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**City Council Dinner Available at 5:00 p.m.**

- I. Council Goal Setting Session (Feasibility B) 5:30 – 6:30 p.m.**
- II. Financial Policies 6:30 – 7:30 p.m.**  
David Hart from PFM Group will be present to discuss financial policies.
- III. Discussion on the lease agreement between Englewood McLellan Reservoir Foundation (EMRF) and MKS, LLC 7:30 – 8:00 p.m.**
- IV. Long Term Asset Reserve Discussion 8:00 – 8:30 p.m.**
- V. Council Member's Choice**
- VI. City Manager's Choice**
- VII. City Attorney's Choice**



# City of Englewood City Council Study Session Policy Recommendations

January 22, 2016



**The PFM Group**  
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# Timeline

- PFM engaged as of August 31, 2015, to provide a comprehensive evaluation of select City financial policies
  - Structurally Balanced Budget
  - Fund Balance
  - Debt Management
  - Investment
  - Audit Procurement
- Presented draft policies on November 23 and December 7
- Tonight: Presentation of final, recommended policies
- Next Steps: City Council adopts policies by Resolution

# PFM's Manner of Policy Development

- Analyze Englewood's existing policy statements
- Benchmarking to known:
  - Laws and regulations
  - Pronouncements of the Governmental Accounting Standards Board
  - *Best Practices* of
    - Government Finance Officers Association
    - Municipal Securities Rulemaking Board
  - Peer entities, including Rating Agency criteria
- Accordingly, Policies drafted
  - Discuss and refine with staff
  - Initial presentation to Council
- Present final drafts
- Recommend Policies to Council for adoption by Resolution

# General Findings

- Drafts consistent with the City's pre-existing Policy Statements
- Align with known laws, regulations, and best practices
  - GFOA's Best Practice "Adopting Financial Policies" states that financial policies are central to a strategic, long-term approach to financial management.
    - Financial policies clarify and define the strategic intent for financial management, promote long-term and strategic thinking, and identify / manage important risks to financial condition.
- Implementable by City leadership
- Adopted by Council Resolution
  - Policies by their very nature are guidelines, not law
  - Monitor for adherence / performance on annual basis
  - Laws, regulations, and best practices evolve; accordingly, policies adopted now need to be modified when circumstances dictate

# Structurally Balanced Budget

- Policy Highlights
  - Definition of key terms and approach to budget construction
    - Recurring versus non-recurring revenues and expenditures
    - Reserves
  - Current fiscal health and long-term fiscal wellness
    - Matching recurring revenues with recurring expenditures
    - Use of one-term revenue sources and funding of one-time expenditures
  - Evaluate sufficiency and adequacy of current charges and fees
    - Expectation to recover cost
  - Incorporation of capital program in the operating budget
    - Non-routine versus routine projects and their impact on the budget
- Recommended Next Steps
  - Implementation of new policy in FY16 budget
    - Pending presentation by Center for Priority Based Budgeting for FY17 budget development

# Fund Balance

- Policy Highlights
  - Adheres to:
    - GASB Statement No. 54
      - Categories of:
        - » Nonspendable
        - » Restricted
        - » Unrestricted
          - Committed
          - Assigned
          - Unassigned
    - GFOA's *Best Practices and Advisories*
      - Unrestricted General Fund balance of 16.67% (two months) of annual expenditures
  - Specific operational guidelines of note:
    - Prioritization of Fund Balance Use
    - Minimum Fund Balances
    - Replenishing Deficiencies
- Recommended Next Steps
  - Trend analysis of actual and forecast Fund Balance as part of budget development for FY17

# Debt Management

- Policy Highlights
  - Informed by GFOA's *Best Practices and Advisories* in addition to guidance offered by MSRB
  - Prior to seeking authorization for General Obligation indebtedness, the City shall conduct a debt affordability study
  - Refundings must achieve:
    - present value savings of at least 3% of the refunded obligations, and
    - a minimum net present value savings of \$100,000
  - Additional considerations for evaluating a refunding opportunity
  - Contemplates fixed rate obligations and does not include utilization of derivatives
  - Average life of debt incurred shall be no greater than the projected average life of the financed asset
    - GO debt presumed to have a maximum 20 year maturity

# Investment

- Policy Highlights
  - Assessed current policy to be adequate

# Audit Procurement

- Policy Highlights
  - Council shall appoint an independent certified public accountant licensed to practice in Colorado
  - City will solicit proposals for auditing services at least every six years
    - Only in unique circumstances is an incumbent auditor considered for appointment for an additional single year beyond the six-year period
  - Prior auditor barred from responding to solicitation unless firm can indicate rotation of principals
- Recommended Next Steps
  - City solicit proposals for auditor in summer of 2016 for fiscal year ending December 31, 2016

## Structurally Balanced Budget

### I. POLICY STATEMENT

The City of Englewood is a political subdivision of the State, organized for the purpose of providing municipal services to residents of the City as defined in the Charter. The City is governed by a seven-member City Council. The Council's primary functions are to provide for the general operation and personnel of the City, to oversee the property, facilities and financial affairs of the City, and to establish policies for the City. It is the intention of the Council that this policy always be in compliance with the requirements of the Governmental Accounting Standards Board (GASB) and be informed by the applicable *Best Practices and Advisories* developed by the Government Finance Officers Association ("GFOA"); however the Policy must also reflect the objectives and tolerances of the City. This Policy has been drafted with reference to the guidance of the GFOA as of the date of adoption. It is understood that the GFOA amends and modifies its guidance over time.

The Council assigns to the City Manager or the Manager's designee overall responsibility for budget preparation, budget presentation and budget administration. For the purposes of this Policy, the City Manager's designee is presumed to be the Director of Finance and Administrative Services (the "Director") who functions as the fiduciary entrusted to protect and enhance the City's financial condition. The Director is to periodically review the GFOA's *Best Practices and Advisories* and recommend conforming modifications to this Policy as warranted.

### II. POLICY PURPOSE AND SCOPE

This Policy will set guidelines for budget planning and procedures. The GFOA recommends that all state and local governments adopt rigorous policies, for all operating funds, aimed at achieving and maintaining a structurally balanced budget. A budget policy should include parameters for achieving and maintaining structural balance where recurring revenues are equal to recurring expenditures in the adopted budget.

The annual budget is the financial plan for the operation of the City. It provides the framework for both expenditures and revenues for the year and translates into financial terms the programs and priorities of the City. The guidelines contained in this Policy adhere to the Colorado Constitution and State Statutes and reflect the recommended practices of the Government Finance Officers Association.

### III. LEGAL REQUIREMENTS

The City is required to balance its budget each year as outlined in the City's Charter (X-1-81 through 96) and the Colorado Revised Statutes (29-1-103). As established in the Charter, the budget shall contain a balance between the total estimated expenditures and total anticipated revenue from all sources, taking into account the estimated general fund cash surplus or deficit at the end of the current fiscal year. The proposed budget shall be submitted to Council prior to September 15 of each year.

### IV. PRESENTATION

Each year the Director shall cause to be prepared a budget preparation calendar which shall insure that all deadlines established by law for budget presentation, hearings and adoption and for certification of amounts to be raised by tax levies are met by the City. The budget calendar shall take into consideration the possible need to submit a request to raise additional local revenue to a vote by the City's electorate.

The budget shall be presented in a summary format which is understandable by any lay person reviewing the City's budget. The budget format shall itemize expenditures of the City by fund. It shall describe the expenditure, show amount budgeted and amount estimated to be expended for the current fiscal year and the amount budgeted for the ensuing fiscal year.

The budget shall include a uniform summary sheet for each fund administered by the City that details the beginning fund balance and anticipated ending fund balance for the budget year; the anticipated fund revenues for the budget year; the anticipated transfers and allocations that will occur to and from the fund during the budget year; the anticipated expenditures that will be made from the fund during the budget year; and the amount of reserves in the fund.

The budget shall also disclose planned compliance with spending limitations outlined in Article X, Section 20, of the Colorado Constitution.

### V. DEFINITIONS OF KEY TERMS

The GFOA recommends identification of key terms related to structural balance. These include: recurring and non-recurring revenues, recurring and non-recurring expenditures, and reserves.

- A. *Recurring Revenues* are the portion of the City's revenues that can reasonably be expected to continue year to year, with some degree of predictability.
- B. *Non-Recurring Revenues* are unreliable sources of funds that are typically short in duration and cannot be relied upon in future years.
- C. *Recurring Expenditures* appear in the budget each year. These expenditures should be those that the City expects to fund every year in order to maintain current or status quo service levels.

- D. *Non-Recurring Expenditures* are obligations that are not expected to occur in future years. In general, the City has a greater degree of flexibility to defer these expenditures.
- E. *Reserves* are the portion of fund balance that is set aside as a hedge against risk as contemplated in the Fund Balance Policy.

