

**CITY OF LA VISTA  
MAYOR AND CITY COUNCIL REPORT  
JUNE 15, 2021 AGENDA**

<b>Subject:</b>	<b>Type:</b>	<b>Submitted By:</b>
COUNCIL POLICY STATEMENT - CITY FINANCIAL POLICIES	◆ RESOLUTION ORDINANCES RECEIVE/FILE	CINDY MISEREZ FINANCE DIRECTOR

**SYNOPSIS**

A resolution has been prepared to approve a Council Policy Statement: No.138 - City Financial Policies.

**FISCAL IMPACT**

N/A

**RECOMMENDATION**

Approval.

**BACKGROUND**

The Finance Department is in the process of preparing a financial policies document which will consolidate all of the City's financial policies.

The City's current financial policies are written in Council Policy Statements, Standard Operating Policies and the La Vista Municipal Code. This is the first step toward having all of these policies in one document.

This first part of the financial policy is a broad over-arching directive covering the areas of budgeting, reserves, reporting, accounting, investment and debt management.

The recommended policy will replace the following Council Policy Statements.

104 – Investment of City Funds (attached)

127 – Fund Balance Policy in Accordance with GASB #54 (attached)

**RESOLUTION NO. \_\_\_\_\_**

A RESOLUTION OF THE MAYOR AND CITY COUNCIL OF THE CITY OF LA VISTA, NEBRASKA, APPROVING A COUNCIL POLICY STATEMENT.

WHEREAS, the City Council has determined that it is necessary and desirable to create Council Policy Statements as a means of establishing guidelines and direction to the members of the City Council and to city administration in regard to various issues which regularly occur; and

WHEREAS, a Council Policy Statement entitled "138 – City Financial Policies" has been established.

NOW, THEREFORE, BE IT RESOLVED, that the Mayor and City Council of La Vista, Nebraska, do hereby approve the Council Policy Statement entitled "138 – City Financial Policies" and do further hereby direct the distribution of said Council Policy Statement to the appropriate City Departments.

PASSED AND APPROVED THIS 15TH DAY OF JUNE 2021.

CITY OF LA VISTA

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Douglas Kindig, Mayor

ATTEST:

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Pamela A. Buethe, CMC  
City Clerk

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**City Financial Policies**



# City Financial Policies

# City of La Vista

## Council Policy Statement

### *City Financial Policies*

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#### **Financial Policy**

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#### General Policies

The City will maintain sound financial practices in accordance with all federal, state and local laws and direct its financial resources towards meeting the City's long-term goals. The City will maintain and further develop programs to assure its long-term ability to pay the costs necessary to provide the level and quality of service required by its residents.

A review of the Financial Policy will be performed every three years, and any changes to the Financial Policy will be brought forward for City Council consideration and approval. Further, in the event there are any recommended deviations or exceptions from the Financial Policy, those exceptions will be presented for the City Council's consideration.

#### Definitions

**Accrual Basis** - An accounting method that recognizes revenue when the services are provided and records expenses when they are incurred.

**Amortization** – An accounting technique used to periodically lower the book value of a loan or intangible asset over a set period.

**Arbitrage** – In the context of government finance, the reinvestment of the proceeds of tax-exempt securities in materially higher-yielding taxable securities.

**Assigned Fund Balance** – The portion of a governmental fund that represents resources that are set aside by the government for a specific purpose.

**Bond Anticipation Notes (BAN)** - A short-term interest-bearing security issued in advance of a larger, future bond issue. Bond anticipation notes are smaller short-term bonds that are issued by corporations and governments, such as local municipalities, wishing to generate funds for upcoming projects.

**Cash Basis** – An accounting method that records revenue when cash is received, and records expenses when cash is paid.

**Cash reserve** – Money kept on hand to meet short term and emergency funding needs such as natural disasters, economic downturns, and the inevitable unforeseen event that would trigger a fiscal hardship.

**Certificates of Participation (COP)** - A type of financing where an investor purchases a share of the lease revenues of a program rather than the bond being secured by those revenues. Certificates of participation are secured by lease revenues. A certificate of participation can also be referred to as a participation certificate.

**Committed Funds** - Includes amounts that are committed for specific purposes by formal action of the City Council. Amounts classified as "committed" are not subject to legal enforceability like restricted funds; however, those amounts cannot be used for any other purpose unless the City Council removes or changes the limitation by taking the same form of action it employed to previously impose the limitation.

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**Comprehensive Annual Financial Report (Annual Report)** - Is a set of financial statements comprising the financial report of a municipal entity that complies with the accounting requirements promulgated by the Governmental Accounting Standards Board (GASB).

**Debt Service Coverage Ratio (DSCR)** – A measurement of available cash flow to pay current debt obligations. The DSCR shows the extent current fiscal year income is available to fund debt service expense. A ratio of 1.0 is the objective.

**Depreciation** – An accounting method of allocating the cost of a tangible asset over its useful life and is used to account for declines in value.

**Economic Development Bonds** - Transactions passed through a public entity (such as an economic development authority) to become tax-exempt and thereby save in interest costs.

