a new fund if appropriate.
   d. Budget Adjustments: Upon completion of the prior fiscal year's Comprehensive Annual Financial Report, the operating budget may be adjusted to reflect actual beginning fund balances if deemed necessary by the FAS Director. Amendments not specifically authorized in F.S. Chapter 129.06(2)(a-e) require the amendment by authorized by resolution or ordinance of the City Commission and adopted following a public hearing. The public hearing must be advertised at least 2 days, but not more than 5 days, before the date of the hearing. The advertisement and adoption procedures are similar to those required for adoption of the annual budget.

CONTINGENCY RESERVES/CASH CARRY FORWARD BALANCES

Contingency reserves are established to provide for the following:

- Funding for authorized mid-year increases that will provide for a level of service that was not anticipated during the budget process;
- Funding for unexpected increases in the cost of providing existing levels of service;
- Temporary and nonrecurring funding for unanticipated projects;
- Funding of a local match for public or private grants;
- Funding to off-set losses in revenue caused by actions of other governmental bodies and/or unanticipated economic downturns;
- Funding to accommodate unanticipated program mandates from other governmental bodies; and,
- Funding for emergencies, whether economic, natural disaster or act of war.

1. Reserve for contingency requests must be approved by the City Commission. The Commission will use the procedures and evaluation criteria set forth in this policy. Such requests will be evaluated to ensure consistency with other City policy; the urgency if the request; the scope of services to be provided; the short and long-term fiscal impact of the request; a review of alternative methods of funding or providing the services; a review for duplication of services with other agencies; a review of efforts to secure non-City funding; a discussion of why funding was not sought during the normal budget cycle; and a review of the impact of not funding or delaying funding to the next fiscal year.

2. A reserve for contingency will be calculated and established by the FAS Department for each operating fund in an amount not greater than 10% of the total budget and in accordance with Florida Statutes 129.01(2)(c).

3. The reserve for contingency shall be separate from any cash carry forward balances.

4. The City's budget will be amended at such time as the City Commission authorizes the use of contingency

reserves. All requests for the use of any reserve for contingency shall be accompanied by information prepared by the FAS Department showing the year-to-date activity of the reserve account as well as the current account balance and the net effect on the account balance.

5. The City will maintain an annual unappropriated or cash carry forward balance at a level sufficient to maintain adequate cash flow and to eliminate the need for short-term borrowing. The unappropriated fund balance shall be separate from the reserve for contingency.

6. The amount of cash carry forward to be budgeted shall be analyzed and determined during the annual budget process; the carry forward balances will be jointly agreed upon by the FAS Director and City Manager.

CAPITAL MANAGEMENT POLICY

Capital management policies are intended to provide parameters and guidance for the management, monitoring, assessment and evaluation of the Capital Improvement Program. The Capital Improvement Program (CIP) shall consist of projects/equipment with a cost estimate of at least $50,000 and an asset life of at least ten (10) years. A CIP project, under this definition, is intended to include those projects that involve a new purchase of capital outlay, infrastructure and any new construction or renovation of City infrastructure. However, the purchase of vehicles or equipment within an existing replacement fund or which are on a fleet replacement schedule, which must be submitted during the budget process, shall not constitute a CIP project.

1. A five-year Capital Improvement program (CIP) will be developed annually. The CIP will be consistent with and implement the Capital Improvement Element (CIE) of the City's Comprehensive Plan. The CIE established Level of Service Standards for facilities required by law to address the impacts of development, level of service guidelines for other public facilities, and priorities for capital improvement projects.

2. Annual updates of the CIP shall be coordinated through the FAS, Public Services, and Community Development and Planning departments.

3. The Capital Improvement Plan will include, in addition to current maintenance expenditures, adequate funding to support repair and replacement of deteriorating infrastructure and to avoid any significant unfunded liability.

4. Ensure that debt financings are planned and the details are incorporated in the Capital Improvement Program. Proposed capital projects will be reviewed by a cross-departmental team regarding accurate costing (design, capital, and operating) estimates.

