

SERGEANT BLUFF, IOWA

City Council Minutes

Council Chambers, 5:30 PM

May 16, 2017

I. CALL TO ORDER:

Attendee Name	Title	Status	Arrived
Ron Hanson	Mayor Pro Tem	Present	
Bill Gaukel	Assistant Mayor Pro Tem	Present	
Jim Linafelter	Council Member	Present	
Nicole Cleveland	Council Member	Present	
Carol Clark	Council Member	Present	
Jon Winkel	Mayor	Present	

II. DISCUSSION/ACTION ITEMS:

1. Discussion and Potential Approval of Financial Policy

Travis Squires, Managing Director with Piper Jaffray, led the Financial Policy Discussion. Travis reviewed with Council how to set the city up for success; proper understanding of the goals of the capital plan, components of a healthy financial plan & the process of developing such. Travis talked about the City's debt profile. Fund Balances were also reviewed with the council. Travis stated that as a city over all we are a healthy community. The water revenue fund was reviewed in detail stating rate increases were necessary. The question came up about rate increases and how many years should be approved up front. Travis agrees to look at one year but recommends approving two years to start. Travis went over cash requirements for best practices. Overview was given regarding the policies. Mayor stated growth needs to be listed as an objective to the policies. Objectives were discussed: Creditworthiness; credit ratings & financial disclosure, Revenue; diversification, estimates & collections, Operating Budget and Expenditure; fund balance definitions, balanced budget, operating budget, budget expenditures, equipment policy, operating revenue, retirement systems, working fund balances for operations, current year expenditure projections, risk management, budgetary control & fund transfer policy, Capital Improvement Budget and Planning; capital financing, development of capital improvement plan, adoption of capital improvement plan & implementation of capital improvement plan, Debt Administrative; purpose of debt, debt limit, debt payment and structure, abatement of levies on general obligation securities & refunding, Tax Increment Finance; use of tax increment financing, rebate agreements, TIF debt obligations, TIF grants, housing, TIF reporting and certification & TIF review process, Investment; investment selection & investment reporting, Financial Reporting; accounting standards & reporting standards. The council will review the draft policy further and submit questions and concerns at a meeting to be set at a later date. Aaron mentioned that ideally this policy needs to be approved prior to the next debt issuance.

III. ADJOURNMENT:

Motion by Linafelter second by Gaukel to adjourn meeting. Motion Carried. The meeting was adjourned at 6:47 pm.

Mayor/Mayor Pro-Tem

Attest:

Michelle Colvert, City Clerk

**CITY OF SERGEANT BLUFF, Iowa****Request For City Council Action**

MEETING DATE: May 16, 2017
DEPARTMENT: Finance
FROM: Michelle Colvert
SUBJECT: Discussion and Potential Approval of Financial Policy

ATTACHMENTS:

- Debt Management Policy 2017-04-27 clean (PDF)

Review:

Aaron Lincoln	Skipped	05/16/2017 6:47 PM
Jon Winkel	Skipped	05/16/2017 6:47 PM
City Council	Completed	05/16/2017 5:30 PM

RESULT:	DISCUSSED
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INTRODUCTION

The following policies are enacted to provide direction and limits for the issuance and management of debt by the City of Sergeant Bluff. The objective is to establish conditions for the use of debt and to create procedures and policies that minimize the City’s debt service and issuance costs, retain the highest possible credit rating, maximize future debt capacity and maintain full and complete financial disclosure and reporting and federal tax compliance. The policies apply to all general obligation and revenue debt issued by the City of Sergeant Bluff, including leases, debt guaranteed by the City, and any other forms of taxable and tax-exempt indebtedness, other tax credit bonds, and urban renewal debt.

Regular, updated debt policies can be an important tool to ensure the use of the City's resources to meet its commitments to provide needed services to the citizens of Sergeant Bluff and to maintain sound financial management practices. These policies are therefore guidelines for general use, and allow for exceptions in extraordinary conditions.

Nothing in this policy shall be construed as being in conflict with the provisions of the State Code of Iowa.

These policies have been adopted by the City Council by resolution. The Financial Management Policies of the City can be adjusted at any time by resolution of the City Council.