The City shall define all revenues and expenditures by these terms.

## **VI. STRUCTURAL BALANCE**

The City shall adopt a structurally balanced budget, where recurring revenues equal or exceed recurring expenditures. The budget shall identify how recurring revenues are aligned with or not aligned with recurring expenditures. For a variety of reasons, true structural balance may not be possible for the City at a given time. In such case, using reserves to balance the budget may be considered but only as contemplated in the Fund Balance Policy. Enterprise Funds are presumed to be operated in the manner as contemplated by TABOR and to that point would be expected to operate on a stand-alone basis. Accordingly, any exchange of funds from the General Fund and any other Fund is presumed for purposes of this Policy to reflect payment of internal service charges or to formally create a due to or due from, and should be considered in the same manner as the Fund Balance Policy's use of fund balance.

This analysis and matching of revenues and expenditures helps inform the decision-making of the City. It provides an explanation for any variances in the budget and maintains a "spend within our means" approach to budgeting. Maintaining a structurally balanced budget is the basis for the current fiscal health and long-term fiscal wellness of the City. In the short term, achieving fiscal health means understanding the cost of all operations and the City's ability to pay. This includes the establishment and maintenance of reserves as recognized in the Fund Balance Policy. The continuous evaluation of City revenues and expenditures along with long-term planning and program management allows the City to achieve overall fiscal wellness.

## **VII. CHARGES AND FEES**

The Director shall, on a periodic basis, evaluate the sufficiency and adequacy of current charges and fees. This includes identifying the factors affecting the pricing of goods and services and the expectation of recovering costs. For further guidance during the evaluation, staff should utilize the GFOA's Best Practice "Establishing Government Charges and Fees." Particular areas for identification and discussion include, but are not limited to, the following:

- A. Anticipated operation and maintenance expenditures;
- B. Replacement and future costs of capital; and
- C. Fund balance.

## **VIII. CAPITAL PROJECTS**

Upon adoption of a capital budget or multi-year capital plan the City should present major capital program highlights in the operating budget document. The City shall also discuss and quantify the operating impact of capital projects in the budget document. The impacts should be identified on an individual project basis, but may be summarized. A greater level of detail and information should be provided for non-routine capital projects than for routine projects, as non-routine projects may have a greater impact on the operating budget.

## Fund Balance Policy

### I. POLICY STATEMENT

The City of Englewood is a political subdivision of the State, organized for the purpose of providing municipal services to residents of the City as defined in the charter. The City is governed by a seven-member City Council. The Council's primary functions are to provide for the general operation and personnel of the City, to oversee the property, facilities and financial affairs of the City, and to establish policies for the City. It is the intention of the Council that this policy always be in compliance with the requirements of the Governmental Accounting Standards (GASB) and be informed by the applicable *Best Practices and Advisories* developed by the Government Finance Officers Association ("GFOA"). However the objectives and tolerances of the City must dictate the final form of the policy and adherence thereto. The City Council directs the City Manager or the Manager's designee to implement this policy. For the purpose of this Policy, the City Manager's designee is presumed to be the Director of Finance and Administrative Services (the "Director") who functions as the fiduciary entrusted to protect and enhance the City's financial condition.

### II. PURPOSE AND SCOPE

This policy enables the City to prudently and responsibly address the implications of GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Definitions*.

The GFOA recommends that all state and local governments adopt comprehensive written financial management policies, including a formal policy on the level of fund balance maintained in the general fund. As of the date of its adoption, this policy was crafted drawing upon GFOA's Best Practice "Appropriate Level of Unrestricted Fund Balance in the General Fund" (approved September 2015). It is understood that GASB and GFOA periodically adopt, amend and modify their respective *Statements* and *Best Practices and Advisories*. The City Manager is to periodically review the promulgations of GASB and GFOA among other relevant sources and, as warranted, recommend conforming modifications to this policy.

This policy sets guidelines addressing the appropriate level of fund balance so as to mitigate current and future risks. The policy is intended to enhance the quality of decisions about budgeting and net asset management. Through this policy, the Council will oversee the process by which the City will manage for revenue volatility, maintain adequate liquidity, manage and mitigate financial market risk, ensure stable tax rates, and anticipate City commitments and assignments. This policy should be read in its entirety and read in conjunction with other financial policies adopted by the City.

In accordance with General Accepted Accounting Principles, the term fund balance refers to the difference between assets and liabilities under the modified accrual basis of accounting for governmental funds. Unrestricted fund balance refers to the categories of fund balance that include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself. Unrestricted fund balance is a measure of economic stability, and adequate levels of unrestricted fund balance will assure liquidity and will mitigate the risks associated with revenue fluctuations and unanticipated expenditures. The adequacy of the general fund balance is a key credit consideration for the rating agencies.

### III. FUND BALANCE CONSIDERATIONS UNDER GASB NO. 54

GASB Statement No. 54 enhances the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. Statement No. 54 establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to honor constraints imposed upon the use of the resources reported in governmental funds. Statement No. 54 guidelines classify governmental funds' fund balances in the following categories, based on the relative severity of the spending constraints. The final three categories are considered unrestricted categories, and such unrestricted fund amounts are subject to the prerogative of the governmental entity.

#### A. NONSPENDABLE FUND BALANCES

This classification represents amounts that are inherently nonspendable. The amounts may be in a nonspendable form (such as inventory, pre-paid rent, long term portion of notes receivable) or the amounts may be required by legal or contractual provisions to be maintained intact (such as the corpus of an endowment fund).

#### B. RESTRICTED FUND BALANCES

This classification includes amounts that are constrained to specific purposes. The constraints may be externally imposed (for example by creditors, grantors, bondholders) or imposed by law. Examples of restricted fund balance for the City include grants, bond funds restricted for capital improvement projects, and funds restricted for debt service.

#### C. UNRESTRICTED FUND BALANCE

(i) COMMITTED fund balance classification is comprised of amounts that are constrained by formal action of the Council for a specific purpose(s). This classification may also include certain contractual obligations to the extent that existing resources in the fund have been specifically committed for use in satisfying such contractual requirements. Those funds committed by formal action of Council cannot be released from committed status or used for another purpose without a subsequent action of the Council. An example of committed fund balance for the City is the capital reserve fund balance.

(ii) ASSIGNED fund balance classification is comprised of amounts that are intended for a specific purpose as evidenced by the City's current adopted budget. The City Manager or the City Manager's designee would have the authority to modify assigned fund balance.

(iii) UNASSIGNED fund balance classification is comprised of residual net resources, in excess of the amounts in the foregoing categories. These amounts are available for any purpose, and are reported only in the general fund. Unassigned fund balance is not appropriated and the expenditure of any unassigned funds requires an action of the Council.

GASB Statement No. 54 further classifies rainy day funds or contingency funds as "stabilization arrangements" and places specific restrictions on what qualifies for such designation. The formal action of a governing body that imposes the parameters for these arrangements must identify and describe the specific circumstances under which a need for funding would arise. Those circumstances should be such that they would not be expected to occur routinely. The intended purpose must be sufficiently detailed and reported as either RESTRICTED or COMMITTED depending on the source of the constraint. The City establishes such contingency funds through the criteria and authorization required for establishing such fund balances as described in the preceding paragraphs. In addition to RESTRICTED and COMMITTED fund balances, the

city may also set-aside UNASSIGNED fund balance as stabilization arrangements.

#### IV. CITY FUND SUMMARY

The following describes the City's major governmental funds:

**General Fund.** The general fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in other funds. By definition, unassigned fund balance is reported in the General Fund. In other governmental funds, the unassigned classification should be used only to report a deficit balance from overspending for specific purposes for which amounts have been either restricted, committed, or assigned.

**Special Revenue Fund.** The special revenue fund is used to account for the proceeds of specific revenue sources that are restricted or committed to expenditure for specific purposes other than debt service or capital projects.

**Bond Redemption Fund.** The bond redemption fund (debt service fund) accounts for and reports financial resources that are restricted for the payment of principal and interest on long-term general obligation debt as a result of the issuance of general obligation bonds.

**Capital Projects Building Fund.** The capital projects building fund is used to account for and report financial resources that are restricted, committed or assigned to expenditure of capital outlays, including the acquisition or construction of capital facilities and other capital assets.

**Capital Reserve Fund.** The capital reserve fund is used to accumulate resources, primarily general fund support, committed for the acquisition, renovation, and maintenance of capital assets.