5. The City will make all capital improvement expenditures in accordance with the Capital Improvement Program (CIP).

6. The first year of the 5-year Capital Improvement Program will be used as the basis for formal fiscal year appropriations during the annual budget process. Appropriations made in prior years for which expenditures have not been incurred nor projects completed, will be reevaluated and incorporated into appropriations for the new fiscal year.

7. City staff will regularly report the progress of the Capital projects (on a quarterly basis, at the minimum) to the City Commission.

WIRE TRANSFER POLICY

Wire transfer transactions involving investment or restricted accounts will be approved by the City Commission prior to transmittal. Wire transfers involving normal, already appropriated debt service payments will require written authorization by the Mayor and the City Manager prior to transmittal.

CASH AND INVESTMENT INTERNAL CONTROL PROCEDURES

General Accounting & Reporting - Investments

I. All cash transactions are approved before entry into the financial system.

- A. Wire transfers from banks to Investments must be approved by the Mayor and City Manager.
  - 1. Outgoing transfer documentation must be signed by:
    - a. City Manager
    - b. Mayor
    - c. Dual banking controls requires input by the Accounting Manager and approval of payment by FAS Director, or vice versa.

- B. Wire transfers from Investments to banks must be approved by the City Commission
  - 1. Incoming transfer documentation must be signed by:
    - a. City Manager
    - b. Mayor
    - c. Dual banking controls require input by the Accounting Manager and approval of receipt by FAS Director, or vice versa.

- C. Wire transfers to vendors
  - 1. Outgoing must be signed by:
    - a. City Manager
    - b. Mayor
    - c. Dual banking controls requires input by the Accounting Manager and completion of payment process by FAS Director, or vice versa.
    - d. Vendor wire templates require information input by one person and approval of the template by an authorized person other than the person who input the information

- D. Treasury Purchases must be approved by City Commission
  - 1. Purchase transaction documentation must be approved by (signed by):
    - a. FAS Director; and
    - b. City Manager

- E. Bank Fraud Protection
  - 1. Depository Accounts will not accept any debits unless initiated by staff;
  - 2. Banks have implemented ACH Blocks on payables, payroll, and utility accounts. Notification and decisions are made via online banking website; and,
  - 3. Each banking institution uses multi-factor identification for on-line services

II. Segregation of incompatible duties - No single individual should be able to authorize a transaction record the transaction and maintain custody of the assets.

- A. All transactions recorded by the staff of the FAS Department are authorized by other parties, resolutions, or statutes.

- B. Cash and securities are kept by the following major third-party custodians:
  - 1. SBA (State Board of Administration) Investment Pool;
  - 2. Capital City Bank;
  - 3. Renasant Bank;
  - 4. Center State (South State) Bank; and
  - 5. any other custodian as authorized by the City of Alachua Fiscal Policies.

III. Adequate Documentation & Record Keeping

A. Bi-Monthly, or Quarterly at a minimum:

1. Cash and Investment holdings summary to City Commission.

IV. Periodic Reconciliation

A. Daily:

1. Reconcile bank detailed activity report with deposits; and,
2. Reconcile wire transfers reported by bank with wire transfer file.

B. Monthly:

1. Reconcile all bank accounts to bank statements by Senior Accountant.
   a. All notes to monthly bank audit are reviewed and corrective action is taken when required.

C. Annual:

1. Review and update of all procedures.

V. Security for check stock, signature plates, and electronic checks.

VI. Potential Risk Assessment

Problem:
Fraudulent electronic ACH debits to Capital City Bank accounts.

Proposed Solution:
Implementation of ACH Blocks and Filters and procedures for monitoring.

