APPENDIX

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City of Sun Prairie

Title: **Budget Management and Amendment Policy**	
Policy Source: Finance Committee	Creation Date: August 7, 2012
Application: Budget Management	Revision Date: April 4, 2017
Indexed as: Budget Amendment Policy	Total Pages: 4

1. General Policy and Purpose

The establishment of a formal budget amendment policy provides guidance to City staff and Elected Officials on Department Managers responsibility for managing their budget and the process for making changes to the annual budget adopted by the City Council. The City Budget is a living document that evolves over time due to unanticipated revenues, unanticipated expenditures, or the decision by the Elected Officials to alter the services and programs offered by the City. This policy provides guidance to Department Managers on reporting and managing budget variances. It also establishes the authority to approve budget transfers and amendments depending on the nature and dollar value of the proposed change. It is the intent of this policy that budget transfers and amendments only be approved for compelling and essential reasons. This policy should serve as a guide to decision-making and is not intended to restrict the options available to manage budget variances.

2. Definitions

The City has established a chart of accounts with the following budgetary segments:

- Fund
- Function
- Department
- Organizational Unit
- Object Categories
- Object

A detailed listing of the various budgetary segments (excluding individual objects) is included in Appendix A of this policy.

The Council shall legally adopt the budget at the Department budgetary level.

Department Managers are responsible for managing their budget at the Department budgetary level, unless otherwise specified in this policy.

3. Objectives

- To ensure compliance with State Statute 65.90(5) pertaining to alterations to municipal budgets.
- To establish authority to approve budget amendments.
- To ensure departments comply with the budgetary guidelines established in the annual budget adopted by the City Council.
- To provide guidance to Department Managers for reporting and managing projected budget variances.

4. Policy

A. Department Managers

1. Department Managers are responsible for managing their budgets at the Department level for the General Fund, the Organizational Unit for the Special Revenue Fund and the Project level for the Capital Projects and the Fund level for the Debt Service Fund.

   Department Managers may exceed the budget at the organizational unit level or the object level as long as the total Department expenditures do not exceed the budget as approved by the City Council, with the exceptions of the guidelines listed in Section 4.A.2. of this policy. The following examples are provided to help clarify Department Managers' responsibility:

   - The Finance Department may exceed its budget in office supplies if it is under budget by an equal or greater amount in another expense such as communications or advertising and printing.
   - Public Works may exceed its Public Works Operations budget if it is under budget by an equal or greater amount in its Public Works Administration budget.

2. Department Managers shall adhere to the following guidelines when managing their budget:

   i. Items Excluded from Adopted Budget: Departments shall not expend funds for items or projects expressly excluded from the current year's Adopted Budget without approval from the City Council.

   ii. Salary and Fringe Benefit Objects: Anticipated budget savings due to an employee vacancy may not be used to supplement expenditure authority in another object category or organizational unit without approval as follows:
      - Less than $2,500: Finance Director
      - $2,500 to Less than $15,000: City Administrator
      - $15,000 or more: Committee of the Whole

   iii. Capital Outlay Objects: Within the General Fund, budgetary funds may not be transferred to or from capital outlay objects without approval as follows:
      - Less than $2,500: Finance Director
      - $2,500 to Less than $15,000: City Administrator
      - $15,000 or more: Committee of the Whole

   Requests from Departments for budget transfers will generally not be considered prior to June 30th of the current budget year.

3. Department Managers shall report projected or known budget variances as follows:

If the Department Manager projects that the budget variance cannot be absorbed elsewhere in the Department's budget without significantly compromising mandated or essential services, or eliminating a specific project approved in the budget, the Department Manager shall report the projected variance to the Finance Director. Departmental Managers shall report budget variances more than $5,000, or more than 1.0% of the total Department budget. For example, if the Police Department's total budget is $6,200,000, it is only required to report projected budget variances of $62,000 or more.

The Finance Director shall include projected variances in the subsequent fiscal report presented to the Finance Committee. The Finance Committee shall be presented with options for managing budget variances such as reducing expenses in other areas, eliminating a planned project, approving a budget transfer, or use of the Contingency Fund. The Finance Committee may choose not to take any action with the understanding that the Department will have a deficit balance at year-end.