#### V. POLICY DIRECTIVES & OPERATIONAL GUIDELINES

The GFOA recommends, at a minimum, that general purpose governments maintain aggregate unrestricted fund balances in their general fund of no less than two months (16.67%) of regular general fund operating revenues or expenditures, whichever is most predictable. The GFOA notes, however, that larger government entities may appropriately maintain a lesser level due to more predictable contingencies, higher revenue diversification and thus less revenue volatility. All measures should be applied within the context of long-term forecasting so as to avoid the risk of placing too much emphasis on the level of unrestricted fund balance in the general fund at any one time. GFOA recognizes that entities with a range of designated reserves may have sufficient liquidity to meet this defined standard through inclusion of funds formally designated for other purposes, yet available for re-designation should circumstances warrant. The following guidelines address the classification and the use of fund balance in governmental funds:

1. The City will make an annual determination as to its targeted unrestricted fund balance level. In determining this level of fund balance, the City will give consideration to revenue volatility and predictability, perceived exposure to significant one-time outlays, liquidity pressures, and ongoing commitments and assignments. It is understood that there will be discrepancies between GAAP fund balance and budgetary fund balance, and this parameter shall refer to the GAAP determined fund balance. Notwithstanding other requirements and fund balance designations as described herein, it shall be the policy of the City to seek to maintain an unrestricted General Fund balance equal to 16.67% of annual expenditures,
2. In accordance Article X, section 20(5) of the Colorado Constitution, the City shall maintain an emergency reserve of 3% of fiscal year spending and shall evidence its compliance by restricting the appropriate dollar amount within the appropriate Fund(s).
3. The City will establish reserve funds as required by the documents executed in conjunction with the City's outstanding debt and other long term obligations, if any, taking into account market exigencies and exercising prudence in funding contingencies for specific risks. These reserve funds may be restricted, assigned or committed, depending on the documents executed and underlying purpose(s).
4. **Classifying fund balance amounts:**  
Fund balance classifications depict the nature of the net resources that are reported in a governmental fund. An individual governmental fund may include nonspendable resources and amounts that are restricted, committed, or assigned, or any combination of those classifications. The general fund may also include an unassigned amount.
5. **Encumbrance reporting**  
Encumbering amounts for specific purposes for which resources have already been restricted, committed or assigned should not result in separate display of encumbered amounts. Encumbered amounts for specific purposes will be classified as committed or assigned, as appropriate, based on the definitions and criteria set forth in GASB Statement No. 54.
6. **Prioritization of Fund Balance Use**  
When expenditure is incurred for purposes for which both restricted and unrestricted (committed, assigned, or unassigned) amounts are available, it shall be the policy of the City to consider restricted amounts to be reduced first. When an expenditure is incurred for purposes for which amounts in any of the unrestricted fund balance classifications could be used, it shall be the policy of the City that committed amounts would be reduced first, followed by assigned amounts and then unassigned amounts.
7. **Minimum fund balances**  
To ensure that the minimum and maximum fund balances and unfunded liabilities are reviewed in light of current fiscal realities, the Director will oversee a review of audited fund balances, unfunded liabilities and current and forecast economic conditions. This review should occur annually after the Independent audit is completed and prior to budgeting for the ensuing fiscal year.
8. **Replenishing deficiencies**  
When the general fund balance falls below the minimum, the City will fulfill the required year-end fund balance before any other budget allocations in the subsequent fiscal year, unless the Council approves otherwise.
9. **Non-Appropriated Operating Reserves**  
Should unassigned fund balance of the General Fund exceed amounts deemed prudent and reasonable by the Council, the City shall consider such fund balance surpluses (refer to C.R.S. 22-44-105(1.5) et seq.) for one-time expenditure(s) that are nonrecurring in nature.

## Debt Policy

### I. POLICY STATEMENT

The City of Englewood is a political subdivision of the State, organized for the purpose of providing municipal services to residents of the City as defined in the Charter. The City is governed by a seven-member City Council. The Council's primary functions are to provide for the general operation and personnel of the City, to oversee the property, facilities and financial affairs of the City, and to establish policies for the City.

In general, debt policies should promote the illumination and evaluation of alignment – and potentially the trade-offs – between adopted policy statements and fiscal imperatives of the enacting entity. It is the intent that this Policy be informed by “best practices and advisories” developed by organizations such as the Government Finance Officers Association (“GFOA”); however the Policy must also reflect the objectives and tolerances of the City. The GFOA recommends that all state and local governments adopt comprehensive written debt management policies. This Policy has been drafted with reference to the guidance of the GFOA as of the date of adoption. It is understood that the GFOA amends and modifies its guidance over time.

The Council directs the City Manager or the Manager's designee to implement all policy. For the purposes of this Policy, the City Manager's designee is presumed to be the Director of Finance and Administrative Services (the “Director”) who functions as the fiduciary entrusted to protect and enhance the City's financial condition. The Director is to periodically review the GFOA's *Best Practices and Advisories* and recommend conforming modifications to this Policy as warranted.

This Policy will set guidelines for the amount and type of debt to be issued by the City, the issuance process, and the management of outstanding indebtedness. The Policy is intended to enhance the quality of decisions about debt affordability, structure and management. Through this Policy, the Council will oversee the process by which the City will manage its debt, certificates of participation, lease purchase and other long-term obligations within available City resources. This Debt Policy should be read in its entirety, and read in conjunction with other Policies adopted by the City.

Terms used within this Policy have the meanings assigned to them in the *Glossary of Municipal Securities Terms*, published by the Municipal Securities Rulemaking Board.

### II. POLICY PURPOSE AND SCOPE

This Policy addresses the methods, procedures, and practices that will ensure prudent management of the City's debt. The guidelines contained in this Policy adhere to the Colorado Constitution and State Statutes and reflect the recommended practices of the Government Finance Officers Association.

Long-term obligations may take the form of general obligation bonds or lease agreements. Certificates of participation (COPs) may be created evidencing undivided interests in the right to payments under lease purchase agreements. Short-term obligations, payable during the same fiscal year in which they are issued (or immediately thereafter so long as payments are made from moneys in the budget for that fiscal year), may take the form of tax anticipation notes or loan agreements, including loan agreements between the City and the State Treasurer. General obligation bonds are debt under Colorado law and are multiple-fiscal year financial obligations under the section of the Colorado Constitution known as the Taxpayer's Bill of Rights (TABOR). Lease purchase agreements and COPs that are subject to annual appropriation, and short-term obligations, are not debt or multiple fiscal-year financial obligations and payments on them are not debt service under Colorado law but are often referred to as “debt” and “debt service” for purposes of this Policy. Those references are not intended to change the treatment of such obligations or payments under Colorado law.

The issuance of debt has significant long-term implications for the City. Accordingly, consideration will be given to the principles of equity (such that those who pay for the debt are those who benefit from the facilities funded by the issuance of such obligations), essentiality (if the debt finances an asset, the financed asset is essential to the City's core operation) and efficiency (the identified revenue source is sufficient to meet the debt service, and the cost of obtaining funds is less than competing alternatives).

This Debt Policy is not a comprehensive policy on the management of other City liabilities. This Debt Policy does not address City pension obligations.

### III. GENERAL OBLIGATION DEBT LIMITS UNDER COLORADO LAW

Section 104 of the Home Rule Charter of the City establishes a debt threshold of 3% of actual valuation for all outstanding general obligation indebtedness of the City, other than for water bonds. General obligation debt that has been refunded or defeased, either by immediate payment or redemption and retirement or fully secured by legal defeasance obligations in an escrow account, is not to be deemed outstanding for the purposes of determining compliance with debt limitations.

### IV. LEASE FINANCING UNDER COLORADO LAW

Municipalities are authorized under Colorado law to enter into lease financings and to convey municipal property to a lessor for the purpose of leasing it back. If the annual rent payable by the municipality is subject to annual appropriation and does not exceed the fair rental value of the leased property and the financing otherwise qualifies under applicable Colorado case law, the lease is not debt or a multiple-fiscal year financial obligation under the Colorado Constitution and may be entered into without voter authorization. The proceeds of lease financings generally must be used for capital projects. The Constitutional and statutory rules

applicable to lease financing are complicated. The City should always consult with Colorado bond counsel before entering into a lease financing.

#### **V. SHORT-TERM FINANCING**

The City is authorized under by Colorado law to enter into short-term loans and to issue tax anticipation notes for working capital purposes, provided that such loans are payable in the same fiscal year in which they are issued (or immediately thereafter so long as payments are made from moneys in the budget for that fiscal year).

#### **VI. DEBT ISSUANCE FACTORS**

The issuance of debt is subject to a set of terms that ensure oversight and fiscal prudence. This policy is consistent with the guidance provided by the GFOA as it relates to new and refunding issues, which further encourages that legal advice be sought early in this process to raise key legal, tax, and financial issues.

A. Debt shall comply with all applicable laws, regulations, and covenants and shall not be issued so as to jeopardize the status of outstanding debt.