Bulk Power Purchase Risk Management Policy

A. Formation and Composition.

1. The Bulk Power Purchase Risk Management Committee (BPPRMC) shall be established by the City Manager and shall consist of five to seven members. Committee members shall be appointed by the City Manager and may consist of City staff, interested and qualified city customers and at least one member from the utility industry with experience and qualifications in fuel management. City staff shall, at all times, constitute a majority of the BPPRMC. The FAS Director and Utility Billing Manager will be standing members of the BPPRMC.

B. Objectives of the Bulk Power Purchase Risk Management Committee.

1. The objectives of the BPPRMC shall be:

   a. To reduce the volatility in the Bulk Power Cost Adjustment (BPCA) to retail customers

   b. To manage BPCA such that fuel price risk is comparable to that of the peer utilities. Peer utilities are defined as Duke Energy of Florida, Gainesville Regional Utilities (GRU) and Clay Electric Cooperative.

C. <u>Types of Risk.</u>

1. The following risks that impact the volatility in the BPCA provision in retail rates have been identified:

    a. Price Risk. Price risk reflects the uncertainty in the future prices of commodities that comprise the BPCA provision of retail rates. For example, the price of natural gas has a significant influence on the cost of electricity in Florida. Commodity prices expected at the time of budgeting or setting retail rates may not be realized in the future. The variation in the price of the BPCA as a result of these changes in price constitute price risk.

    b. Basis Risk. Basis risk is the uncertainty associated with the price of a hedge instrument and the actual physical price of the commodity being hedged. For example, the price of the futures contracts is based on the price of natural gas at a specific location in Louisiana (Henry Hub) whereas the price of natural gas used by GRU may be based on the another natural gas price index such as Florida Gas Transmission Zone 3. Generally, the basis risk is small relative to the price risk but it should be considered in the development of any hedge plan.

    c. Liquidity Risk. Liquidity risk is the risk associated with the marketability of a hedge instrument. For example, if the City entered into a forward purchase contract for natural gas with third party and due to unforeseen circumstances the city desired to dispose of this contract, the City may have to accept less favorable prices due to the specific terms of the forward price contract and the limited number of market participants desiring a contract with these terms. Another example is the lack of liquidity in natural gas futures contracts for periods beyond the next several years. Lack of liquidity is generally reflected in higher bid ask spreads.

    d. Volume Risk. Future projection of the BPCA adjustments is based on certain assumptions regarding the demand for electricity and the availability of supply resources. Changes in the demand for electricity and the unavailability of certain generating resource impact the exposure to each commodity. A recent example is the extended outage of the Crystal River Nuclear unit which increased the amount of purchases from GRU. This increased exposure to GRU purchases impacted the cost of bulk power supply. Another example is uncertainties in forecasted consumption. The electricity consumption for December 2010 far exceeded expectations due to the colder than normal weather. This increased electricity usage increased exposure to the prices of natural gas which therefore increased the price of bulk power supply. Even a perfectly designed hedge plan that completely mitigated the exposure to price risk would not have alleviated exposure to volume risk.

    e. Credit Risk. Credit risk is the risk the counter party to a Risk Mitigation Action fails to comply with contract terms. An example is in the case of a forward purchase contract, the City pays for natural gas to be received at some future time but the counter party fails to deliver the natural gas as expected. The use of hedge instruments traded over recognized exchanges lessens exposure to credit risk since in effect the exchange becomes the counter party and maintains adequate reserves to perform even in the case of non-performance by other market participants.

    f. Administrative Risk. This is the risk of losses resulting from the City's failure to properly implement and monitor Risk Mitigation Actions. Periodic reporting and internal audits are means to lessen Administrative Risk.

D. Strategies to be Employed by the Bulk Power Purchase Risk Management Committee to Achieve the Objectives.

1. The City has approved the use of the following hedge strategies by the BPPRMC:

    a. Establishment and maintenance of a Bulk Power Cost Stabilization Fund;
    b. Use of forward contracts for the purchase of fuel;
    c. Use of futures contracts;
    d. Use of options on futures contract; and,
    e. Use of swaps contracts.