CREDITWORTHINESS OBJECTIVES

Policy 1. Credit Ratings

The City of Sergeant Bluff seeks to maintain the highest possible credit ratings for all categories of short and long term general obligation and revenue debt that can be achieved without compromising the delivery of basic City services and the achievement of adopted City policy objectives.

The City recognizes that external economic, natural, or other events may from time to time affect the creditworthiness of its debt. Nevertheless, the City is committed to ensuring that actions within their control are prudent.

Policy 2. Financial Disclosure

The City is committed to full and complete financial disclosure, and to cooperating fully with rating agencies, financial consultant, bond counsel, institutional and individual investors, City departments and agencies, other levels of government, and the general public to share comprehensive and accurate financial information. The City is dedicated to meeting secondary disclosure requirements on a timely and comprehensive basis, as promulgated

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by the Securities Exchange Commission.

The Official Statements accompanying debt issues, Comprehensive Annual Financial Reports, and Continuing Disclosure Statements will meet (at a minimum), the standards articulated by the Municipal Standards Rulemaking Board (MRSB), the Government Accounting Standards Board (GASB), the National Federation of Municipal Analysts, the Securities and Exchange Commission (SEC), Generally Accepted Accounting Principles (GAAP), and the Internal Revenue Service.

REVENUE OBJECTIVES

Policy 3. Revenue Diversification

The City will initiate efforts to maintain a diversified and stable revenue system in an attempt to avoid short run fluctuations in any one revenue source.

Existing revenue sources will be re-examined annually with new revenue sources investigated during the annual budget preparation process.

Policy 4. Revenue Estimates

Annual revenues will be estimated by objective, and whenever possible, an analytical process.

Revenues will be estimated at a level to fund estimated expenditures on an annual basis. Revenues may exceed expenditures if the fund balance of any fund needs to be increased to meet minimum balance requirements. Additionally, surplus fund balance, above minimum requirements, may supplement revenues in order to fund estimated expenditure levels.

Policy 5. Revenue Collections

Property tax revenue collections will be established through a tax levy rate for general operations.

In relation to enterprise funds, which have been established to support expenditures levels, user fees and charges will be established to fund direct and indirect costs of the activity whenever feasible.

All user fees and charges will be re-evaluated on an annual basis during the budget preparation process.

One-time or special purpose revenues such as grant funds will be utilized to fund capital expenditures or expenditures required by that revenue. Such revenues will not be used to subsidize reoccurring personnel, operation, and maintenance costs.

The City will on a continuous basis seek methods to reduce the City’s reliance on the property tax through seeking legislative support for local option taxes, investigating additional non-property tax revenue sources, and encouraging the expansion and diversification of the City tax base with commercial and industrial development.

OPERATING BUDGET & EXPENDITURE OBJECTIVES

The establishment and maintenance of adequate fund balances and reserves allow the City financial flexibility and security and is recognized as an important factor considered by bond rating agencies and the underwriting community when reviewing City debt issuance. Along with maintaining the City’s credit worthiness, such cash balances and reserves provide the means to handle economic uncertainties, local disasters and other unanticipated hardships, as well as, to meet cash flow requirements

Policy 6. Fund Balance Definitions

- Fund Balance:** The excess of assets over liabilities in a governmental fund.
- Nonspendable Fund Balance:** amounts that are not in a spendable form (such as inventory) or are required to be maintained intact (such as a corpus of an endowment fund).
- Restricted Fund Balance:** Amounts constrained to specific purposes by their providers (such as grantors, bondholders, and higher levels of government) through constitutional provisions or by enabling legislation.
- Committed Fund Balance:** Amounts constrained to specific purposes determined by a formal action of the government’s highest level of decision-making authority, (i.e. the City Council); to be reported as committed, amounts cannot be used for any other purpose unless the City Council takes the same highest-level action to remove or change the constraint.
- Assigned Fund Balance:** Amounts a government intends to use for a specific purpose; intent can be expressed by the City Council or by an official or body to which the City Council delegates the authority.
- Unassigned Fund Balance:** Residual classification for the general fund and includes all spendable amounts not contained in other classifications. In other funds, the unassigned classification should be used only to report a deficit balance resulting from overspending for the specific purpose for which amount had been restricted, committed, or assigned.