B. Long-term debt shall not be incurred to fund operations.

C. Capital improvements may be financed utilizing the issuance of general obligation bonds, subject to voter approval, or from time to time through lease purchase obligations.

D. Principal and interest payment schedules will be structured to result in level debt service payments, except for the refinancing of liabilities, in which case debt service may reasonably reflect the structure of the liability being refinanced. In each case repayment structures may vary when circumstances warrant.

E. Debt incurred will generally be limited to current interest serial or term maturities, but may be sold in the form of capital appreciation bonds or other structures, including short-term securities if circumstances warrant.

F. The average life of debt issued to finance assets shall be no greater than the projected average life of the assets being financed.

G. The City may issue refunding bonds to reduce the interest cost on its outstanding debt or other obligations for other purposes allowable under State law. It shall be the policy of the Council to consider the advance refunding (refinancing) of any outstanding general obligation bonds when such refunding will achieve present value savings of at least 3% compared to the debt service on the obligations being refunded and a minimum net present value savings of \$100,000; and will not require extending the maturity of the bonds beyond that of the bonds being refunded. The City should consider all available options, including maintaining the status quo (preserving the opportunity to evaluate the refunding at a future point in time), when presented with a refunding opportunity.

H. Refunding savings on current (non-advance) refunding bonds may be lower than the 3% threshold, as consideration shall be given to such factors as the declining rate of savings anticipated to be available as bonds reach their maturity date.

I. In certain circumstances a refunding that produces savings below the aforementioned thresholds may be justified. One such circumstance is to refund an obligation to remove or alter the covenants required in the original issue. Prudence shall dictate the decision by the City to refund for non-economic reasons.

#### **VII. DEBT AFFORDABILITY**

The City shall conduct a Debt Affordability Study in advance of referendum presentation for the issuance of general obligation bonds to the Council. The Study will be undertaken by the Director, with advisory or consultancy support as required. Such planning analyses of debt affordability will serve to make rational the assessment of the ability of the City to carry additional debt service. A Debt Affordability Study signals to the public, to the rating agencies and to the investment community that the City is taking seriously its fiduciary role in the oversight and management of its debt.

The Director shall evaluate and consider the results of the Debt Affordability Study when making recommendations about the issuance of debt. The Study, along with the Director's review, may consider the following factors:

A. An analysis of the operating strength and aggregate debt burden of the City, relative to peer Cities, using metrics related to population, property values, wealth indicators and other such credit factors;

B. An assessment of implications of the proposed financing for the City's rating and credit;

C. An analysis of financing and funding alternatives and a summary of the true interest cost of the proposed financing; and

D. An overview of the plan in the context of other capital needs.

## VIII. FORM OF DEBT

Debt issued by the City, whether as general obligation bonds or lease agreements, may be issued as fixed rate obligations, with or without credit enhancements, and as short and long-term obligations. At the time of adoption it is not expected that the City will entertain any obligation with a derivative structure. However, prudence may dictate the consideration of derivatives in the future. Any consideration of a financing utilizing derivatives shall necessitate a comprehensive and robust discussion amongst the Council and Director prior to committing the City to any financing featuring derivatives.

The ultimate form of debt shall be recommended by the Director for consideration and approval by Council. Consideration shall be given to a number of factors as noted in prior sections of this Policy.

### A. General Obligation Bonds

General Obligation debt is subject to voter approval. The City Council has the power to issue general obligation bonds on behalf of the City for any public capital purpose or public project of an essential nature to the City. General obligation debt may be incurred only by resolution, which cannot be repealed until the debt has been fully paid. No general obligation debt can be created unless it has been approved by a majority of the registered electors of the City, in an election held for that purpose. General Obligation debt shall be structured on a level debt service basis with a maximum maturity of 20 years, but terms may vary as conditions warrant. Debt service on general obligation debt is payable from a separate mill levy that is deposited into the City's bond redemption fund.

### B. Revenue Bonds

As a general rule, revenue bonds will be used to finance assets that generate revenue which repay the obligation. Revenue bonds may be issued without approval of the registered electors of the City and are not payable from a dedicated mill levy. Revenue bonds shall not be included in the calculation of outstanding obligations counted towards the City's debt limit.

### C. Lease Financings

Lease financings may be used for vehicles, buildings, and capital equipment. Lease financings are generally used for long-lived assets that would not be affordable if funded on a lump sum or cash basis during a single fiscal year. Lease financings are subject to approval by the City Council, and are not subject to voter referendum if the annual rent payable by the City is subject to annual appropriation and does not exceed the fair rental value of the leased property, and the financing otherwise qualifies under applicable Colorado case law.

Criteria used to determine the use of lease financings include the essentiality of the assets to be funded, that annual appropriations will be available as necessary to fund annual costs and/or there is assurance that revenue enhancements or cost savings will be realized. In addition, other guidelines shall govern lease purchase financings.

- (i) Lease purchase financings will be secured by a lease payment related to the utilization by the City of the assets financed, or other available assets of the City, as well as legally available future revenues and appropriations.
- (ii) Annual lease appropriation payments as a percentage of the general fund shall be monitored over time to set standards and metrics for the City going forward. In this assessment, consideration must be given to the circumstance when a lease appropriation payment replaces operating costs that would otherwise be incurred.
- (iii) The term of any lease transaction shall not exceed the estimated useful life of the assets financed, and shall comply with additional restrictions governing average life and term as provided by Colorado law.
- (iv) Lease financings may be entered into directly with the owner of the leased property, a financial institution, a nonprofit corporation or for profit entity. The preferred lessor for new lease financings and refinancings of existing lease financings that involve the issuance of certificates of participation will be a commercial bank acting as trustee.

## IX. DEBT STRUCTURING PRACTICES

The following terms will govern the City in its debt structuring practices.

A. Interest shall not be capitalized for general obligation bonds. Interest may be capitalized for lease financings as warranted, as determined by the Director:

- (i) to fund interest during construction and prior to financed assets being placed in service; or
- (ii) to allow for the funding of interest costs during the budget year in which a transaction is completed, or when budgeted resources may not be available.

B. Debt issued by the City may contain optional redemption features. The Director will determine what is in the City's best interest in selecting appropriate dates and prices, taking into account such items as the cost of funds and future financial flexibility.

C. In the structure of a debt offering, original issue premiums and discounts will be used as deemed to be in the City's financial interest considering current investor demand, future cash flows and expected interest rate savings.

D. Capital appreciation bonds and zero coupon bonds shall only be used if deemed to be in the City's financial interest considering current investor demand, future cash flows and expected interest rate savings.

E. When judged advantageous to the City, agreements providing credit enhancements with municipal bond insurance companies, commercial banks or other financial entities for the purposes of acquiring letters of credit or bond insurance policies may be obtained.

- (i) The projected net present value of the estimated debt service savings from the use of credit enhancement must be greater than the fees and/or premium paid by the City to obtain such credit support.
- (ii) A competitive process shall be used to procure credit enhancement providers.

F. When economically beneficial, the City shall seek to avail itself of options other than cash funding a debt service reserve fund.

## X. METHODS OF SALE

It is the interest of the City to issue debt using the method of sale or placement of obligations that is expected to achieve the best sales results, at the least cost, taking into account both short-range and long-range implications.

A. Conditions which inform the decision about the use of a *competitive sale* process include:

- (i) the market is familiar and comfortable with the project being financed, the structure of the financing, and the revenues to be used to pay debt service;
- (ii) the issue is appropriately sized to attract investors without a concerted effort; and
- (iii) interest rates are stable and market demand is strong.

B. Conditions which inform the decision about the use of a *negotiated sale* process include:

- (i) the transaction is of significant size for the market;
- (ii) market timing will be a critical factor in garnering the lowest possible interest rate;
- (iii) the financing requires a complex or innovative structure;
- (iv) the market has concerns about the credit quality of the debt; and
- (v) the market is unfamiliar with the project, the structure of the financing, or the revenues to be used to pay debt service.

C. Conditions which inform the decision about the use of a *private placement* include:

- (i) small transaction size;
- (ii) time to market for transactions where time is of the essence; and
- (iii) transactions that have particular characteristics suited to one or a small number of interested buyers.

## XI. CREDIT RATINGS

The Moody's 2009 Public Finance Rating Methodology states that "formalized debt planning and debt policies provide bondholders with reassurances that debt burdens and operational debt costs will be kept at manageable levels while ongoing capital needs continue to be met. Debt policies typically specify both target debt burden levels and maximum allowable debt burden levels." (p.13) Standard and Poor's financial management assessment, conducted during the rating process, notes debt management policies among the areas most likely to affect credit quality (p. 65, Public Finance Criteria, 2007).