B. <u>Capital Projects Fund</u>
Anticipated budget savings resulting from lower-than-anticipated expenditures in one capital project may not be used to expand the scope of another project or fund a project not authorized by the City Council without the approval as follows:

- Less than $5,000: City Administrator
- $5,000 to Less than $25,000: Public Works Committee
- $25,000 or more: City Council

If the bid for a capital project that was included in the current year's Adopted Budget exceeds the amount budgeted for that project, a budget **amendment** in accordance with Section D. or E. of this policy shall be approved.

C. Fleet Inservice Fund
Anticipated budget savings resulting from lower-than-anticipated expenditures from the purchase of one vehicle or piece of equipment may not be used to increase the budget or upgrade of the purchase of another vehicle or piece of equipment not authorized by the City Council without the approval as follows

- Less than $2,500: Finance Director
- $2,500 to Less than $15,000: City Administrator
- $15,000 or more: Committee of the Whole

D. <u>Department Level Expenditures</u>: Budget transfers between Departments shall be considered **an amendment** to the Adopted Budget and must be approved by the City Council.

E. <u>Fund Level Expenditures</u>: Any increase in the total expenditure budget of a Fund shall be considered **an amendment** to the Adopted Budget and must be approved by the City Council.

F. Contingency Fund/Fund Balance: Any transfer to or from the contingency fund or other fund balance designations shall be considered **an amendment** to the Adopted Budget and must be approved by the City Council. The following exceptions apply:

   i. No approval is necessary for the annual lapse of the year-end operating surplus or deficit to fund balance.
   ii. Transfers from fund balance designations for the Library shall be approved by the Library Board. They do not require City Council approval.
   iii. Transfer from fund balance designations for the Business Improvement District shall be approved by the Business Improvement District Board. They do not require City Council approval.
   iv. Transfer from fund balance designations for the Tourism Commission shall be approved by the Tourism Commission. They do not require City Council approval.

5. Procedures

Description	Procedure
Salary and Fringe Benefit Transfers	Department Manager shall submit a signed Budget Transfer Form* to the Finance Director. Amounts of $2,500 to $15,000 will be submitted to the City Administrator for approval. Amounts over $15,000 will be presented to the Committee of the Whole for approval.
Capital Outlay Transfers	Department Manager shall submit a signed Budget Transfer Form* to the Finance Director. Amounts of $2,500 to $15,000 will be submitted to the City Administrator for approval. Amounts over $15,000 will be presented to the Committee of the Whole for approval.
Capital Projects Fund Transfers	Department Manager shall submit a signed Budget Transfer Form* to the Finance Director. Amounts less than $5,000 will be presented to the City Administrator for approval. Amounts of $5,000 to $25,000 will be submitted to the Public Works Committee for approval. Amounts of $25,000 or more will be presented to the City Council for approval. The City Council may approve such a transfer by a majority vote.
Budget Amendments	All budget amendments shall be presented to the City Council for approval. Amendments must be approved by a two-thirds vote of the entire membership of the City Council. Upon approval of a budget amendment, the City Clerk shall publish a Class 1 notice within 10 days of the approval.

*The Budget Transfer Form shall be posted on the Finance Department’s intranet site. A sample of the form can be found in Appendix B of this policy.

City of Sun Prairie Policy/Procedure

Title: Capital Improvement Policy	
Policy Source: Finance Department	Creation Date: January 17, 2017
Application: All Employees	Revision Date:
Indexed as: Capital Improvement	Total Pages: 4

1. General Policy

The purpose of this policy is the creation and preservation of the City's physical infrastructure including; roads and bridges, water, wastewater and stormwater systems; public buildings; parks and open spaces; and communication and information management equipment/infrastructure. Because these require a significant commitment of public resources, planning for capital improvements is a matter of prudent financial management. This Capital Improvement Policy provides the general principles under which the City's Capital Improvement Program (CIP) is developed and implemented.