Policy 7. Balanced Budget

{Set up Timeline for Process}

The City administration will compile and submit to the City Council a balanced budget by the Friday before the second Tuesday in February of each year.

Policy 8. Operating Budget

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The operating budget for the City will be developed and established on a service level basis. Any additions, deletions and / or alterations in the operating budget will be related to the service to be provided to the general public.

The operating budget will emphasize productivity of human resources in providing services, efficient use of available revenue sources, and quality of services to be provided.

New service levels will be considered when additional revenues or offsetting reductions of expenditures are identified, the new services fall within the broad framework of the City operation, or when such services are mandated by the State of Iowa or the federal government.

Policy 9. Budget Expenditures

Current City expenditures will be funded by current revenues unless specifically approved by the City Council.

The City will avoid the postponement of current expenditures to future years, accruing future year's revenues, or utilization of short term debt to fund operating expenditures.

Policy 10. Equipment Policy

The operating budget will provide funding for the ongoing maintenance and replacement of fixed assets and equipment. These expenditures will be funded from current revenue and, in the case of replacement of equipment, surplus fund balances in excess of the minimum working balance reserve.

Assets that are tangible in nature, have a useful life of two years or more, and have a minimum cost of \$5,000. Assets that are intangible in nature, have a useful life of two years or more, and have a minimum cost of \$25,000 will be capitalized.

Policy 11. Operating Reserve

Within the operating fund a reserve will be set aside for unforeseen emergencies. This reserve will be maintained at two percent of the operating budget as a minimum.

Transition Plan: beginning with the budget for fiscal year 2018-19 the City will transition to this level of operating reserve. Within three years the City will have built a one half percent reserve into the operating budget. Within five years this amount will be increase to one percent. By year ten, the City will have built a two percent operating reserve.

Policy 12. Retirement Systems

The budget will provide adequate funding for all retirement systems as prescribed by state

law.

Policy 13. Working Fund Balance for Operations

A working fund balance for general operations will be maintained in order to support expenditures prior to the collection of taxes. The working balance will be at least ten percent of the budgeted level of expenditures.

The City will maintain cash reserves within the following targets to ensure adequate cash flow and avoid the need for short term borrowing

Fund Name	Targeted Ending Cash Balance as a Percentage of Expenditures
General	40% Undesignated Balance
Road Use Tax	25% Undesignated Balance
Local Option Sales Tax	25% Undesignated Balance, plus 1 years Debt Service
Hotel/Motel Tax	25% Undesignated Balance
Electric Utility	25% Undesignated Balance, plus 1 years Debt Service
Water Utility	25% Undesignated Balance, plus 1 years Debt Service
Sewer Utility	25% Undesignated Balance, plus 1 years Debt Service
Storm Water Utility	25% Undesignated Balance, plus 1 years Debt service
Solid Waste Utility	25% Undesignated Balance, plus 1 years Debt Service

Transition Plan for _____ Fund: beginning with the budget for fiscal year 2018-19 the City will transition to this level of working fund balance. Within three years the City will have built a ____ percent working fund balance. By year six, the City will have increased the working fund balance to fifteen percent operating reserve.

In addition, the City will work toward implementing the working fund balance for operations in all of the City’s enterprise funds through similar transition plans

Policy 14. Current Year Expenditure Projections

Each year the city will revise current year expenditure projections during the succeeding year’s budget preparation process. Cost of operating future capital improvements including the capital projects budget will be included in the operating budget.

Policy 15. Risk Management

The City will participate in a risk management program to minimize losses and reduce costs. This program will also protect the City against catastrophic losses through the combination of insurance, self-insurance, and various federal and state programs.

Policy 16. Budgetary Control

The City will maintain a budgetary control system to monitor its adherence to the approved

operating budget.

The City administration will prepare monthly expense and revenue reports comparing actual revenues and expenditures to budgeted amounts.

Policy 17. Fund Transfer Policy

The City recognizes the need to supplement revenue in operating funds while protecting the financial viability of the City's enterprise funds.

All transfers shall be made under the provision of Chapter 384.15 of the State Code of Iowa and Administrative Rules of the State of Iowa City Finance Committee. Transfers shall be budgeted as required or otherwise approved by the City Council.