The City recognizes the importance of maintaining good relations with bond rating agencies in order to increase the financial market's understanding of the credit, which may affect the City's cost of borrowing. The City will seek a rating on all new issues. Exceptions to this requirement are permissible, such as when privately placing a transaction with an accredited investor or lending institution. As a matter of general policy:

A. The City shall seek to maintain or improve its credit ratings;

B. The City shall obtain an underlying rating on debt which is credit enhanced; and

C. The City shall comply with all legal obligations regarding regular and ongoing disclosure of financial and other information, and will proactively provide annual reports and other regularly available financial information to those agencies which rate City obligations.

## XII. DEBT MANAGEMENT

The Director shall be responsible for ongoing debt management of the City. As a matter of policy, the City shall undertake the following as part of its ongoing debt management program.

A. The Director shall undertake periodic debt management performance reviews, no less than annually, which will include regular review of the City's outstanding debt issues, and include an analysis of net interest cost. Council shall receive periodic reports summarizing the debt outstanding, amortization schedules, and key debt ratios. The reports will include a review of the City Investment Policy and its consistency with this Debt Policy.

B. To the extent that there are one or more resolutions of the City Council that would allow for staff to execute financing transactions within defined parameters, the Director shall inform Council when any such authorized transaction is commenced. In the event that any such authorized financing is not pursued when market conditions contemplated by such resolution are available, the Council shall be informed.

C. The City shall comply with the applicable arbitrage regulations mandated by the Federal Government.

D. The City recognizes the importance of ongoing, proactive and transparent dissemination of information to the investment community, as the investors in City obligations, potential future investors, commercial and investment banks, and other market participants constitute important stakeholders for the long-term success of the City. For the benefit of its investors, the City will post its most recent financial reports, official statements, policies and other fiscal information relating to debt portfolio to the City website. In addition, the City provides certain information relating to its outstanding bonds and notes to nationally recognized municipal securities information repositories each year.

E. The City shall invest bond proceeds according to the City's Investment Policy.

### **XIII. LEGAL REVIEW**

Prior to the issuance of any debt, the General Counsel of the City, in consultation with the Director, and with the advice of retained expert legal counsel, shall secure an opinion that the proposed debt is structured and issued in a manner which complies with all applicable laws and regulations of the state and federal governments. Bond Counsel will be retained, from a firm of national stature, to render opinions and prepare documents related to the issuance of debt. Such Bond Counsel shall have extensive experience in public finance, securities regulation and tax issues.

### **XIV. ADVISORS, CONSULTANTS AND FINANCIAL SERVICES**

The Director may retain finance or other consulting professionals when such expertise is required. Such professionals may include, but not be limited to municipal advisors, bond trustees, registrar and paying agents, escrow agents, underwriters, tender/remarketing agents, credit and liquidity facility providers, and other professional services associated with debt financings. The selection and retention of finance professionals shall conform to the City's policies/practices that govern the procurement of professional services contracts.

### **XV. POLICY REVIEW AND REVISION**

This Debt Policy shall be reviewed annually by the Director, and may be amended by the City Council as conditions warrant.

## Investment Policy

### I. POLICY STATEMENT

The Director of Finance and Administrative Services of the City of Englewood, Colorado is charged with the responsibility to prudently and properly manage any and all funds of the City. Because these funds may be called upon, it is essential that absolute maturity horizons are identifiable for the purpose of liquidity. Moreover, these funds must be fully collateralized and appropriately authorized. The following Investment Policy addresses the methods, procedures and practices which must be exercised to ensure effective and sound fiscal management.

### II. SCOPE

This Investment Policy shall apply to the investment of all financial assets and all funds of the City of Englewood (hereafter referred to as the "City") over which it exercises financial control, except the City of Englewood Firefighters Pension Fund, Volunteer Firefighters Pension Fund, Police Officers Pension Fund, the Non-Emergency Employees Retirement Plan Fund and other City employee retirement plans.

In order to effectively make use of the City's cash resources, all monies shall be pooled into one investment account and accounted for separately. The investment income derived from this account shall be distributed to the various City funds in accordance with Englewood Municipal Code, 4-1-2-A.

### III. OBJECTIVES

The City's funds shall be invested in accordance with all applicable City policies, Colorado statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

- A. Preservation of capital and the protection of investment principal.
- B. Maintenance of sufficient liquidity to meet anticipated disbursements and cash flows.
- C. Diversification to avoid incurring unreasonable risks regarding securities owned.
- D. Attainment of market rate of return equal to or higher than the performance measure established by the Director of Finance and Administrative Services.

### IV. DELEGATION OF AUTHORITY

The ultimate responsibility and authority for investment transactions involving the City resides with the Director of Finance and Administrative Services (hereinafter referred to as the "Director") who has been designated by the City Manager as the Investment Officer in accordance with Englewood Municipal Code. The Director may appoint other members of the City staff to assist him in the cash management and investment function. Persons who are authorized to transact business and wire funds on behalf of the City will be designated by the Director by the wire transfer agreement executed with the City's approved depository for bank services (see Appendix I).

The Director shall be responsible for all investment decisions and activities, and shall establish written administrative procedures for the operation of the City's investment program consistent with this Investment Policy. The Investment Officer acting within these procedures shall not be held personally liable for specific investment transactions.

The Director may in his discretion appoint one or more Investment Advisors, registered with the Securities and Exchange Commission under the Investment Advisers Act of 1940, to manage a portion of the City's assets. An appointed Investment Advisor may be granted limited investment discretion within the guidelines of this Investment Policy with regard to the City's assets placed under its management. An Investment Advisor can only be appointed after consultation with and approval by the City Manager.

### V. PRUDENCE

The standard of prudence to be used for managing the City's assets is the "prudent investor" rule, which states that a prudent investor "shall exercise the judgment and care, under the circumstances then prevailing, which men of prudence, discretion, and intelligence exercise in the management of the property of another, not in regard to speculation but in regard to the permanent disposition of funds, considering the probable income as well as the probable safety of capital." (CRS 15-1-304, Standard for Investments.)

The City's overall investment program shall be designed and managed with a degree of professionalism that is worth of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the portfolio's overall return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The Director and other authorized persons acting in accordance with established procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion to the City Council and appropriate action is taken to control adverse developments.

## VI. ETHICS AND CONFLICTS OF INTEREST

All City 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. Employees and investment officials shall disclose to the City Manager any material financial interest in financial institutions that conduct business with the city, and they shall further disclose any large personal financial/investment positions that could be related to the performance of the City's portfolio. Employees shall subordinate their personal investment transactions to those of the City particularly with regard to the timing of purchases and sales.

## VII. ELIGIBLE INVESTMENTS AND TRANSACTIONS

All investments will be made in accordance with the Colorado Revised Statutes (CRS) as follows: CRS 11-10.5-101, et seq. Public Deposit Protection Act; CRS 11-47-101, et seq. Savings and Loan Association Public Deposit Protection Act; CRS 24-75-601 et seq. Funds-Legal Investments; CRS 24-75-603, et seq. Depositories; and CRS 24-75-701, et seq. Local governments – authority to pool surplus funds. Any revisions or extensions of these sections of the CRS will be assumed to be part of this Investment Policy immediately upon being enacted.

As a home rule City, Englewood may adopt a list of acceptable investment instruments differing from those outlined in CRS 24-75-601, et seq. Funds-Legal Investments. Funds of the City of Englewood covered by this Investment Policy may be invested in the following types of securities and transactions:

1. U.S. Treasury Obligations: Treasury Bills, Treasury Notes and Treasury Bonds with maturities not exceeding five years from the date of trade settlement.
2. Treasury Strips (book-entry U.S. Treasury securities whose coupons have been removed) with maturities not exceeding five years from the date of trade settlement.
3. Federal Instrumentalities – Debentures, Discount notes, Medium-Term Notes, Callable Securities and Step-up Securities issued by the following only: Federal National Mortgage Association (FNMA), Federal Home Loan Bank (FHLB), Federal Home Loan Mortgage Corporation (FHLMC) and Federal Farm Credit Banks (FFCB), with maturities not exceeding five years from the date of trade settlement. Subordinated debt may not be purchased.
4. Repurchase Agreements with a termination date of 90 days or less utilizing U.S. Treasury and Federal Instrumentality securities listed above, collateralized at a minimum market value of 102 percent of the dollar value of the transaction with the accrued interest accumulated on the collateral included in the calculation.

Repurchase agreements shall be entered into only with dealers who:

- a) Are recognized as Primary Dealers by the Federal Reserve Bank of New York, or with firms that have a primary dealer within their holding company structure; and
- b) Have executed a City approved Master Repurchase Agreement (see Appendix II). The Director shall maintain a file of all executed Master Repurchase Agreements.

Collateral (purchased securities) shall be held by the City's custodian bank as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

For the purpose of this section, the term "collateral" shall mean "purchased securities" under the terms of the City approved Master Repurchase Agreement. In no case will the maturity of the collateral exceed 10 years.