E. Responsibilities of Bulk Power Purchase Risk Management Committee.

1. Identify risks that impact the BPCA;
2. Monitor risk exposure relative to peer group;
3. Approve each Risk Mitigation Action;
4. Report periodically to the City Commission, in no event less often than annually, on the results of each risk mitigation action, if any such action has been taken;
5. Report results of risk mitigation in aggregate relative to peer group, if appropriate;
6. Maintain minutes of each meeting of the BPPRMC;
7. Approve each proposed Risk Mitigation Action that involves an outlay of funds or potential outlay funds. This shall include the following:
    a. Forward purchase contract; and,
    b. Sale or purchase of any futures contract or option of any futures contract
8. Establishment and periodic adjustments of the amount of the BPCA (administratively performed by the FAS Director and Utility Billing Manager);
9. Maintain projections of BPCA, fuel prices and BPCA Stabilization Fund balances to aid in the management of fuel price risk (administratively maintained by the Utility Billing Manager); and,
10. Assess counterparty risk for each risk mitigation action.

F. Hedge Limits.

1. The BPPRMC shall monitor the City's exposure to fuel price risk and, after consideration of the relative exposure of the peer group, shall periodically establish hedge limits based on expected exposure. In no case shall Risk Mitigation Actions be approved that hedge price risk greater than the actual price risk. Generally these hedge limits shall be expressed as a percentage of expected consumption of a fuel type for a certain period of time and are intended to vary under different market scenarios.

G. Risk Mitigation Actions.

1. A Risk Mitigation Action is any action taken on behalf of the City that results in the outlay of funds or the potential outlay of funds with the intent of achieving the objectives of the BPPRMC. These actions include:

    a. the purchase or sale of any futures contract or options on futures contracts,
    b. the execution of any swap contract,
    c. the commitment to enter into a forward purchase contract,
    d. periodically establishing the desired balance of the BPCA Stabilization Fund and the budgeting of additions and withdrawals from the BPCA Stabilization Fund to achieve the objectives of the BPPRMC.

2. Each Risk Mitigation Action shall be approved by the BPPRMC. The approval shall be documented in the minutes of the BPPRMC and the documentation shall include with specificity the following:

   a. The base line assumptions including the expected BPCA if the proposed Risk Management Action is not undertaken,
   b. A description of the proposed Risk Mitigation Action including current market prices and expected costs or proceeds that are to be derived from the proposed Risk Mitigation Action,
   c. The expected results of the proposed risk mitigation action under various market assumptions.

3. Each Risk Mitigation Action shall qualify for accounting as a hedge pursuant to the provisions of GASB 53.

H. <u>Bulk Power Cost Adjustment Stabilization Fund Guidelines.</u>

1. The BPPRMC shall periodically review and establish the desired balance and the range of the BPCA Stabilization Fund. Any modification to the desired balance or range shall be documented by the issuance of a revision of the Bulk Power Purchase Risk Management Policy.

2. The desired balance in the BPCA Stabilization Fund is initially established at two times the average monthly cost of bulk power supply.

3. The desired range of the BPCA Stabilization Fund is initially established at a minimum of two months of the average cost of bulk power supply and the maximum balance should not exceed six times the average monthly cost of bulk power supply.

Capitalization Policy

Capital Asset (Property) Definition

Fixtures and other tangible personal property of a nonconsumable nature, the value of which is $5,000 or more with a normal expected life of one year or more, are considered capital assets or property. The FAS Department may elect to capitalize items below this threshold in order to maintain consistency regarding utility system tracking and valuation. The City reports capital assets under the following categories:

- Furniture, equipment, vehicles, and works of art;
- Land and land improvements;
- Buildings and building improvements;
- Improvements other than buildings;
- Infrastructure and infrastructure improvements;
- Capital leases; and,
- Leasehold improvements.

Capital Asset Category Definitions

The lists of examples shall not be construed as all-inclusive. If unsure, contact for the FAS Department should be contacted for assistance.