**Encumbrances** - A commitment within an organization to use funds for a specific purpose.

**Enterprise Fund** - The businesslike functions in which a government provides a service to residents in return for fees and charges, such as water, sewer, and transit systems.

**Fund Balance** - Net position of a government fund. It serves as a measure of the financial resources available in a governmental fund. It is the net of all assets, liabilities, deferred outflows of resources and deferred inflows of resources. Portions of the fund balance can be further defined as nonspendable, restricted, committed, assigned, and unassigned.

**Highway Allocation Fund Pledge Bonds** - Bonds issued by political or governmental subdivision or public corporation to be expended for the cost of construction, reconstruction, maintenance, and repair of public highways, streets, roads, or bridges and facilities, and connecting structures.

**Internal Service Funds** - Activities that provide services to the government itself, such as fleet maintenance.

**Market Value** - The price at which a security is trading and could presumably be purchased or sold on the open market.

**Modified Accrual Basis** - Recognizes revenues when they become available and measurable and, with a few exceptions, recognizes expenditures when liabilities are incurred.

**Nonspendable** – The portion of a governmental fund balance that cannot be spent because the underlying resources are not in spendable form or because the government is legally or contractually required to maintain the resources intact. Example: pre-paid items.

**Operating Reserve** – Available General Fund balance, excluding nonspendable, restricted, committed, and assigned fund balance, compared to operating expenditures in a fiscal year, expressed as a percentage and as number of months' expenditures that could be funded from the reserve balance.

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**Request for Proposal (RFP)**— Request for proposal is a document that solicits a proposal, often made through a bidding process, to potential suppliers by an agency or company interested in procurement of a commodity, service, or asset.

**Request for Qualifications (RFQ)** - Request for qualifications means a process that requests interested consultants to submit a letter of interest and a statement of their qualifications. Consultants are evaluated upon their qualifications, expertise, and references. Cost is not considered until after a consultant has been selected at which point the price may be negotiated.

**Restricted Funds** - Fund constraints placed on the use of amounts are either externally imposed by creditors (such as through debt), grantors, contributors or laws or regulations of other governments; or imposed by law through constitutional provisions or enabling legislation. This would generally include amounts in bonded capital projects funds, debt service funds, and program funds funded with federal program dollars.

**Sales Tax Revenue Bonds** - A revenue bond is a municipal bond supported by the revenue from a specific project, such as a toll bridge, highway or local stadium. Sales tax revenue bonds are municipal revenue bonds that are secured by a sales tax revenue collected. Typically, revenue bonds can be issued by any government agency or fund that is managed in the manner of a business, such as entities having both operating revenues and expenses.

**Unassigned Fund Balance** – The difference between the total fund balance in a governmental fund and its nonspendable, restricted, committed, and assigned components.

#### Budget Process Policy

The City follows a biennial budget process, emphasizing long-range planning and effective program management. A biennial budget process enforces the practice of forecasting and planning, while reducing strain on financial staff and discouraging “expenditure creep” that is commonly associated with annual budget cycles.

The first year of the biennium is the odd numbered year. The second year of the biennium is the even numbered year. The preparation for the two-year cycle occurs during the second year of the previous biennium. A review of the first and second year occurs during the first year of the biennium. The biennial budget and subsequent amendments to either year of the biennium are adopted by the City Council and filed with the State of Nebraska Auditor of Public Accounts (APA) on or before the due date set by the APA.

The biennial budget process is consistent with the La Vista Municipal Code, specifically Chapter 35: Finance and Revenue, whereby:

- A budget will be proposed by the City Administrator, with consultation of staff, and adopted by the City Council each year.
- The fiscal year begins on October 1 and ends September 30 of the following calendar year.
- A draft of the proposed budget is presented to City Council at a public meeting.

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- The City Council adopts the budget for the two years of the biennium on or before the due date set by the State of Nebraska Auditor of Public Accounts (APA).