Transfers made for the purposes of loan repayments shall be based either upon a predetermined repayment schedule or upon the actual revenues received for purposes of making such payments.

CAPITAL IMPROVEMENT BUDGET AND PLANNING OBJECTIVES

To enhance creditworthiness and prudent financial management, the City of Sergeant Bluff is committed to systematic capital planning, intergovernmental cooperation and coordination, and long-term financial planning. Evidence of this commitment to systematic capital planning will be demonstrated through adoption and periodic adjustment of the five year Capital Improvement Plan (CIP). Policies for the CIP are intended to encourage planning for future growth and infrastructure repair within the framework of the City's financial policies.

Council stated goals as of June 30, 2017:

- Target overall levy rate of _____
- Target debt service levy rate of _____

Policy 18. Capital Financing

The City normally relied on internally generated funds and/or grants and contributions from other governments to finance its capital needs. Debt will be issued for a capital project only when it is an appropriate means to achieve a fair allocation of costs between current and future beneficiaries or users, or in the case of an emergency capital need. Debt shall not fund operating expenses with the only exception being operating costs related to disaster recovery. Bond proceeds should be limited to financing capital expenditures such as the costs of planning, external or internal design, construction management, land or right of way acquisition, acquisition of, construction of or renovations/rehabilitation to buildings, permanent structures, attached fixtures or equipment, and movable pieces of equipment, such as fire engines, or other costs as permitted by law. Acceptable uses of bond proceeds

can be viewed as items which can be capitalized. Capitalized interest is an eligible item for bonding. Utility revenue bond proceeds may be used to establish a debt service reserve as allowed by federal and state law. Operating expenses may be not financed with long-term bonds. Non-capital expenses are not financing from bond proceeds, except as allowed under specific circumstances approved by the City Manager or City Council. Refunding bond issues designed to restructure currently outstanding debt are an acceptable use of bond proceeds.

Policy 19. Development of Capital Improvement Plan

Capital Improvements will be identified on the basis of long range projected needs rather than on immediate needs in order to minimize future maintenance, replacement, and capital costs.

All capital improvements proposed will be submitted to the _____ (i.e. Capital Planning Committee) for their review and consideration. Their recommendation, in addition to the staff's recommendation, will be submitted to the City Council for approval as the capital improvement plan for the City.

Policy 20. Adoption of Capital Improvement Plan

A capital improvement program will be developed for a five-year period and updated annually.

Estimated costs of each capital improvement projected for each year will be included in the plan. Revenue sources for each capital improvement will be identified in the plan whenever possible.

Intergovernmental funding sources from the federal, state, and private sector will be actively sought and used as available to assist in financing of capital improvements.

Future operating costs associated with the capital improvement will be projected and included as a memo item in the Capital Improvement budget.

During the initial stages of a particular capital improvement but no later than the public hearing for the capital improvement, revenue sources to fund the capital improvement and estimated project costs including incidental costs will be approved by the City Council.

Policy 21. Implementation of Capital Improvement Plan

The City will make all capital improvements in accordance with the adopted Capital Improvement Program except for emergency capital improvements which are deemed necessary by the City staff and approved individually by the City Council.

DEBT ADMINISTRATION OBJECTIVES

Policy 22. Purpose of Debt

The City will limit its long-term borrowing to capital improvements or projects which cannot be financed from current revenues or for which current revenues are not adequate.

Long-term borrowing will only be utilized to fund capital improvements and not operating expenditures.

Policy 23. Debt Limit

The City will maintain its debt limitation at 5 percent of actual property valuation as mandated by the State of Iowa.

Of the debt margin for general obligation bonds, 25 percent will be reserved for emergency purposes.

Policy 24. Debt Payment and Structure

Whenever possible, special assessment, revenue and/or general obligation bonds abated by enterprise revenues will be issued instead of general obligation bonds funded by property tax.

For those general obligation bonds issued and funded by property taxes, debt service and interest payment schedules shall be established whenever possible in such a manner to provide equalization of principal payments each year for the life of the total outstanding general obligation bonds.

The payback period of the bonds issued to fund a particular project will not exceed the useful life of the project.