Furniture, Equipment, Vehicles and Works of Art (64XX)

Furniture and equipment include tangible assets costing $5,000 or more to be used for operations, the benefits of which extend beyond one year from date of receipt and/or date put into service.

Examples of items to be capitalized as equipment:

- Automobile, truck, utility trailer, etc.;
- Furniture including shipping and installation (total must be $5,000 or more **per item**);
- Computers, printers, radios, etc. (including warranties, extended warranties, shipping, installation, if purchased at the time the item is purchased);
- Works of art, including shipping and installation; and
- Long-life storage building (possibly moveable).

Examples of equipment-type items that should be considered operating expenses:

- Landscape cubicle (modular) furnishings costing less than $5,000 per piece;
- Network hubs, wiring and switches;
- Software and user licenses (less than $25,000 – see below);
- Software maintenance and support;
- Maintenance contract or extended warranties (if not purchased at time of original purchase-see above); and,
- Computer upgrades or additions.

Software – special rules apply – threshold $25,000 per application

- Purchased software – Includes purchase cost and any direct cost of materials and services utilized to put the software into service. Annual maintenance costs (typically also include routine upgrades) are not capital and should be coded to 46-XX.

- Internally developed software (over $25,000) - Capital costs include external direct costs of materials and services consumed in developing or obtaining internal-use software, payroll and payroll-related costs devoted directly to the project. Examples of such costs include those associated with the design of a chosen path (including the software configuration and the software interfaces), coding, installation to hardware, and testing (including the parallel processing phase).

  The department should keep adequate records in order to determine the cost of the software. When the project is complete, submit the records to the FAS Department to add as an asset to the Fixed Assets System. The record should include the fund and department/division utilized for the software development. If in fact, the primary costs associated with internally developed software will be payroll, these costs will not be capitalized in the City's budget, but will only be included in the City government-wide financial statements with other City assets.

  Capitalization should occur only after the preliminary project stage is complete and management has authorized and funded the project.

- Upgrades and enhancements - Should be capitalized only to the extent that they increase the functionality and the life of the product.

Land and Land Improvements (61XX)

Land is the surface or crust of the earth, which can be used to support structures and may be used to grow crops, grass, shrubs and trees. Land improvements consist of betterments, site preparation (including removal of structures) and site improvements that ready land for its intended use. The cost associated with land improvements is added to the cost of the land and should not be depreciated. Any costs for land or land improvements (even those under $5,000) should be capitalized.

Examples of items to be capitalized as land and land improvements:

- Purchase price or fair market value at time of gift;
- Commissions;
- Professional fees including title searches, appraisal, surveying and environmental assessments, etc.;
- Land excavation, fill, grading, clearing and drainage;
- Demolition of existing buildings and improvements;
- Utility installation;
- Right-of-way for roads; and,
- Storm basins (if basically land only – no physical structure to divert water).

Items such as roads, fences, landscaping, paved parking lots, etc. are **not** considered land improvements. (See Infrastructure and Improvements other than Buildings for additional information.)

Buildings and Building Improvements (62XX)

A building is a structure that is permanently attached to the land, has a roof, is partially or completely enclosed by walls, and is not intended to be moved or transported. A building is generally used to house persons, property, and includes fixtures attached to and forming a permanent part of such a structure.

Building improvements or renovations are capital events that materially extend the useful life of a building or increase the value of a building, or both, beyond one year. Building improvements do not include maintenance and repairs done in the normal course of business.

All costs (even those individual payments falling under $5,000) should be capitalized for construction projects.

Examples of items to be capitalized as buildings and building improvements are:

- Original purchase price or fair market value if donated;
- Expenses for remodeling, reconditioning, or altering a purchased building to make it ready for use for the purpose for which it was acquired;
- Professional fees (i.e., legal, architect, engineer, inspections, title search, etc.);
- Advertisement for Call to Bid on construction projects;
- Building permit;
- Payments to contractors or subcontractors for materials and labor for new building;
- Permanently attached fixtures or machinery that cannot be removed without impairing the use of the building; and,
- Additions to buildings (i.e. enlargements, covered patios, garages, etc.) these are permanent changes to the "footprint" of the building.