#### Operating Budget Policy

1. In even numbered years (the second year of the biennial budget), the City will adopt a biennial budget for the following two years on or before the APA due date.
2. Review of the biennial budget will occur during the odd-numbered year (first year of the biennial budget) and amendments will be adopted on or before the APA due date.
3. Amendments may be adopted prior to the APA due date as necessary during the biennium. Although this flexibility exists, only major items should be considered for budget amendments as flexibility exists within a fund's budget to address minor items.
4. The City will make every effort to adopt balanced operating budgets, with ongoing expenditures paid for with ongoing revenues, and avoid procedures that balance budgets by deferring needed expenditures.
5. The City will maintain an operating reserve percent and debt service coverage ratio in accordance with the adopted policy.
6. The City will estimate revenues using an objective and analytical process. In the case of significant uncertainty, conservative projections will be used.
7. The City will maintain a level of expenditures that support essential services and promote quality-of-life for its residents.
8. The City will forecast its General Fund and other major fund expenditures and revenues for a five-year period and will update the forecast annually. The forecast provides the foundation for budget recommendations. When the first year of the five year forecast falls on an odd-numbered year, the first two years form the biennial budget request.
9. The City will endeavor to maintain a diversified and stable revenue system to minimize the impact of short-term fluctuations in any one revenue source.
10. The City will avoid targeting revenues for specific purposes whenever possible, allowing maximum flexibility in funding decisions.
11. The City will investigate potential new revenue sources, particularly those that will not add to the tax burden of residents and local businesses.
12. The biennial budget will incorporate objectives from the City's strategic plan.
13. The City will work proactively to monitor legislation that may benefit or burden the City financially.
14. The City will maintain a Capital Improvement Program (CIP) that accounts for capital project plans five years into the future. The CIP will support the City Council's goals and objectives, be consistent with the comprehensive plan, protect investment in infrastructure, and encourage economic development.
15. Future operating costs associated with new capital improvements will be projected and included in the operating budget forecasts.
16. An inventory of the City's physical assets, their condition, and remaining useful life will be maintained. An inventory should be completed every three years.
17. The City will maintain all assets at sufficient levels to protect the City's capital investment and to minimize unexpected maintenance and replacement costs.

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#### **Budgetary Control**

The City Council is required to adopt a budget for all City funds and departments. Adoption of the budget requires a majority vote of the City Council. Subsequently, the City Council approves any revisions that increase the total budgeted expenditures or revenues of any department and fund, and any changes to staffing levels.

The City Administrator is authorized by the City Council to allocate the budget within the prescribed limits, for administrative purposes. This includes changes between expenditure categories (i.e., personnel services, commodities, contractual services, maintenance, other charges, debt service, capital outlay, or capital improvements) within a fund.

Changes to Capital Improvement Program that significantly alters project scope must be approved by City Council.

#### **Community Input**

Essential to the development of La Vista's annual budget is feedback from individuals and organizations. Input from the community is received through various channels, including City Council meetings, the City website, forums, community surveys, and public hearings.

#### **Basis of Budgeting**

Governmental funds, including general, special revenue, and capital project funds, are budgeted on a cash basis.

Proprietary funds, including enterprise and internal service funds, are budgeted on a cash basis.

#### **Fund and Reserve Policy**

##### **General Fund Operating Reserve**

Establishing and maintaining adequate cash balances and reserves allows financial flexibility and security and is recognized as an important factor considered by bond rating agencies and the underwriting community when reviewing debt issuance. Along with maintaining credit worthiness, such cash balances and reserves provide the means to handle economic uncertainties, local disasters and other unanticipated financial hardships, as well as meet cash flow requirements. The City will adhere to the following policies:

- A positive cash balance should be shown in the total and unassigned General Fund balance at the end of the fiscal year. At a minimum, the unassigned fund balance should be in the target range of 20% to 25% of General Fund appropriations for the succeeding fiscal year to provide adequate cash flow and emergency cash funding.
- Nonspendable, restricted, committed, and assigned fund balance is excluded from the total General Fund balance to compute the unassigned fund balance. The unassigned General Fund balance must be positive. That is, the other categories of fund balance cannot exceed the total General Fund balance.
- Restricted fund balance should not be used to finance routine operating expenses that exceed budgeted levels.

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- The operating reserve (unassigned fund balance) should not be used to finance capital projects unless specifically earmarked for a project and designated as a restricted fund balance.
- Revenues will equal or exceed expenditures for each budget year unless there are funds available in the operating reserve. Excess operating reserves may be used to balance revenues and expenditures so long as the minimum operating reserve requirements of this policy are met.
- Short-term borrowing, such as tax anticipation notes, to meet the requirements in this section is prohibited.
- The annual budget is considered balanced if the revenue and expenditure activity and change in fund balance net to zero with an ending fund balance that is positive.
- A cash reserve requirement is embodied in the operating reserve. By maintaining a 20% to 25% operating reserve, cash reserves exist to address short term needs.

The operating reserve is reported to the City Council annually when the completed audited financial statements are presented for approval. A projected operating reserve balance is presented during the budget process for the current year-end estimate and the succeeding five years.

If the operating reserve rises above or falls below the desired range, the following actions are taken.

- When the designated operating reserve falls below the desired range, the City shall create a plan to restore the cash reserve to the appropriate levels during the following budget cycle or through a budget amendment in the current biennial budget.
- When the designated operating reserve rises above the desired range, any excess funds will remain unassigned in the General Fund until the funds are distributed as outlined in the next approved biennial budget or through an approved budget amendment in the current biennial budget.

### **Sales Tax Incentive Refund Reserve**

The City maintains a Sales Tax Incentive Refund Reserve within the General Fund operating reserve to provide for sales tax revenue shortfalls resulting from State refunds to taxpayers under Nebraska incentive programs. The State notifies the City one year in advance of large refunds and the City records this as a liability on the government-wide financial statement. The Sales Tax Incentive Refund Reserve is held in the fund balance as unassigned and available in the operating reserve calculation.