The City will attempt to keep the average maturity of general obligation bonds at or below 10 years.

Transition Plan: Current practice for General Obligation debt has been level principal and interest payments over the the life of the debt. The goal is to transition to 15 year debt that is level principal by fiscal year 2023 debt issuance for essential corporate purpose projects.

Policy 25. Abatement of levies on general obligation securities

The City acknowledges the provision of Iowa Code Chapter 76.4, which requires that an issuer of public debt (in this case, the City) must have cash on hand at the time that it certifies its annual levies (budget adoption) sufficient to reduce the levy associated with a particular general obligation bond. The statute references “from any other source than

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taxation” with respect to this requirement. Whether this statute anticipated that local option sales taxes and tax increment revenues are considered “taxation” as contemplated in the Code is not clear.

Policy 26. Refunding

Periodic reviews of all outstanding debt will be undertaken to determine refunding opportunities. Refunding will be considered (within federal tax law constraints) if and when there is a net economic benefit of the refunding or the refunding is essential in order to release restrictive bond covenants, which affect the operations and management of the City.

Advance refundings for economic savings will be undertaken either (a) when a net present value savings of at least three percent of the refunded debt can be achieved; or (b) if the escrow structure results in a material negative arbitrage (i.e. the cost of the escrow is more expensive than the permitted cost of the escrow using then-current IRS rules), the NPV savings must be at least five percent of the refunded debt. Current refundings, which produce a net present value savings of less than three percent, will be considered on a case-by-case basis taking into consideration bond covenants and general conditions. Refundings with negative savings will not be considered unless there is a compelling public policy objective.

TAX INCREMENT FINANCE OBJECTIVES

Iowa’s Urban Renewal Law, Chapter 403 of the State Code of Iowa, provides for the utilization of Tax Increment Financing (TIF) for a wide variety of purposes within an urban renewal area. An Urban renewal area may be created if the City Council has determined the area to be a slum area, blighted area, economic development area, or a combination of those areas.

TIF allows a city to use property tax dollars produced from new development in an area to pay for public improvement or to provide assistance to private developers. After the City has established a TIF district, property taxes for all jurisdictions paid on property valuations exceeding the base valuation are paid into a special fund for the city to utilize to repay debt incurred to finance the improvements. Once that debt is paid off, taxes on the increased valuation are paid to each tax jurisdiction in the same manner as taxes collected on the base valuation.

Policy 27. Use of Tax Increment Financing

TIF may be utilized for a wide variety of purposes within an urban renewal area. In addition to infrastructure improvements, streets, sewers, water, parking, etc. the City may also utilize TIF to make grants for economic development purposes.

The City shall use various types of debt to finance Urban Renewal Projects, including general obligation debt, pure tax increment revenue debt, internal loans between

governmental funds and rebate agreements, in which all or a portion of annual tax increment revenues are paid back to developers.

Policy 28. Rebate Agreements

In Urban Renewal Projects where rebate agreements are used as a financing tool of the project, the development agreement shall include a non-appropriation/limited source of funding provision. The non-appropriation/limited source of funding provision shall limit the tax rebate obligation to: (a) TIF taxes received from the Project, and not from the entire TIF area; and (b) that the TIF obligation is not a general obligation or other indebtedness of the City, or a pledge of its full faith and credit with the meaning of any constitutional or statutory debt limitation, and shall be subject in all respects to the right of non-appropriation by the City Council.

The City shall choose to appropriate, or not, at the last council meeting in November, at the latest, for the fiscal year starting the following July 1, such that the City can certify to the County TIF obligations outstanding as of December 1 of each year. The City may not certify an obligation on December 1 (for the fiscal year starting the following July 1) that was not previously appropriated by the City Council, by resolution, for the following fiscal year.

Policy 29. TIF Debt Obligations

The City may issue tax increment debt, including general obligation securities that the City intends to abate with tax increment revenues, anticipating future TIF revenues.

In choosing to issue TIF revenue debt, the City will schedule the amortization of the proposed issue to: (a) provide adequate coverage (at least 1.25x) on the proposed bonds, including any existing bonds previously issued, and (b) to provide that TIF revenues shall exceed TIF debts, including general obligation and rebate obligations, at all times, unless there is a carry-over balance sufficient to cover any anticipated deficit. TIF revenue obligations shall not be issued to anticipate future TIF revenue growth.