2. Capital Project *(Definition)*

A Capital Project (CP) is defined as a planned activity that creates, improves, maintains, repairs or replaces a fixed asset; results in a permanent addition to the City's asset inventory valued at $25,000 or greater; and has a useful life of more than 10 years. Capital Improvements usually involve one of the following actions:

- Acquisition of property, equipment, or debt financed assets;
- Construction of new facilities; and/or
- Rehabilitation, reconstruction, renovation or upgrade of an existing asset to a condition which extends its useful life and/or increases its capacity.

Included within the above definition of a Capital Improvement Project are the following items:

- Construction of new facilities
- Remodeling or expansion of existing facilities
- Purchase, improvement and development of land
- Street construction, reconstruction, resurfacing or road improvements
- Sidewalks, Bike Paths
- Water, wastewater and stormwater infrastructure
- Vehicles, Heavy Equipment, IT Infrastructure and Other Machinery and Equipment
- Planning, engineering and administrative costs related to specific capital improvements
- Equipment and furnishings purchased as a part of a capital project

Fleet rolling stock and equipment are excluded from the CIP Policy.

Projects meeting the above definition shall be eligible for consideration and inclusion in the annually updated Capital Improvement Plan. Any and all expenditures meeting the criteria for fixed assets as defined by the City's Fixed Asset Policy shall continue to be budgeted and accounted for as capital expenditures, however, will not be eligible for inclusion in the Capital Improvement Plan unless they meet the above definition of a capital project. Staff questions regarding the definition of a capital project should contact the Finance Department.

3. Capital Improvement Program *(Process Development)*

The Capital Improvement Program (CIP) is a five-year plan that identifies the City's prioritized investments in capital assets and corresponding financial plans. The Capital Improvement Program not only includes a list of projects, which the City intends to fund over the next five years, but also an explanation of how it will finance these projects. The City's objective is to meet the capital needs of the City in a manner that is most beneficial to the citizens.

The Capital Improvement Program functions as:

- A multi-year projection of the City's major capital needs.
- A formal mechanism for decision-making related to planning and budgeting for major capital acquisitions.
- A link to the City's long range plans concerning the economic and physical development of the community, and the provision of public services.
- A financial management tool identifying future financing requirements for major capital acquisitions over the planning period.
- A communications device for reporting to internal and external stakeholders the City's capital priorities, and plans for the implementing capital projects.

To meet these ends, the City follows three principals in developing the CIP and determining which of the projects would receive funding. These principles are to:

- Preserve Current Investments
- Account for Future Costs
- Limit Expenses Based on Priority

A. ***Governing Body Approval***: Annually the City Council will adopt a 5 year CIP. Prior to adopting the CIP, the City will hold a public hearing on the proposed CIP. The CIP does not impart spending authority for capital projects, but rather constitutes the primary basis upon which the annual capital budget is formulated.

The Committee of the Whole presents the CIP to the City Council. The Committee of the Whole will review the: department project requests, additions/changes to the CIP, financial assumptions, organizational capacity to complete the requests, and project plans. Projects proposed for the CIP will be reviewed and prioritized by the Committee of the Whole before being forwarded to Council for approval.

B. ***Responsibility:*** The City's Finance Department will be responsible for coordinating and producing the annual Capital Improvement Plan. This includes but is not limited to establishing policies, procedures, schedules and deadlines for Capital Improvement Plan formulation, defining roles and responsibilities of CIP participants, obtaining relevant and reliable documentation and information for capital projects, establishing project evaluation criteria and rating systems, developing the CIP document for governing Body approval, and monitoring implementation of capital planning efforts.

C. ***Review:*** The Capital Projects will be reviewed by the Capital Improvement Plan Committee to assist the Finance Department prepare, and submit to the Committee of the Whole a Five-Year Capital Improvement Plan by June 1 annually. Additionally, the Committee of the Whole will act on the Capital Improvement Policy by August 1.