Examples of items to be considered maintenance and repairs and not capitalized:

- Plumbing or electrical repairs;
- Adding, removing and/or moving of walls relating to renovation projects that are not considered major rehabilitation projects and do not increase the value or extend the life of the building. **NOTE:** Major maintenance/renovation projects may be considered capital. Please call the FAS Department to discuss appropriate coding;
- Cleaning, pest extermination, or other periodic maintenance;
- Maintenance type interior renovation such as repainting, touch-up plastering, replacement of carpet, tile, or panel sections, sink and fixture refinishing, etc.; and,.
- Maintenance type exterior renovation such as repainting, replacement of siding, roof or masonry, etc. An upgrade to the type of roofing materials may possibly be considered capital.

<u>Improvements Other than Building - IOTB (63XX)</u>

IOTB's are structures not considered buildings and other constructs that add value and use to property.

Examples of items to be capitalized as Improvements other than Building:

- Paved parking lots, sidewalks, recreation areas and driveways;
- Landscaping (initial planting only) and irrigation system (initial only);
- Permanently attached playground equipment;
- Boat docks, piers and boat ramps; and,
- Picnic shelters and other "immovable" out-buildings, such as Restrooms and Interpretive and, Shelters, Pavilions and Pole Barns

Examples of items that should be considered operating expenses:

- Grounds maintenance and replacement landscape plantings;
- Waste tire mulch on playground; and,
- Park improvements costing under $5,000 each, such as grills, soccer goals, etc.

<u>Infrastructure and Infrastructure Improvements (63XX)</u>

These assets are long-lived capital assets that normally are stationary in nature and can be preserved for a significantly greater number of years than most capital assets. Included are roadways, traffic signals, bike paths, sidewalks and bridges. <u>Improvements made to infrastructure assets that extend the useful life or increase the value of the asset, or both, should be capitalized</u>.

Examples of items to capitalized as Infrastructure:

- Initial paving of roadway;
- Milling and resurfacing existing roads;
- Widen road, add lanes, bike lanes and sidewalks;
- Install traffic signal at intersection; and,
- Engineering study to determine road path.

Examples of items that should be considered operating expense:

- Roadway surface repair (filling potholes – maintenance work);
- Center lane re-striping; and,
- Dredge storm basin.

<u>Capital Lease (varies – usually equipment-64XX)</u>

Assets should be capitalized if the lease agreement meets any one of the following criteria:

- The lease transfers ownership of the property to the lessee by the end of the lease term;
- The lease contains a bargain purchase option;
- The lease term is equal to 75% or more of the estimated economic life of the leased property; or,
- The present value of the minimum lease payments at the inception of the lease, excluding executory costs, equals at least 90% of the fair value of the leased assets.

The full cost of assets purchased under capital leases should be fully capitalized at the time of purchase

Leasehold Improvements (varies – 62XX or 63XX)

A leasehold improvement is an improvement made to a leased building by a department that has the right to use this leasehold improvement over the term of the lease. This improvement will revert to the lessor at the expiration of the lease.

Leasehold improvements to the building or grounds should be capitalized if the expenditures cost more than $5,000 and will have an estimated useful life greater than one year. Leasehold improvements should not include maintenance and repairs done in the normal course of business. Further, moveable equipment or office furniture that is not attached to the building is not considered a leasehold improvement.

The coding of the leasehold improvement follows the normal capitalization rules, but will most likely be either building or improvements other than building. The life of the leasehold improvement should be the same as the term of the lease.

Depreciation

Property, plant and equipment are depreciated using the straight-line method over the following estimated useful lives:

▪ Buildings	10-50 Years
▪ Improvements	10-40 Years
▪ Infrastructure	40-50 Years
▪ Furniture, Fixtures, and Equipment	5-20 Years