In choosing to issue general obligation securities that the City reasonably intends to abate with TIF revenues, the City shall retire the general obligation securities over a period of not more than 20 years, and may use level or backloaded structuring. The sum of all prior obligations, plus the proposed obligations shall, at all times, be supported by the sum of existing TIF revenues plus reasonably expected future TIF revenues, without using an “annual growth factor” assumption. The City may issue general obligation bonds to anticipate future TIF revenue growth where the City reasonably believes that the TIF revenue growth will occur based on current events occurring in the TIF area, or based on minimum assessment agreements that may be in place covering one or more projects.

Policy 30. TIF Grants {Optional review with existing practice}

In situations where direct grants are being made for economic development, the amount of

the grant shall be no greater than 50% of the total TIF to be generated over the pay back period with the remaining 50% to be retained by the City to fund public improvements.

Policy 31. Housing

Tax Increment Finance may be used to provide infrastructure improvements for housing development where the new housing shall solely benefit low to moderate income individuals as defined by state law. In addition, TIF shall only be used for housing development where the developer of the subdivision is willing to guarantee the City’s debt in the event TIF revenues are not sufficient to meet the required debt service payments.

Policy 32. TIF Reporting and Certification

The City shall annually certify as TIF debt 100% of the total outstanding obligations that are yet to be reimbursed from TIF revenue, including but not limited to bonds, notes, leases, rebates, internal loans and other obligations. The City may voluntarily request that any particular fiscal year’s actual TIF receipts are less than the total TIF revenues available, on an annual basis, if the City can determine that it has sufficient cash on hand that, when added to the TIF revenues anticipated to be collected, will be sufficient to fund all TIF liabilities in that particular fiscal year without creating a deficit balance.

Policy 33. TIF Review Process

Each application for TIF shall be reviewed by a review committee, {Sergeant Bluff Community Development Corporation}, who shall make a recommendation to the City Council upon the merits of the request.

The application shall include the following: TBD

The City Council makes the final determination of all requests for issuance of a TIF.

The applicant will provide the governing body with a copy of their loan application for their lending institution.

INVESTMENT OBJECTIVES

Policy 34. Investment Selection

Investments of City funds shall be accomplished first through the competitive bidding process by the invitation of bids to local bank and the Iowa Public Agency Investment Trust (IPAIT). If the interest rate offered by local banks and IPAIT does not fit the requirements of the City, investments shall be made in federal securities or any other higher yielding securities as authorized by the State of Iowa.

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City checking accounts shall be established as interest bearing accounts according to the provisions of banking services agreements and as specifically restricted by state law and/or federal regulations unless a particular situation necessitates noncompliance with this provision.

Policy 35. Investment Reporting

The City will make at least monthly a cash flow analysis of all City funds, through the Treasurer's Report.

Disbursements of funds, collections of revenue and deposit of such revenues will be scheduled to insure the maximum availability of funds for investment.

Where permitted by law, cash shall be pooled from separate funds in order to maximum investment yields. Interest earned from such pooling will be credited to each source of invested monies.

The accounting system will provide regular information regarding the investments of the City and a monthly report will be submitted to the City Manager and City Council.

An annual report describing the activity of investment purchases will be submitted to the City Council at the end of each fiscal year.

FINANCIAL REPORTING OBJECTIVES

Policy 36. Accounting Standards

The City will establish and maintain a high standard of accounting practices and procedures which adhere to the concept of full and open public disclosure of all financial activity.

The accounting system will be maintained on a basis consistent with accepted standards for governmental accounting.

Policy 37. Reporting Standards

Monthly financial reports which represent a summary of financial activity for the City will be presented to the City Council on a regular basis.

The City will contract with an independent public auditing firm to perform the annual audit.

The independent public accounting firm will publicly issue an audit opinion regarding the financial statements of the City. This annual audit will be made available to the general public, bonding and financial consultants, and any other interested citizens and organizations.

The annual financial statements and accompanying audit opinion will be completed and submitted to the City Council by the 15th of January following the close of the preceding fiscal year.