5. Reverse Repurchase Agreements with a maturity of 90 days or less executed only against securities owned by the City and collateralized by the same type of security reversed.
6. Flexible Repurchase Agreements with a final maturity of 10 years or less entered into by the City with approved counterparties. These flexible repurchase agreements may be closed out in varying amounts and at varying times at the option of the City. These agreements are deemed by both parties to be purchases and sales of securities and are not loans.

All such flexible repurchase agreements shall meet the following criteria:

- Be determined as legal and valid for both parties;
- Collateral shall be limited to:
  - a) Securities issued by, guaranteed by, or for which the credit of any of the following is pledged for payment: the United States, Federal Farm Credit Bank, Federal Land Bank, Federal Home Loan Bank, Federal Home Loan Mortgage Corporation, Federal National Mortgage Association, Export Import Bank or the Government National Mortgage Association; or
  - b) Securities issued by, guaranteed by, or for which the credit of the following is pledged for payment: An entity or organization which is not listed in paragraph a) above, but which is 91) created by, or the creation of which is authorized by, legislation enacted by the United States Congress and which is subject to control by the federal government which is at least as extensive as that which governs an entity or organization listed in paragraph a)

above, and (2) rated in its highest rating category by one or more nationally recognized organizations which regularly rate such obligations.

- Have a fixed rate during the entire life of the agreement;
- The dollar amounts and periods of time when the City may draw funds out of the repurchase agreement shall be agreed upon in writing by both parties and shall be part of the written repurchase agreement exercised by the City and the approved counterparty;
- The City has the option of varying the dollar amount and the timing of the draw down by an agreed upon percentage of the anticipated draw down and a specified number of days. The City and the counterparty to the agreement will specify the details of the allowable variance when the agreement is structured. In addition, the City may draw down in excess of the variance up to the remaining balance in the agreement for a bona fide, unanticipated cash need;
- Collateral shall have a minimum market value (including accrued interest accumulated) of at least 102 percent of the dollar value of the transaction;
- Repurchase agreements shall be entered into only with dealers who are authorized by the Director and have executed a City approved Master Repurchase Agreement;
- The Director shall maintain a file of all executed Master Repurchase Agreements;
- The title to or a perfected security interest in securities, along with any necessary transfer documents, must be transferred and actually delivered to, and shall be held by, the City's third-party custodian bank acting as safekeeping agent. The market value of the collateral securities shall be marked-to-the-market at least weekly based on the closing bid price at the time the custodian for the collateral issues its monthly statement to the City.

For the purpose of the section, the term "collateral" shall mean "purchased securities" under the terms of the City approved Master Repurchase Agreement. In no case will the maturity of the collateral exceed 10 years.

7. Time Certificates of Deposit with a maximum maturity of five years or savings accounts in state or national banks or state or federally chartered savings banks operating in Colorado that are state approved depositories (as evidenced by a certificate issued by the State Banking Board) and are insured by the FDIC. Certificates of deposit that exceed the FDIC insured amount shall be collateralized in accordance with the Colorado Public Deposit Protection Act. The collateral shall have a market value equal to or exceeding 102 percent of the difference between the insured amount and the City's total deposits for all funds within the institution.
8. Money Market Mutual Funds registered under the Investment Company Act of 1940 that 1) are "no-load" (i.e.: no commission or fee shall be charged on purchases or sales of shares); 2) have a constant net asset value per share of \$1.00; 3) limit assets of the fund to securities authorized by state statute; 4) have a maximum stated maturity and weighted average maturity in accordance with Rule 2a-7 of the Investment Company Act of 1940; and 5) have rating of AAAM by Standard & Poor's, Aaa by Moody's or AAA/V1+ by Fitch.
9. Local Government Investment Pools as authorized under CRS 24-75-702.
10. Prime Bankers Acceptances, rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F1 by Fitch at the time of purchase by at least two services that rate them, with a maturity of six months or less issued on domestic banks or branches of foreign banks domiciled in the U.S. and operating under U.S. banking laws. Accepting banks must have a senior debt rating of A2 by Moody's and A by Standard & Poor's.
11. Prime Commercial Paper with a maturity of 270 days or less which, at the time of purchase, is rated at least A-1 by Standard & Poor's, P-1 by Moody's, or F-1 by Fitch.
  - a. At the time of purchase, the commercial paper must be rated by at least two of the above stated rating agencies at the stated minimum rating.
  - b. If the commercial paper issuer has senior debt outstanding, the senior debt must be rated at least A2 by Moody's, A by Standard & Poor's, or A by Fitch.
12. Corporate Bonds issued by a corporation or bank with a final maturity not exceeding three years from the date of trade settlement, rated at least AA- by Standard & Poor's, Aa3 by Moody's, or AA- by Fitch at the time of purchase by at least two services. Authorized corporate bonds shall be U.S. dollar denominated and issued by corporations organized and operating within the United States. The City hereby further authorizes investments in dollar denominated securities issued by a corporation or bank that is organized and operating within Canada or Australia, not to exceed 10% per country at the time of purchase.
13. General or Revenue obligations of any state in the United States or any political subdivision, institution, or authority of such a government entity. Municipal bonds must be rated A- by Standard & Poor's, A3 by Moody's, or A- by Fitch at the time of purchase by at least two services if the issuer is located in Colorado. Municipal bonds must be rated AA- by Standard & Poor's, Aa3 by Moody's or AA- by Fitch at the time of purchase by at least two services if the issuer is located outside the state of Colorado. The maximum maturity for municipal bonds is five years.

Securities that have been downgraded below minimum ratings described herein may be sold or held at the City's discretion. The portfolio will be brought back into compliance with Investment Policy guidelines as soon as is practical.

### **VIII. OTHER INVESTMENTS**

It is the intent of the City that the foregoing list of authorized securities be strictly interpreted. Any deviation from this list must be pre-approved by the Director in writing after approval by the City Manager.

### **IX. INVESTMENT DIVERSIFICATION**

It is the intent of the City to diversify the investment instruments within the portfolio to avoid incurring unreasonable risks inherent in over investing in specific instruments, individual financial institutions or maturities. The asset allocation in the portfolio should, however, be flexible depending upon the outlook for the economy, the securities market, and the City's cash flow needs.

The City may invest to the following maximum limits within each category:

- 50% in Certificates of Deposit
- 40% in Commercial Paper, 5% in any one issuer or its affiliates or subsidiaries
- 20% in Bankers Acceptances, 5% in any one issuer or its affiliates or subsidiaries
- 30% in Corporate Bonds, 5% in any one issuer or its affiliates or subsidiaries
- 30% in Municipal Bonds, 5% in any one issuer

The aggregate investment in Corporate Bonds, Commercial paper, and Bankers Acceptances shall not exceed 50% of the portfolio.

Tests for limitations on percentages of holdings apply to the composite of the entire portfolio of the City, not to individual portfolios maintained by the City. Percentage limitations used for measurements are based on the percentage of cost value of the portfolio at the time of purchase.

### **X. INVESTMENT MATURITY AND LIQUIDITY**

Investments shall be limited to maturities not exceeding five years from the date of trade settlement. In addition, the weighted average final maturity of the total portfolio shall at no time exceed three years.

### **XI. SELECTION OF BROKER/DEALERS**

The Director shall maintain a list of broker/dealers approved for investment purposes (see Appendix III), and it shall be the policy of the City to purchase securities only from those authorized firms.

To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as a Primary Dealer by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure,
2. Report voluntarily to the Federal Reserve Bank of New York,
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c-3 (Uniform Net Capital Rule).

Broker/dealers will be selected by the Director on the basis of their expertise in public cash management and their ability to provide service to the City's account. In the event that an external investment advisor is not used in the process of recommending a particular transaction in the City's portfolio, any authorized broker/dealer from whom a competitive bid is obtained for the transaction will attest in writing that he/she has received a copy of this policy and shall submit and annually update a City approved Broker/Dealer Information Request form which includes the firm's most recent financial statements.

The City may purchase Commercial Paper from direct issuers even though they are not on the approved list of broker/dealers as long as they meet the criteria outlined in Item 11 of the Eligible Investments and Transactions section of this Investment Policy.

### **XII. COMPETITIVE TRANSACTIONS**

Each investment transaction shall be competitively transacted with authorized broker/dealers. At least three broker/dealers shall be contacted for each transaction and their bid and offering prices shall be recorded.

If the City is offered a security for which there is no other readily available competitive offering, then the Director will document quotations for comparable or alternative securities.