The City sets aside funds for the Sales Tax Incentive Refund Reserve throughout the year, using a pre-determined benchmark of monthly consumer use tax collections exceeding a designated amount. The Sales Tax Incentive Refund Reserve is utilized throughout the year when large sales tax refunds result in reduced cash flow in a month. The overall amount to reserve is analyzed during the biennial budget process using the State notifications and the forecast of consumer use tax.

### **Qualified Sinking Fund**

In 1998, under the authority of the Nebraska Budget Act, the Mayor and City Council approved Resolution 98-145 authorizing the creation of a Qualified Sinking Fund to pay for the acquisition or replacement of tangible personal property with a useful life of five years or more. The Qualified Sinking Fund is maintained separately from the General Fund. Unassigned General Funds and Lottery Fund

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restricted community betterment funds are available for appropriation of transfers to the Qualified Sinking Fund.

The purpose of the Qualified Sinking Fund is to earmark and build a reserve for designated pay-as-you-go acquisitions of capital items. The intent is to reduce debt financing of tangible personal property with a useful life of five years or more.

The City may use one of several methods to establish a budget for transfers to the Qualified Sinking Fund:

- The required level of reserve equals each year's vehicle and equipment audited depreciation expense. For example, if the prior fiscal year's equipment depreciation expense is \$100,000, that amount may be set aside for future vehicle and equipment replacement.
- Equipment replacement schedules
- Convert individual department appropriation variance from an expenditure to a year-end transfer to the Qualified Sinking Fund.

If this set aside (transfer) causes the General Fund operating reserve percentage to drop below the 20% to 25% range, the transfer may be adjusted.

#### **Sewer Fund**

The City will maintain reserves for the purposes of offsetting unanticipated fluctuations in Sewer Fund revenues to provide financial stability, including the stability of revenues and the rates and charges and funding for emergency repairs. The reserves are based on the following:

- An unrestricted fund balance equivalent to 25% of total annual expenditures
- Reserves above 25% are directed to the Sewer Reserve Fund for anticipated capital projects based on the prior fiscal year's audited financial statements.

#### **Sewer Reserve Fund**

The City maintains a Sewer Reserve Fund for the replacement of sewer lines, repairs to the sewer system, and sewer capital outlay. Capital Improvement Program projects will be funded by the reserve fund balance and bond proceeds. Transfers are made from the Sewer Fund annually when the Sewer Fund operating reserve exceeds 25% based on the prior fiscal year's audited financial statements.

Expenditures of the Sewer Reserve Fund will be directed by projects approved in the CIP and capital outlay needs as directed by the City Council. Approved funds will be transferred back to the Sewer Fund for designated capital outlay or CIP expenditures.

#### **Interfund Transfers**

To achieve important public policy goals, the City has established various special revenue, capital project, debt service and enterprise funds to account for revenues whose use should be restricted to certain activities. Accordingly, each fund exists as a separate financing entity from other funds, with its own revenue sources, expenditures and fund equity. Any transfers between funds for operating purposes are clearly set forth in the biennial budget.

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At the beginning of the fiscal year, the Finance Director will prepare an interfund transfer schedule to be reviewed and approved by the City Administrator followed by periodic updates throughout the fiscal year.

#### **Master Fee Ordinance Updates**

Updates to the Master Fee Ordinance will be reviewed on an ongoing basis to ensure they keep pace with the cost to provide service and service delivery changes. A comprehensive analysis of City costs and fees should occur at least every five years. Fees may also be adjusted during this interim period based on supplemental analysis whenever there have been significant changes in the method, level, cost of service delivery, and comparability to other jurisdictions.

Before implementation of the Master Fee Ordinance updates, the City Council adopts the final recommendations with the biennial budget and as necessary throughout the fiscal year.

#### **Financial Reporting and Accounting Policy**

##### **General Policies**

The City will establish and maintain a high standard of accounting practices, using the latest edition of the Governmental Accounting, Auditing, and Financial Reporting (GAAFR) publication as its source of generally accepted accounting principles (GAAP).

The City's relationship with its independent public accounting firm will be reviewed at a minimum every five years.

The City will maintain its budget on a cash basis of accounting and maintain its accounting system on a modified accrual basis of accounting for all interim, internal, and state reporting except for the Comprehensive Annual Financial Report which will be produced in accordance with GAAP.

The City will adhere to a policy of full and open public disclosure of all financial activity and information.

##### **Annual Reporting**

The City will produce a Comprehensive Annual Financial Report (CAFR) in accordance with generally accepted accounting principles to provide accurate and meaningful information concerning the City's financial condition and performance.

The City will contract an independent public accounting firm licensed in the State of Nebraska to perform the annual audit which will be made available to the public each year. The selection of the audit firm is subject to the City's formal bidding process. The Finance Director shall prepare a detailed request for proposal for auditing services. The request for proposal for auditing services will follow the City's request for proposal process in the selection of an auditor.

The City will comply with all State and Federal audit and review regulations, including OMB A-133 Single Audit Act audit and review requirements and submitted to the State of Nebraska Auditor of Public Accounts (APA) according to the due date set by the APA.