The committee will consist of the City Planner, Public Service Director, Economic Development Director, Public Works Director, Recreation Director, Sun Prairie Utilities Manager, Water Pollution Control Director and/or their designated staff. They shall meet to review and prioritize the capital projects in preparation for submission to the Committee of the Whole. The following criteria shall be considered in prioritizing projects:

1. Projects which are required by an existing agreement with another agency.
2. Projects which are essential to public or employee health or safety.
3. Projects which would result in significant savings in operating costs currently impacting the General Fund.
4. Projects which would make an existing facility more efficient or increase its use with minimal or no operating cost increase.
5. Projects which would provide new facilities with minimal or no operating costs.
6. Projects which would generate sufficient revenue to be essentially self-supporting in their operation.
7. Projects which would fulfill a City commitment (evidenced by previous inclusion in the Capital Improvement Plan and community support) to provide minimal facilities in areas which are deficient according to adopted standards.
8. Projects which would fulfill City Commitment (evidenced by previous inclusion in the Capital Improvement Plan and community support) to provide greater than minimal facilities.
9. Purchase of land for future projects at favorable prices prior to adjacent development.
10. Purchase of land for future City projects (landbanking).
11. Projects which have CIB expenses in future years, with no increase in General Fund operating costs continuation of a ten-year cycle street maintenance program).

12. Projects which are grant funded and would have minimal or no operating cost impact on the General Fund.
13. Projects which are grant funded but would requires increased operating costs in the General Fund.
14. Projects which are not grant funded and would require increased operating costs in the General Fund.

D. ***Document:***

I. In order to evaluate the merits of capital project requests and to allow each project due process in evaluations, capital projects proposed during the annual CIP process shall be accompanied, at a minimum, by the following information:

   a. Project Title, Physical Description, and Definition of Scope
   b. Demonstration/Justification of Need
   c. Project Schedule
   d. Capital Cost Estimate
   e. Statement of Impact on the Operating Budget
   f. Relationship to other Planned Projects
   g. Project's Department Rank Priority
   h. Recommended/Anticipated Funding Sources

II. The operating budget impact and the debt service impact will be incorporated into a forecast report.

III. Ensure that "abandoned" projects are clearly explained and labeled.

4. **Project Financing*:***

The City recognizes that an effective capital funding strategy requires consideration of a broad mix of funding mechanisms, including but not limited to debt financing, grants, and revenue offsets to reduce the impact on local property taxes. The City will maintain a balanced mix of financing sources without excessive reliance on any one source, and shall consider the following factor in evaluating the suitability of funding options for particular projects:

1. Legality
2. Equity
3. Effectiveness
4. Acceptability
5. Affordability
6. Ease of Administration
7. Efficiency

A. Debt Financing: The City will confine long-term borrowing to capital improvements or projects, which cannot be financed from current revenue. Projects financed by issuing bonds will be paid back within a period not to exceed the expected useful life of the projects. Long-term debt will not be used for current operations. The City will set a debt limitation, (please see the City's Debt Management Policy) review it annually, and maintain its debt in compliance with the limitation.

B. **Intergovernmental grants and Private Donations:** The City will seek to leverage such resources whenever available provided those capital projects identified are consistent with capital improvement plans and City priorities, and whose operating impact have been documented in operating budget forecasts.

5. Maintenance and Replacement of Capital Equipment/Facilities

The City will move towards the development of an asset preservation plan to maximize the assets' useful life and minimize future maintenance and replacement costs. An inventory of the City's assets, including their condition will be developed and maintained.

The City will move towards the establishment of a future maintenance/replacement reserve account (segregated by fund and program).

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CITY OF SUN PRAIRIE DEBT MANAGEMENT POLICY

Title: Debt Management Policy	
Policy Source: Committee of the Whole	Creation Date:12/06/2016
Application: Financial Management	Revision Date:
Indexed as: Debt Management Policy	Total Pages: 8

1. **Statement of Policy.** The City recognizes that the foundation of any well-managed program of capital financing is a comprehensive debt management policy. A debt policy sets forth the parameters for issuing debt and managing outstanding debt and provides guidance to decision makers regarding the timing and purposes for which debt may be issued, types and amounts of permissible debt, method of sale that may be used and structural features that may be incorporated. The debt policy recognizes a binding commitment to full and timely repayment of all debt as an intrinsic requirement for entry into the capital markets. Adherence to the debt policy helps the City to maintain a sound debt position and protect its credit quality. Further advantages of a debt policy are:

    a. Enhances the quality of decisions by imposing order and discipline.

    b. Promotes consistency and continuity in decision making.

    c. Rationalizes the decision-making process.

    d. Identifies objectives for staff to implement.

    e. Demonstrates a commitment to long-term financial planning objectives.

    f. Is regarded positively by the rating services in reviewing credit quality.