### **XIII. SELECTION OF BANKS AS DEPOSITORIES AND PROVIDERS OF GENERAL BANKING SERVICES**

The City shall maintain a list of banks approved to provide banking services or from whom the City may purchase certificates of deposit. Banks in the judgment of the Director no longer offering adequate safety to the City will be removed from the list. To be eligible for authorization, a bank shall qualify as a depository of public funds in Colorado as defined in CRS 24-75-603.

### **XIV. SAFEKEEPING AND CUSTODY**

The safekeeping and custody of securities owned by the City shall be managed in accordance with applicable Federal and Colorado laws and regulations.

The Director shall approve one or more banks to provide safekeeping and custodial services for the City. A City approved Safekeeping Agreement shall be executed with each custodian bank prior to utilizing that bank's safekeeping services. To be eligible, a bank shall qualify as a depository of public funds in the State of Colorado as defined in CRS 24-75-603 and be a Federal Reserve member financial institution.

Custodian banks will be selected on the basis of their ability to provide service to the City's account and the competitive pricing of their safekeeping related services. The City's designated custodian bank is set forth in Appendix IV of this Investment Policy.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a deliver versus payment basis. Ownership of all securities shall be perfected in the name of the City, and sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investments purchased by the City shall be delivered by book entry and will be held in third-party safekeeping by the City's designated custodian bank or the Depository Trust Company (DTC).

All Fed wireable book entry securities owned by the City shall be evidenced by a safekeeping receipt or a customer confirmation issued to the City by the custodian bank stating that the securities are held in the Federal Reserve system in a Customer Account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's Depository Trust Company (DTC) participant account and the custodian bank shall issue a safekeeping receipt evidencing that the securities are held for the City as "customer."

The City's custodian will be required to furnish the City with a monthly report of securities held as well as an account of analysis report of monthly securities activity.

#### **XV. PROVISIONS FOR ARBITRAGE**

The City periodically issues debt obligations which are subject to the provisions of the Tax Reform Act of 1986 (section 148F), Arbitrage Rebate Regulations. Due to the legal complexities of arbitrage law and the necessary immunization of yield levels, the procedures undertaken in the reinvestment of all or a portion of the proceeds of such debt issuance may extend beyond those outlined in this Investment Policy. The Director, upon advice from Bond Counsel and financial advisors, may alter provisions of this Investment Policy for arbitrage related investments as may be necessary to conform with federal arbitrage regulations. In all cases, however, investments will be in compliance with Colorado Revised Statutes. This section is only applicable to City funds subject to arbitrage restrictions.

#### **XVI. REPORTING**

An investment report shall be prepared, at least on a monthly basis, listing the investments held by the City, the current market valuation of the investments and performance results. The monthly investment report shall be submitted in a timely manner to the City Manager and the City Council. A record shall be maintained by the Department of Finance and Administrative Services of all bids and offerings for securities transactions in order to ensure that the City receives competitive pricing.

The City has established reporting and accounting standards for callable U.S. Instrumentality securities. Callable securities may be retired at the issuer's option prior to the stated maximum maturity. All securities holding reports for the City shall disclose the stated maturity as well as the first call date of each callable security held. In the case of callable securities which are purchased priced to the first call date and, in the opinion of the Director, have an overwhelming probability of being called on the first call date, weighted average maturity, amortization as well as yield shall be calculated using the first call date. The Director may, however, choose to use a further call date maturity date for reporting purposes when conditions mandate.

#### **XVII. PERFORMANCE REVIEW**

The Director and the City Manager shall meet at least quarterly to review the portfolio's adherence to appropriate risk levels and to compare the portfolio's total return to the established investment objectives and goals.

The Director shall periodically establish a benchmark yield for the City's Investments which shall be equal to the average yield on the U.S. Treasury security which most closely corresponds to the portfolio's actual effective weighted average maturity. When comparing the performance of the City's portfolio, all fees and expenses involved with managing the portfolio should be included in the computation of the portfolio's rate of return.

### **Audit Procurement**

In accordance with state law, the Comprehensive Annual Financial Report (CAFR) of the City shall be audited annually, following the close of the fiscal year.

As contemplated in the City Charter, the Council shall appoint an independent certified public accountant licensed to practice in Colorado and knowledgeable in government accounting to conduct the audit and the audit shall contain the following:

1. Financial statements prepared in conformity with generally accepted governmental accounting principles.
2. All funds and activities of the City.
3. A budget to actual comparison for each fund and activity.
4. The auditor's opinion on the financial statements. If the opinion is anything other than unqualified, the reason must be explained.
5. Disclosure of all instances of noncompliance with federal or state law.
6. A supplemental listing of all investments held by the City at the date of the financial statement.
7. A calculation of the City's fiscal year spending in accordance with the state constitution.

The auditor also shall make recommendations to the Council concerning its financial records, procedures and related activities as may appear necessary or desirable and shall perform such other related services as may be requested by the City Council.

The City's CAFR shall be prepared and presented in a manner consistent with applicable federal and state laws, regulations, and rules in addition to the best practices of the Governmental Accounting Standards Board and the Governmental Finance Officers Association.

### **Appointment of Auditor**

To create a balance between independence, fresh perspectives, staff continuity, audit efficiency and competitive pricing the City will solicit proposals for auditing services at least every six years. The incumbent auditor is barred from responding to the solicitation unless the firm can indicate a rotation of principals.

The Council shall annually approve the appointment of an auditor to audit the City's financial statements.

Only in unique and extraordinary circumstances, when it is deemed to be in the City's best interest, is the Council to consider approving the appointment of the incumbent auditor for an additional single year beyond a six-year period. In no event is an auditor to be retained to audit the City's financial statements for more than seven consecutive years.

Nothing in this policy prohibits the Council from acting to limit the duration of the engagement in order to protect the City's interests should the Council determine an early termination is warranted for performance or pricing considerations or other criteria advantageous to protecting the City's reputation or financial condition.



## ***Englewood McLellan Reservoir Foundation***

**To:** Mayor Jefferson and City Council Members

**Through:** Eric Keck, City Manager

**From:** Michael Flaherty, Deputy City Manager, on behalf of the Englewood McLellan Reservoir Foundation (EMRF)

**Date:** February 18, 2016

**Subject:** EMRF Lease Agreement with MKS Residential, LLC

At the City Council Study Session on February 22, the Board of Directors of the Englewood McLellan Reservoir Foundation (EMRF) will discuss the terms of the lease agreement with MKS Residential, LLC (MKS.) EMRF seeks City Council support for the lease of 9.89 acres of EMRF property in Lot 2 of Highlands Ranch Planning Area 85 (PA 85.) The attached aerial map of EMRF properties shows the property to be lease to MKS in Lot 2, PA85.

### **Background**

In 1999, through Ordinance 41, City Council authorized the transfer of certain parcels of property in Douglas County near McLellan Reservoir to EMRF for the purpose of facilitating the development of those properties. Since that time, EMRF has managed and maintained the property, has made improvements, including over-lot grading and storm water management, and has platted most of the individual parcels.

On December 17, 2007, Council supported EMRF in the sale of 10.87 acres of PA85 to RTD. On December 1, 2008, City Council supported EMRF in leasing 12.79 acres in PA84 to TT Denver, d.b.a. Mike Ward Infiniti. On December 6, 2010, Council approved a resolution of support for a lease agreement for approximately 10.14 acres in PA 85 with Benjamin Franklin Charter School. On October 17, 2011 City Council adopted a resolution of support for a lease agreement for 7.3 acres in PA 84 with Miller Family Real Estate, LLC, d.b.a. Larry Miller Nissan.

### **Lease Agreement Summary**

The terms of the proposed lease agreement were discussed with City Council during an City Council Executive Session on January 7, 2013 and again during a Council Study Session on February 4, 2013. The final terms of the proposed lease agreement with MKS is as originally discussed with City Council in 2013, with one exception, that exception being that the lease does not contain an option for lease of the two remaining unleased parcels in PA 85, lots 4 and 5. It was determined by both parties that the option was not in either's best interest. The summary of the basic lease terms is as follows:

1. The term of the Lease is twenty (20) years with two (2) extension options of twenty (20) years each, and one final option of fifteen (15) years. (A maximum total lease term of 75 years.)
2. A Construction Rent Period beginning on the Commencement Date and shall be at ½ the Base Rent, or \$13,737/month. Construction Rent will terminate the earlier of 18 months or the issuance of Certificate of Occupancy. Construction Rent shall be drawn from a \$200,000 deposit that was required by the Letter of Intent.
3. Base Rent shall be \$329,702 annually, to commence on the issuance of a final Certificate of Occupancy or eighteen (18) months from the Commencement Date. Base Rent is based on a land value of \$9.00 per land square foot with an 8.5% annual yield to EMRF.
4. Base Rent shall be increased at year five (5) and every five (5) years thereafter during the Initial Term and during any Extension Term, the rent shall be increased by ten percent (10%).
5. In the event that the Tenant exercises an Extension Option, the Base Rent shall be adjusted, equal to any increase in the Consumer Price Index.