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#### **Interim Reporting**

The City will prepare and issue timely interim reports on the City's financial status to the Council and staff. This includes:

- Monthly financial reports
- Monthly revenue reports
- Monthly investment reports
- Other reports as requested.

#### **Investment Policy**

##### **Purpose of Policy**

The purpose of this document is to establish policies and procedures that enhance opportunities for prudent and systematic investments and to organize and formalize investment-related activities.

The investment policies and practices of the City of La Vista are based on state law and fiduciary responsibility for cash management. All funds will be invested in accordance with the City's investment policy and Nebraska Revised Statutes §19-1304 and §77-2341 and La Vista Code of Ordinances §35.15.

##### **Scope**

This investment policy applies to all cash assets included within the scope of the City of La Vista's audited financial statements.

##### **Delegation of Authority**

The Finance Director is the designated investment officer, and has the authority to make certain investment decisions, under the review of the City Administrator as noted below.

The City Administrator has general management responsibility over the Finance Director and has direct responsibility for the preparation and administration of the City budget. To fulfill these duties, the City Administrator must work closely with the Finance Director regarding investment decisions. Accordingly, any determination made by the Finance Director regarding the timing, amount, and type of investments made with City funds should be made only after the City Administrator has been given an opportunity to review and comment on any such intended investment.

The Director of Administrative Services shall monitor and review all investments for compliance with this investment policy.

##### **Prudence**

The standard of prudence to be used for managing the City's investments is the "prudent investor" rule, which states, "Investments shall be made with judgment and care, under circumstances then prevailing, which persons of prudence, discretion and intelligence exercise in the management of their own affairs, not for speculation, but for investment considering the probable safety of their capital as well as the probable income to be derived."

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The overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City shall recognize that no investment is totally riskless and that the investment activities of the City are a matter of public record.

City officers acting in accordance with written procedures and exercising due diligence shall be relieved of the personal responsibility for an individual security's credit risk or market price change if deviations from expectations are reported in a timely fashion and appropriate action is taken to control adverse developments.

As used herein, capital stock financial institutions shall include state and national banks, capital stock state building and loan associations, capital stock federal savings and loan associations, capital stock federal savings banks, capital stock industrial and investment companies and capital stock savings banks as outlined in Nebraska Revised Statutes §77-2366.

#### **Investment Objectives**

The City will limit investment activities to achieve the following objectives:

- **Safety** - The funds will be invested in such a manner as to ensure preservation of capital and protection of principal.
- **Legality** - All investments will be in conformance with federal, state and other legal requirements.
- **Liquidity** - The investment portfolio will remain sufficiently liquid to enable the City to meet its cash flow requirements. This is accomplished by structuring the portfolio, so the securities mature to meet cash requirements for ongoing operations. Investments shall be managed to avoid, but not prohibit, sale of securities before their maturities to meet foreseeable cash flow requirements.
- **Return on Investment** - The investment portfolio will be designed with the objective of maximizing the rate of return on investment while maintaining acceptable low risk levels and ensuring adequate liquidity.

#### **Instruments**

Funds of the City of La Vista may be invested in the following instruments:

- U.S. Treasury obligations which carry the full faith and credit guarantee of the United States Government and are the most secure instruments available.
- U.S. Government agency and instrumentality obligations that have a liquid market with a readily determinable market value.
- Money market funds registered under the Federal Investment Company Act of 1940, whose shares are registered under the Federal Securities Act of 1933 and having a rating by Standard & Poor of AAAm-G, AAA-m, or AA-m, and if rated by Moody's, rated Aaa, Aa1, or Aa2.
- Savings accounts, deposit accounts or money market deposit accounts which are insured by the FDIC.
- Fully insured or collateralized certificates of deposit of banks and capital stock financial institutions.

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- A-1 P-1 rated commercial paper secured by an irrevocable line of credit or collateralized by government securities (within the list of acceptable investments under the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council as required by Nebraska Revised Statutes §77-2341(1)).
- Banker's acceptances issued by the 10 largest domestic banks and the 20 largest international banks (within the list of acceptable investments under the Nebraska Capital Expansion Act and the Nebraska State Funds Investment Act and as provided in the authorized investment guidelines of the Nebraska Investment Council as required by Nebraska Revised Statutes §77-2341(1)).

The maximum maturity on any investment made with City funds is not to exceed a period of three years.

#### **Ethics and Conflicts of Interest**

Elected officials and employees involved in the investment process shall:

- Refrain from personal business activity that could conflict with the proper execution and management of the investment program, or that could impair their ability to make impartial decisions.
- Disclose any material interests in financial institutions with which they conduct business. They shall further disclose any personal financial/investment positions that could be related to the performance of the investment portfolio.
- Refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

#### **Diversification**

It is the policy of the City of La Vista to diversify its investment portfolio to eliminate the risk of loss resulting from over concentration of funds in a specific maturity, a specific issuer or specific class of securities.

Maturities will be staggered to meet all projected obligations of the City and will be selected to provide stability of income and reasonable liquidity.