2. **Capital Improvement Planning.** The City will develop and maintain a multi-year Capital Improvement Plan (CIP) for consideration and adoption by the City Council. The CIP will be for the coming five fiscal years and will be updated periodically. The CIP will contain the following information:

    a. A description of each project.

    b. A listing of the expected sources of funds for each project.

    c. Estimated timing for each project.

d. An analysis of the debt financing required and the conformance of the planned financings with policy targets and the economic and fiscal resources of the City to bear such indebtedness over the next five years.

3. Limitations on Issuance of Debt

a. Legal Limits.

i. General Obligation (G.O.) Debt Limit. The total principal amount outstanding of debt obligations carrying the G.O. pledge of the City may not exceed an amount equal to five percent of the City's equalized value (including any tax increments) as determined by the Wisconsin Department of Revenue. As identified in the "Affordability Targets" section of this policy, the City has imposed on itself a more restrictive direct debt burden limitation. If the City must issue debt as a result of an emergency situation such as recovery from a natural disaster, these limits will not be considered applicable to that debt.

ii. Purpose and Authority. Debt obligations may be issued by the City under the authority of, and for the purposes defined in the following Chapters or Sections of the Wisconsin Statutes:

1. Chapter 24 – State Trust Fund Loans
2. Chapter 67 – G.O. Bonds and Notes
3. Section 67.12(1)(a) – Tax and Revenue Anticipation Notes
4. Section 66.0621 – Revenue Obligations
5. Section 66.1335 – Housing and Community Development
6. Section 66.0701 through 66.0733 – Special Assessment B Bonds

b. Public Policy Limits.

i. Purposes of Debt Issuance. In determining whether a particular project is appropriately financed with debt obligations, the City Council will consider the following public policy objectives:

1. It is the intent of the City to cash fund projects, in whole or in part, as an alternative to debt financing when practical. It is recognized, however, that most major projects will contain some element of debt financing. This also serves to promote taxpayer equity by amortizing the costs of improvements over their useful lives, providing the City the ability to charge those benefiting from the improvements over time.

2. The City may issue debt obligations to purchase capital assets and to fund infrastructure improvements when current revenues or fund balance/retained earnings are unavailable or reserved for other purposes.

3. The City may also issue debt obligations to provide funds for the implementation of economic development projects. These types of projects will normally be undertaken within a tax incremental district, with debt service repaid from future tax increment collections.

4. The City will not issue long-term debt obligations to provide funds for operating purposes. Issuance of short-term debt obligations to finance operating expenses will only be considered in the event of an extreme financial emergency.

ii. Use of Derivatives. Derivatives are financial contracts or financial instruments whose value is derived from the value of something else (known as the underlying instrument). The City will, as a general practice, not enter into contracts and financing agreements involving interest rate swaps, floating/fixed rate auction or reset securities or other forms of debt bearing synthetically determined interest rates. The only type of derivative that will be considered for use by the City would be a State and Local Government Series (SLGS) Securities investment offered by the US Treasury or a Guaranteed Investment Contract (GIC) when used in conjunction with an advance refunding of the City's debt. The interest rate earned on time deposit SLGS securities is one basis point below the current estimated Treasury borrowing rate for a security of comparable maturity. Generally the City will always use SLGS for advance refunding escrow accounts but in the event that SLGS are not available from the US Treasury, the City would consider the use of a GIC but only after competitive proposals are taken from at least three vendors for same.

c. Financial Limits.

i. G.O. Debt.