## **Conclusion**

The EMRF board of directors will bring the resolution of support ordinance for Council's consideration at the regular City Council meeting on March 14. Copies the lease agreement will completed and included with Council materials for that meeting.



**LOT AREAS (acres)**

PA 81		North	12.30
		South	24.60
PA 84	HR 153	Lot 1A	6.18
		Lot 1B	7.33
		Lot 2	12.79
		Lot 3	4.90
		Tract A	3.33
		Tract B	3.43
		Tract C	1.34
PA 84	HR 155	Lot 1	2.27
		Lot 2	1.84
		Tract A	2.27
		Tract B	7.06
		Tract C	1.94
		Tract D	0.46
		Tract E	0.01
PA 85	HR 154	Lot 1	10.14
		Lot 2	9.89
		Lot 3	10.87
		Lot 4	4.78
		Lot 5	10.25

**Lease Status**

- Leased
- Lease Pending
- Lease Available

ENGLEWOOD McLELLAN RESERVOIR FOUNDATION

**EMRF Properties**



SCALE: 1 inch = 700 feet  
 REV: September 16, 2015  
 PHOTO DATE: 2014



TO: Honorable Mayor and Members of the City Council

FROM: Eric A. Keck, City Manager

DATE: 16 February 2016

SUBJECT: Long Term Asset Reserve (LTAR) Fund Discussion

In preparation for the City Council's study of the Long Term Asset Reserve Fund, I wanted to provide some research and historical context for this discussion.

The LTAR fund was actually formed by resolution in 2007. The originally stated purpose of this fund was to set aside one time revenues from the sale, lease, or earnings from long time assets for one time projects determined worthy by the Council. The LTAR fund was set up as a restricted account and the funds could only be expended if they were appropriated in the annual budget or by a supplemental appropriation.

The resolution creating the Long Term Asset Reserve Fund also stipulated that the use of the LTAR fund should be done so in a "careful, judicious, and strategic manner". While this does not provide a great deal of insight, it is clear that the seated council at the time was very concerned that these one-time revenues be wisely used in the future for one time expenditures of great need. The most recent action of the City Council and the LTAR fund has been the appropriation of \$800,000 for the construction of Plaza Circle within the Englewood McLellan Reservoir Foundation property. This strategic road construction will help open up access to additional parcels that will promote and lead to additional land leases in Douglas County. The plan is to then repay the LTAR over the next two budget years.

The Council study of the LTAR fund is timely as the future sustainability of the community requires some analysis as well. Staff hopes that the Council will assemble a strategy for the use of the LTAR fund as well as some policy definition on how to best utilize this important proprietary reserve account. Options might include directing staff to apply EMRF revenues to LTAR; ensuring that Neighborhood Stabilization home sales go to LTAR; rental proceeds from civic center property and annex be applied to LTAR etc.

Should you have any questions, please do not hesitate to contact me.

(i) Director Gryglewicz presented a recommendation from the Department of Finance and Administrative Services to adopt a resolution creating a Long-Term Asset Reserve Fund. He said this resolution creates a Long-Term Asset Reserve in the General Fund. This item has been discussed at our budget retreat fairly extensively. The language was drafted and there was ongoing discussion and I believe that there may be also another change tonight.

Council Member Moore said I will move Agenda Item 11 (c) (i) with the following amendment. I submitted revised language that fits under the Section 1, part of the Resolution, in Study Session. The City Clerk has the language which just rewords essentially what is there. As you all know, I very much support the creation of this Reserve, if nothing else, for the sake of allowing us to make very conscious decisions about the use of our long-term asset, including the conscious decision we made by consensus this budget session to supply another 1.5 million dollars in Bridge Funds for the 2008 budget. The creation of this Reserve will provide very transparent tracking of when we do utilize those funds...both for this Council and hopefully for many future Councils.

Council Member Moore amended the resolution to read: "The City Council of the City of Englewood, Colorado has determined that funds from the sale, lease, or earnings from long-term assets should be used in a careful, judicious and strategic manner. For this reason, City Council hereby authorizes the creation of a Long Term Asset Reserve Fund (LTAR), and funds received from the sale, lease, or earnings from long-term assets shall be reserved in the LTAR Fund. The funds in this restricted account can only be expended if the funds are appropriated in the annual budget or by supplemental appropriation."

**COUNCIL MEMBER MOORE MOVED, AND IT WAS SECONDED, TO APPROVE AGENDA ITEM 11 (c) (i) - RESOLUTION NO. 90, SERIES OF 2007, AS AMENDED.**

RESOLUTION NO. 90, SERIES OF 2007

A RESOLUTION CREATING A LONG-TERM ASSET RESERVE FUND (LTAR).

Mayor Pro Tem Woodward asked if there was any discussion. There was none.

**Vote results:**

Ayes:	Council Members Barrentine, McCaslin, Moore, Woodward, Tomasso
Nays:	None
Absent:	Council Member Oakley

Motion carried.

(ii) Director Gryglewicz presented a recommendation from the Department of Finance and Administrative Services to adopt a resolution transferring the remaining proceeds from the Golf Course Lease to the Long Term Asset Reserve Fund. He said this is a transfer of \$1,988,000.00 from the Public Improvement Fund, which is the remaining funds from the Golf Course Lease, less the 1.5 million dollars in Bridge Funds, to the General Fund Long Term Asset Reserve.

Council Member Moore said I would like to move Agenda Item 11 (c) (ii) with a very minor amendment. Because we didn't have this Fund in place in time for the budget, it wasn't there to operate like I hope it will in the future. So, as Frank has outlined, these are the remaining funds. What I would like to do in the 3<sup>rd</sup> Whereas paragraph, the parenthetical...just replace it to add a little more clarity, such that it says "(net of the 1.5 million in Bridge Funds approved for transfer to the General Fund as part of the 2008 annual budget)". So again, since we are just making that 1.5 million that Frank mentioned and placing it into the Resolution.

**COUNCIL MEMBER MOORE MOVED, AND IT WAS SECONDED, TO APPROVE AGENDA ITEM 11 (c) (ii) - RESOLUTION NO. 91, SERIES OF 2007, AS AMENDED.**

RESOLUTION NO. 91, SERIES OF 2007

A RESOLUTION TRANSFERRING FUNDS FROM THE GOLF COURSE LEASE TO THE LONG TERM ASSET RESERVE FUND (LTAR).

Mayor Pro Tem Woodward asked if there was any discussion. There was none.

**Vote results:**

Ayes:	Council Members Barrentine, McCaslin, Moore, Woodward, Tomasso
Nays:	None
Absent:	Council Member Oakley

Motion carried.

(iii) Director Gryglewicz presented a recommendation from the Department of Finance and Administrative Services to adopt a resolution approving the appropriation of funds in the Donors Fund for Children's Services. He said this is a supplemental appropriation of \$7,086.84 in the Donors Fund and the use of those funds will be for the Library's Children's Services. These funds were originally collected to offset the cost of the Bookmobile. As Council is aware, the City no longer has the Bookmobile, so we have no way to expend them for that original purpose. So, it was discussed and determined to use these funds for Library's Children's Services.

Mayor Pro Tem Woodward asked if there were any questions for Frank. There were none.

**COUNCIL MEMBER TOMASSO MOVED, AND IT WAS SECONDED, TO APPROVE AGENDA ITEM 11 (c) (iii) - RESOLUTION NO. 92, SERIES OF 2007.**

RESOLUTION NO. 92, SERIES OF 2007

A RESOLUTION APPROPRIATING THE MONEYS IN THE DONORS FUND TO BE USED FOR LIBRARY PURCHASES RELATED TO CHILDREN'S SERVICES.

Mayor Pro Tem Woodward said I just want to make the comment that I'm pleased that these are for the Children's Services at the Library and I hope that they will be shared with and promoted with the schools, that they are there.

Mayor Pro Tem Woodward asked if there was any other discussion.

Council Member Moore said I don't think we mentioned that this was also the recommendation from the Library Board, correct? Mr. Woodward said that is correct. Mr. Moore said thank you.

Council Member McCaslin said being an educator and using the Library probably once a week, I do appreciate what Mr. Long has done for the Library in bringing in quality stuff and I think it will be great for the Library and for the Children's Services. Thank you.

Council Member Tomasso said I believe these funds were donated for the Library for the purpose of the Library to spread the use of books and literature and that this would be an appropriate fund for those donations, to direct them and to finalize their expenditure.

Mayor Pro Tem Woodward asked if there was any further discussion. There was none.

**Vote results:**

Ayes:	Council Members Barrentine, McCaslin, Moore, Woodward, Tomasso
Nays:	None
Absent:	Council Member Oakley