#### **Safekeeping and Custody**

The Finance Director shall establish a system of internal controls, which shall be reviewed with an independent auditor of the City. The controls shall be designed to prevent the loss of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the City.

To protect against potential fraud and embezzlement, the investments of the City of La Vista shall be secured through third party custody and safekeeping procedures. The Finance Director shall be bonded in an amount no less than \$25,000 to protect the public against the risk of embezzlement and misappropriation of funds. Unless prevailing practices or economic circumstances dictate otherwise, ownership shall be protected through third party custodial safekeeping.

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#### **Deposit of City Funds**

To protect the liquidity and security of City funds, policies related to the deposit of City funds in any bank or depository will be as follows:

- No funds of the City shall be deposited in any bank or capital stock financial institution not insured by the Federal Deposit Insurance Corporation (FDIC).
- In accordance with Nebraska Revised Statutes §16-713, The Finance Director may, upon resolution of the Mayor and City Council authorizing the action, purchase certificates of deposit from and make time deposits in banks, capital stock financial institutions, or qualifying mutual financial institutions selected as depositories of City funds under the provisions of Nebraska Revised Statutes §16-712, §16-714, and §16-715.
- The amount of collateral pledged by each bank or depository shall be monitored by the Finance Director monthly to ensure it is adequate to cover all funds on deposit at such institution.
- The selection of any bank or depository providing liquid cash funds are subject to the City's formal bidding process. The Finance Director shall prepare a detailed request for proposal for banking services. The request for proposal for banking services will follow the City's request for proposal process in the selection of a bank or depository.

#### **Limit and Collateralization of Deposits**

Time deposits and certificates of deposit in banks or capital stock financial institutions more than FDIC insurance shall be collateralized by bond in accordance with the requirements of Nebraska Revised Statutes §16-713 through §16-716 and shall not exceed the limits as to amount prescribed by Nebraska Revised Statutes §16-716.

#### **Debt Management Policy**

##### **Purpose of Policy**

The City of La Vista (City) maintains conservative financial policies to assure strong financial health both in the short and long-term.

Maintaining the City's credit rating is an important objective of the financial policies. To this end, the City is constantly working to improve its financial policies, budgets, forecasts, and financial health.

This Debt Management Policy shall apply to financing obligations of the City of La Vista and the La Vista Community Redevelopment Agency and the City of La Vista Facilities Corporation.

This policy sets forth the criteria for issuance and repayment of financing obligations. The primary objective of the Debt Management Policy is to establish criteria that will protect financial integrity while providing a funding mechanism to meet capital needs. The underlying approach is to only finance capital improvements that cannot be funded on a pay-as-you-go basis. The City shall not incur long-term obligations to finance current operations.

##### **Responsibility**

Authority to incur financing obligations is given by the City Council. The Finance Director and designated staff will perform the duties of debt issuance, interest payments, principal repayments and other financing-related activities.

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The Finance Director is responsible for assuring that the activities related to incurring and payment of financing obligations will not jeopardize the City's credit rating.

#### **Purpose of Financing**

The City incurs financing obligations primarily to fund long-term capital improvement projects and to refinance existing obligations. Incurring long-term financing obligations to fund operating deficits is not permitted.

While the preferred means of financing projects is the "pay-as-you-go" method of using current revenues to pay for capital projects because it avoids interest payments, the City would be able to undertake capital projects under this method only if sufficient cash accumulates. Prudent use of financings rather than pay-as-you-go funding of capital projects can distribute the cost of a project over its useful life and facilitate better allocation of resources and increase financial flexibility. Long-term financing of capital projects can also be used in conjunction with pay-as-you-go to finance over time only a portion of the project if sufficient funds are not readily available.

#### **Budgeting and Capital Planning**

The City shall develop and maintain a five-year Capital Improvement Program (CIP) that is approved by the City Council. The City Council adopts the first two years of the CIP during the biennial budget process.

A determination to utilize financing obligations to fund all or a portion of a capital project first requires an analysis as part of the biennial budget process of the sources of revenues to repay the financing obligations and the impact of repayment of the financing obligations on existing budget commitments.

The Finance Director is responsible for coordinating and analyzing financing requirements. This will include the timing of when financing obligations are incurred, calculation of outstanding obligations, levy and budget limitation calculations and compliance, impact on future debt service and payment burdens, and current revenue requirements.

#### **Asset Life**

Generally, no financing obligations will be incurred for periods exceeding the useful life or average useful lives of assets to be financed.

#### **Types of Obligations**

The following is a description of the types of long-term financing obligations the City may issue:

- **General Obligation Bonds**

General obligation (GO) bonds are secured by a pledge of full faith and credit of an issuer and a promise to levy taxes in an unlimited amount as necessary to pay debt service. GO bonds usually achieve lower rates of interest than other financing instruments since they are a lower risk.

- **Revenue Bonds**

Revenue bonds are obligations payable from revenues generated by a specific revenue activity. Revenue bonds are payable solely from the designated source and are not secured by any pledge of ad valorem taxes or general fund revenues.