1. Affordability & Debt Profile Targets. To provide for a capital financing program that is sustainable based on the financial resources of the City, and to further maintain a credit profile that will allow the City to maintain or improve its current rating on outstanding debt issues, the following affordability and debt profile targets are established.

a. Direct Debt Burden. The total direct debt principal outstanding at the end of each budget year will not exceed 1.75% of the

City's total equalized value for that year. Direct debt is defined as the total amount of outstanding G.O. and lease revenue debt principal less that portion of the principal that the City expects to abate with revenues of its water, sewer, storm water and electric utilities and further assuming utility user rates are maintained at a level that will generate net revenues in a sum sufficient to abate the payments.

b. Percentage of Total Tax Levy Allocated for Debt Service. The portion of the City's total tax levy that will be used for payment of General Obligation debt will not exceed 30% of the total levy amount. Recognizing that for budget year 2016 the percent of the total levy used for debt payment was 32.92%, it is acknowledged that the City may not achieve this target level until 2019 based on current forecasting. Increases in the total tax levy will be allocated almost exclusively to providing increased resources for operations; to the extent feasible, the amount of the total tax Levy used for payment of General Obligation debt will not increase above the 2017 budgeted debt service levy.

ii. Revenue Debt. The City may finance the capital needs of its revenue producing enterprise activities through the issuance of revenue-secured debt obligations. Prior to issuing revenue-secured debt obligations, the City will develop financial plans and projections showing the feasibility of the planned financing, required rates and charges needed to support the planned financing, and the impact of the planned financing on ratepayers. The amount of revenue-secured debt obligations will be limited by the feasibility of the overall financing plan, as well as any existing covenants related to debt obligations with a claim to the same revenue source.

iii. Short-Term Debt.

1. Bond or Note Anticipation Note. Where their use is judged to be prudent and advantageous, the City may choose to issue Bond or Note Anticipation Notes as a source of interim construction financing. Prior to their issuance, takeout financing must be planned for and determined to be feasible.

2. Tax and Revenue Anticipation Notes. In the event of an extreme financial emergency, the City may issue Tax or Revenue Anticipation Notes to fund working cash flow needs. Before issuing such notes, cash flow projections will be prepared to ensure that funds will be available for timely repayment of the Notes.

iv. Conduit Debt. The City may sponsor conduit financings for those activities (i.e., economic development, housing, health facilities, etc.) that have a general public purpose and are consistent with the City Council's overall service and policy objectives. All conduit financings must be non-recourse to the City.

4. Debt Structuring Practices.

a. Maximum Term. The term of any debt obligations issued by the City should not exceed the economic life of the improvements that they finance. If financially feasible, the term should be shorter than the projected economic life. Whenever possible, the term of obligations issued will be ten years or less. Per this policy, the City may issue twenty year bonds for enterprise fund projects (i.e. storm water, sanitary sewer, water, etc.).

b. Interest Rates. Debt obligations issued by the City will carry a fixed interest rate. If, in consultation with its Financial Advisor, the City determines that a variable interest rate offers specific advantages, it may choose to issue securities that pay a rate of interest that varies according to a predetermined formula or results from a periodic remarketing of the securities.

c. Debt Service Structure. Whenever possible, debt will be structured so that annual principal and interest payments are approximately level. If necessary, debt structures may be “wrapped” to accommodate existing debt service payments to allow for the City’s affordability targets to be maintained. Notwithstanding the foregoing, the City will attempt to structure debt so that interest payments are due not later than the first fiscal year following issuance, and principal payments not later than the second fiscal year following issuance. The City will avoid "balloon" repayment schedules that consist of low annual principal payments and one large payment due at the end of the term. An exception to the foregoing would be cases where it is anticipated that the City will have funds on hand sufficient to retire the balloon payment (e.g. tax increments, impact fees, land sale proceeds).

d. Capitalized Interest. The City may elect to capitalize interest for any debt obligation, but depending on timing of issuance, it should first consider budgeting for the estimated interest expense, or appropriating the funds from other available sources. An exception to this policy would be cases where obligations are issued to finance projects within tax increment districts, and current district increment collections are projected to be insufficient to make interest payments. In these cases, the City will normally capitalize interest.

e. Call Provisions. Call provisions for debt obligations will be made as short as possible consistent with achieving the best interest rates possible for the City. Obligations shall be callable at par.