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- **Lease-Purchase Financing**

Lease-purchase financings can be structured using certificates of participation, or bonds issued by the City of La Vista Facilities Corporation. Payments on lease-purchase obligations are made from the General Fund or other available sources and are not subject to annual appropriation.

- **Other Bonds and Notes**

The City has the power to issue economic development bonds, sales tax revenue bonds, highway allocation fund pledge bonds, bond anticipation notes, certificates of participation and others; the La Vista Community Redevelopment Authority has the power to issue tax increment obligations and occupation tax revenue bonds.

- **Bank Loans**

Under certain circumstances, it may be advantageous to obtain financing through a direct bank loan as permitted under Nebraska law. One potential advantage of bank loans is that the process for execution is generally simpler and can be less expensive to issue than a publicly offered financing. Additionally, a bank loan can often be structured in a manner that more closely conforms to specific project or repayment considerations than a bond issue. However, since bank loans are issued in an environment less transparent than a publicly offered financing, it is more difficult to assess how the proposed loan rates, fees, and terms compare to the market. The City Finance Director will consult with the City Administrator and Director of Administrative Services to determine whether a bank loan is the appropriate financing method for a particular project.

#### Affordability Targets

##### Debt Service Fund

The most important affordability ratio used in analyzing the City's debt position is the debt service coverage ratio (DSCR) – the available revenue as a ratio to annual debt service payments (including lease-purchase obligations). This analysis excludes enterprise revenue bonds and other obligations supported by dedicated revenue pledges. Additionally, this analysis may exclude other General Fund liabilities such as loan obligations. Liabilities of the City's related agencies are also excluded from the debt affordability ratios.

The City will target a DSCR of equal to or greater than 1.0. Should the DSCR fall below the desired range, the City shall create a plan to restore the appropriate levels.

The DSCR is presented during the budget process for the current year-end estimate and the succeeding five years. The budget is prepared to achieve a DSCR of at least 1.0 in each year, providing adequate annual income to meet projected debt service expenditures.

##### General Obligation and other Tax-Supported Obligations

The decision on whether to assume new general obligation or other tax-supported obligations (including lease-purchase obligations, highway allocation fund pledge bonds, tax-supported sales tax revenue bonds, and others), shall be based on costs and benefits, current conditions of the municipal bond market, and the City's ability to afford and service new obligations, as determined by an objective analytical approach. This process shall benchmark the City's debt position against generally accepted measures of debt load and affordability. These measures shall include but are not limited to:

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- Debt per capita: the outstanding principal as a percentage of population.
- Debt as a percent of assessed valuation: outstanding principal as a percentage of assessed valuation.

Measures are evaluated by comparing to other similar jurisdictions, taking into consideration characteristics of the city, such as growth activity, and best practices.

#### **Revenue Bonds**

A rate increase to cover both operations and debt service costs, while maintaining debt service reserve fund balances to meet proper coverage ratios, should be considered when enterprise revenue bonds are issued by the City and periodically while enterprise revenue bonds are outstanding.

#### **Structure of Debt**

##### **Term of Debt**

Financing obligations will be structured consistent with a fair allocation of costs to current and future beneficiaries or users. Financings by the City should be of a duration that does not exceed the useful life of the improvement that it finances and, where feasible, should be shorter than the projected economic life. The standard term of long-term financing is typically 15-25 years.

##### **Debt Repayment**

The City shall pay all interest and repay all debt and other obligations in accordance with the terms of the bond ordinance, bond covenants and other operative documents related to a financing obligation. To the extent possible, the City will seek level or declining repayment schedules.

##### **Call Options/Redemption Provisions**

A call option, or optional redemption provision, gives the City the right to prepay or retire debt prior to its stated maturity. This option may permit the City to achieve interest savings in the future through refunding, or in some cases, full or partial redemption of the bonds. Generally, fixed rate tax-exempt municipal bonds are structured with a 5 to 10-year call at par (no premium). Because the cost of call options can vary widely, depending largely on market conditions, an evaluation of factors such as the following will be conducted in connection with each issuance:

- The time until the bonds may be called
- The price at which the bonds may be called
- The potential to generate future interest cost savings (or call option value)
- Any need for additional flexibility with respect to repayment.

#### **Professional Services**

The Finance Director shall be responsible for the solicitation and selection of professional services that are required to administer the City's debt program. The bond and disclosure counsel and trustee costs associated with the bond issuance will be paid with bond proceeds. Eligible City staff costs related to issuance of long-term bonds may also be reimbursed from bond proceeds.

- **Bond Counsel**

The City will engage bond counsel and disclosure counsel for all financings. Bond counsel will

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deliver an opinion for each financing (a) as to the validity of the City's obligations with respect to the financing, (b) that the interest paid on the obligations is exempt from Federal income tax (if applicable), and (c) any other subjects necessary for the obligations to be accepted by the purchaser(s) thereof. Bond counsel is also responsible for preparing all financing documents, including bond ordinances, trust indentures, and other related documents, and assists in preparation of official statements. Disclosure counsel shall be required to deliver a customary 10(b)-5 opinion on City offering documents. The disclosure counsel will work with staff to draft all disclosure documents for a bond financing. The City may engage separate firms in the capacity of bond and disclosure counsel or one single firm to perform bond and disclosure counsel functions.

- **Underwriters**

An underwriter(s) will be used for all debt issued in a negotiated or private placement sale method. The underwriter is responsible for purchasing negotiated or private placement debt and reselling the debt to investors.

- **Trustee/ Fiscal Agent**

A paying agent, or trustee, will be used to provide accurate and timely payment to bondholders. The Finance Director will monitor funds held by third party trustees and review trustee bank statements monthly to ensure any expenditures from the trustee accounts are in accordance with the intended use of the financing proceeds.

Professionals should be selected based on merit using a competitive process and those relationships reviewed periodically. A competitive process using a request for proposals (RFP) or request for qualifications (RFQ) permits the City to compare the qualifications of proposers and to select the most qualified firm or firms based on the scope of services and evaluation criteria outlined in the RFP and that best meets the needs of the community and the type of financing being undertaken. The RFP should comply with state and local procurement requirements.

#### **Credit Ratings**

The City will maintain good communication with bond rating agencies regarding its financial condition. This effort will include providing periodic updates on the City's general financial condition, coordinating meetings, and presentations in conjunction with a new issuance. The City will continually strive to maintain its bond rating by improving financial policies, budgets, forecasts and the financial health.

#### **Refunding Debt**

A debt refunding is a refinance of debt typically done to take advantage of lower interest rates.

#### **Current Refunding**

A current refunding is one in which the refunding bonds are issued no more than 90 days before the date upon which the refunded bonds will be redeemed.

The Finance Director, working with the Director of Administrative Services, will periodically evaluate the City's existing financing obligations and execute, upon approval of the City Council, a refinancing when economically beneficial. A refinancing includes the issuance of bonds to refund existing bonds.

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Unless otherwise justified, such as a desire to remove or change a bond covenant, a debt refunding will require a minimum present value savings of 3%. This savings requirement for a refunding may be waived by the City Administrator upon a finding that such a refunding is in the City's overall best financial interest.

#### **Arbitrage Rebate Monitoring and Reporting**

The City will, unless otherwise justified, use financing proceeds within the established time frame pursuant to the bond ordinance, indenture, or other governing documents and will take steps to comply with the arbitrage rules for tax-exempt financings. Arbitrage is the interest earned on the investment of the bond proceeds at a rate above the interest rate paid on the obligations. If arbitrage occurs, the City may be required to pay the amount of the arbitrage to the Federal Government as required by Internal Revenue Service Regulation 1.148-11. The City will maintain a system of recordkeeping and reporting to meet the arbitrage rebate compliance requirement of the IRS regulation. If determined appropriate, the recordkeeping shall include tracking investment earnings on bond proceeds, calculating rebate payments, and remitting any rebate earnings to the federal government in a timely manner to preserve the tax-exempt status of the outstanding debt.

#### **Tax Certificate Compliance**

The City will comply with requirements imposed in any tax certificate to maintain the tax-exempt status of the City's tax-exempt obligations.

#### **Ongoing Disclosure**

The City will meet secondary disclosure requirements in a timely and comprehensive manner, as stipulated by the SEC Rule 15c2-12. The Finance Director shall be responsible for providing ongoing disclosure information to the Municipal Securities Rulemaking Board's (MSRB's) Electronic Municipal Market Access (EMMA) system, the central depository designated by the SEC for ongoing disclosures by municipal issuers and may engage Bond Counsel or another firm to assist in such efforts.

#### **Investment of Bond Proceeds**

The proceeds of the bond sales will be invested until used for the intended project to maximize utilization of the public funds. The investments will be made to obtain the highest level of safety. The City of La Vista Investment Policy and the bond documents govern objectives and criteria for investment of bond proceeds. The Finance Director and Director of Administrative Services, or the bond trustees under the direction of the Finance Director or Director of Administrative Services, will invest the bond proceeds in a manner to avoid, if possible, and minimize any potential negative arbitrage over the life of the bond issuance, while complying with arbitrage and tax provisions.

In certain cases, particularly for bond reserve funds, it may be fiscally prudent to invest funds using a forward delivery agreement or some other type of guaranteed investment contract. Such agreements should be obtained under a competitive bid process under consultation with a financial advisor.

#### **Internal Control Procedures**

The Finance Director is responsible for ensuring compliance with the Debt Management Policy. The Finance Director will monitor the expenditure of financing proceeds in a manner consistent with its monitoring of other City funds and will ensure that bond proceeds are expended exclusively for their

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authorized purpose as appropriated in the biennial budget. Disbursement of bond proceeds from the trustee may be made to reimburse the City for expenditures associated with the project. In either case, the Finance Director will prepare the certificate or other required document requesting disbursement of funds by the trustee. Internal control procedures will be reviewed and amended as necessary to ensure compliance.