5. Debt Issuance Practices

a. Competitive Sale. The City will issue its debt obligations through competitive sale unless it is determined by the City and its Financial Advisor that a competitive sale would not be expected to produce the best results for the City. If the City determines that bids received through a competitive sale are unsatisfactory, or in the event no bids are received, the City may enter into negotiation for sale of the obligations

b. Negotiated Sale. The City may consider negotiated sales of debt obligations in extraordinary circumstances when the complexity of the issue requires specialized expertise, when the negotiated sale would result in substantial savings in time or money, or when market conditions or City credit are unusually volatile or uncertain. If the City elects to negotiate the sale of a debt obligation, it will utilize a Financial Advisor with no interests in the underwriting of the transaction to represent it.

c. State and Federal Revolving Loan Funds and Pools. As an alternative to open market financing, the City may elect to seek a loan through State or Federal programs when this will provide advantages to the City with respect to costs, interest rates, or terms. Examples of available loan programs include State Trust Fund Loans, Clean Water Fund Program Loans, Safe Drinking Water Fund Program Loans, and USDA Rural Development Loans.

d. Refunding.

i. Advance Refunding. Federal tax law allows debt obligations to be refinanced one time prior to the obligation's earliest pre-payment date (call date). The City may issue such advance refunding bonds when legally permissible, and when net present value savings, expressed as a percentage of the par amount of the refunding bonds, equal or exceed a target of two percent.

ii. Current Refunding. Current refunding bonds may be issued to refinance existing debt obligations no earlier than sixty days prior to the obligation's earliest pre-payment date (call date). There is presently no limit to the number of times that an issue may be current refunded. The City may issue current refunding bonds when legally permissible, and whenever doing so is expected to result in a net economic benefit to the City.

iii. Restructuring of Debt. Independent of potential savings, the City may choose to refund debt obligations when necessary to provide for an alternative debt structure. Refunding may also be undertaken as a means to replace and modernize bond covenants essential to management and operations.

e. Credit Rating.

i. Rating Service Relationships. The Director of Administrative Services is responsible for maintaining relationships with any rating service that currently assign ratings to the City's debt obligations. This effort shall include providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance. The City's Financial Advisor will assist in this effort.

ii. Use of Rating Services. The Director of Administrative Services, in consultation with the City's Financial Advisor, is responsible for determining whether or not a rating shall be requested on a particular financing, and which rating service(s) will be asked to provide a rating.

iii. Minimum Long-Term Rating Requirements. The City's minimum rating requirement for its long-term G.O. debt is "A" or higher. If a debt obligation cannot meet this requirement based on its underlying credit strength, then credit enhancement may be sought to achieve the minimum rating. If credit enhancement is unavailable or is determined by the Director of Administrative Services and the City's Financial Advisor to be uneconomical, the obligations may be issued without a rating.

6. Debt Management Practices

a. Continuing Disclosure. The City is committed to continuing disclosure of financial and credit information relevant to its outstanding debt obligations and will abide by the provisions of Securities and Exchange Commission (SEC) Rule 15c2-12 concerning primary and secondary market disclosure. The City Clerk is responsible for providing ongoing disclosure information and may be assisted by the City's Financial Advisor in the execution of this task.

b. Investment of Debt Proceeds. The City will temporarily invest the proceeds of debt obligations in accordance with its investment policy. Interest earnings realized within construction accounts will be applied first towards payment of project costs, then for payment of debt service associated with the obligations.

c. Arbitrage Rebate and Monitoring. The Director of Administrative Services will establish and maintain a system of record keeping and reporting to meet arbitrage rebate compliance requirements of the federal tax code. This effort will include tracking investment earnings on proceeds of debt obligations, calculating rebate payments in compliance with tax law, and remitting any rebatable earnings to the federal government in a timely manner in order to preserve the tax-exempt status of the City's outstanding debt obligations. Additionally, general financial reporting and certification requirements embodied in bond covenants shall be monitored to ensure that all covenants are complied with. The City's Financial Advisor may assist in the execution of these tasks.

7. **Review.** It is the intent of the City Council that this Debt Management Policy be reviewed periodically and revised as necessary.

City of Sun Prairie Fund Balance Policy

1. General Policy and Purpose

The establishment of a formal fund balance policy is an important component of the City's financial management policy. Maintaining appropriate levels of fund balance is a key element of the City's overall financial health. This policy is intended to set targets for the desired level of fund balance, identify the approach to maintain these levels, and to provide guidelines for the use of fund balance.

2. Definitions

Nonspendable Fund Balance – Amounts that cannot be spent because they are either not in spendable form, or legally or contractually required to be maintained intact. Examples: Inventory, Prepaid Expenditures, Property Held for Resale.

Restricted Fund Balance – Amounts that are restricted when constraints placed on the use of resources are either: (a) externally imposed by creditors (through debt covenants), grantors, contributors, or laws or regulations of other governments, or (b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation must be such that the government is legally mandated to use the resources for a specific purpose.

Committed Fund Balance – Amounts that can only be used for specific purposes pursuant to constraints imposed by the government's highest level of decision-making authority. Committed amounts cannot be used for another purpose unless the government removes or changes the specific use by taking the same type of action (legislation, resolution, ordinance) it used to previously commit the amounts.

Assigned Fund Balance – Amounts that are constrained by the government's intent to be used for a specific purpose but are neither restricted nor committed. Intent should be expressed by the governing body itself, a body (e.g. a committee), or an official to which the governing body has delegated authority to assign amounts to be used for specific purposes.

Unassigned Fund Balance –Amounts that are spendable in form and are not restricted, committed, or assigned to a specific purpose.

Contingency Allocation – An annual appropriation set aside to meet unexpected needs within the current budget. Unused contingency can be used to increase fund balance levels.

General Fund – For purposes of this policy, the General Fund is defined as Fund 100 as accounted for in the City's financial system; therefore the Sun Prairie Media Center and Family Aquatic Center shall be excluded from the revenue calculations.

3. Objectives

- To insulate the City from large, unanticipated one-time expenditures or revenue reductions resulting from external changes.
- To provide funds to allow the City to respond to unforeseen emergencies.
- To help stabilize the City's tax levy due to a temporary reduction in non-property tax revenue.
- To provide sufficient working capital to eliminate the need for short-term borrowing due to the timing of the receipt of short-term receivables and the remittance of short-term payables.

4. Contingency Allocation

The City shall establish an annual contingency appropriation to provide for unexpected needs within the current year. This appropriation shall be budgeted at a minimum rate of three quarters of one percent (0.75%) of the general fund revenue budget. Use of the contingency allocation is governed by the Committee of the Whole with final approval by the Mayor and City Council.

5. Unassigned Fund Balance

Emergency Reserve

The City shall establish an emergency reserve to respond to one-time unforeseen emergencies. This reserve shall be maintained at an amount equal to at least six percent (6%) and not more than nine percent (9%) of the prior year's budgeted general fund revenues. This reserve will be part of the City's unassigned fund balance and will be maintained in addition to any restricted, committed, or assigned fund balance.

The Council may withdraw funds from the emergency reserve after the current year contingency has been expended. The emergency reserve will only be used when emergency expenditures of unexpected revenue reduction would result in a net deficit in the fiscal year budget. Restoration of the emergency reserve should begin in the fiscal year following its use.

Stabilization Reserve

The City shall establish a stabilization reserve to aid the City in responding to temporary reductions in revenue. This reserve shall be maintained at an amount equal to at least six percent (6%) and not more than nine percent (9%) of the prior year's budgeted general fund revenues. This reserve will be part of the City's unassigned fund balance and will be maintained in addition to any restricted, committed, or assigned fund balance.

The Council may withdraw funds from the stabilization reserve to maintain current service levels or to help transition to slower expenditure growth in response to a net decrease in general fund non-property tax revenues. Prior to allocation funds from the stabilization reserve the City shall develop a multi-year plan detailing the proposed use of the reserve funds and their replacement. Replacement of the stabilization reserve should begin within year two of the first use of funds.

At year-end, if the City's emergency and/or stabilization reserves are below the policy minimums, any unused contingency will be used to increase the City's undesignated fund balance. Additionally, at least 50% of any remaining general fund surplus will be added to these reserves.

It shall be the responsibility of the Finance Director to monitor these reserve balances on an on-going basis and to make recommendations to Administration and Council on measures to maintain target levels.