

RESOLUTION NO. 29 OF 2017

(Salt Lake City Council capital and debt management policies.)

WHEREAS, the Salt Lake City Council ("City Council" or "Council") demonstrated its commitment to improving the City's Capital Improvement Program in order to better address the deferred and long-term infrastructure needs of Salt Lake City; and

WHEREAS, the analysis of Salt Lake City's General Fund Capital Improvement Program presented by Citygate Associates in February 1999, recommended that the Council review and update the capital policies of Salt Lake Corporation ("City") in order to provide direction to the capital programming and budgeting process and adopt and implement a formal comprehensive debt policy and management plan; and

WHEREAS, the City's Capital Improvement Program and budgeting practices have evolved since 1999 and the City Council wishes to update the capital and debt management policies by updating and restating such policies in their entirety to better reflect current practices; and

WHEREAS, the City Council desires to improve transparency of funding opportunities across funding sources including General Fund dollars, impact fees, Class C (gas tax) funds, Redevelopment Agency funds, Public Utilities funds, repurposing old Capital Improvement Program funds and other similar funding sources.

NOW THEREFORE, BE IT RESOLVED by the City Council of Salt Lake City, Utah:

That the City Council has determined that the following capital and debt management policies shall guide the Council as they continue to address the deferred and long-term infrastructure needs within Salt Lake City:

Capital Policies

1. Capital Project Definition – The Council intends to define a capital project as follows:

"Capital improvements involve the construction, purchase or renovation of buildings, parks, streets or other physical structures. A capital improvement must have a useful life of five or more years. A capital improvement is not a recurring capital outlay item (such as a motor vehicle or a fire engine) or a maintenance expense (such as fixing a leaking roof or painting park benches). In order to be considered a capital project, a capital improvement must also have a cost of \$50,000 or more unless such capital improvement's significant functionality can be demonstrated to warrant its inclusion as a capital project (such as software). Acquisition of equipment is not considered part of a capital project unless such acquisition of equipment is an integral part of the cost of the capital project."

2. Annual Capital Budget Based on 10-Year Capital Facilities Plan – The Council requests that

the Mayor's Recommended Annual Capital Budget be developed based upon the 10-Year Capital Facilities Plan and be submitted each fiscal year to the City Council for consideration as part of the Mayor's Recommended Budget no later than the first Tuesday of May.

3. Multiyear Financial Forecasts – The Council requests that the Administration:
 - a. Prepare multi-year revenue and expenditure forecasts that correspond to the capital program period;
 - b. Prepare an analysis of the City's financial condition, debt service levels within the capital improvement budget, and capacity to finance future capital projects; and
 - c. Present this information to the Council in conjunction with the presentation of each one-year capital budget.
4. Annual General Fund Transfer to CIP Funding Goal – Allocation of General Fund revenues for capital improvements on an annual basis will be determined as a percentage of General Fund revenue. The Council has a goal that no less than nine percent (9%) of ongoing General Fund revenues be invested annually in the Capital Improvement Fund.
5. Maintenance Standard - The Council intends that the City will maintain its physical assets at a level adequate to protect the City's capital investment and to minimize future maintenance and replacement costs.
6. Capital Project Prioritization - The Council intends to give priority consideration to projects that:
 - a. Preserve and protect the health and safety of the community;
 - b. Are mandated by the state and/or federal government; and
 - c. Provide for the renovation of existing facilities resulting in a preservation of the community's prior investment, in decreased operating costs or other significant cost savings, or in improvements to the environmental quality of the City and its neighborhoods.
7. External Partnerships - All other considerations being equal, the Council intends to give fair consideration to projects where there is an opportunity to coordinate with other agencies, establish a public/ private partnership, or secure grant funding.
8. Aligning Project Cost Estimates and Funding - The Council intends to follow a guideline of approving construction funding for a capital project in the fiscal year immediately following the project's design wherever possible. Project costs become less accurate as more time passes. The City can avoid expenses for re-estimating project costs by funding capital projects in a timely manner.
9. Advisory Board Funding Recommendations - The Council intends that all capital projects be evaluated and prioritized by the Community Development and Capital Improvement Program Advisory Board. The resulting recommendations shall be provided to the Mayor, and shall be included along with the Mayor's funding recommendations in conjunction with the Annual Capital budget transmittal, as noted in Paragraph two above.

10. Prioritize Funding Projects in the 10-Year Plan - The Council does not intend to fund any project that has not been included in the 10-Year Capital Facilities Plan for at least one (1) year prior to proposed funding, unless extenuating circumstances are adequately identified.

11. Cost Overrun Process - The Council requests that any change order to any capital improvement project follow the criteria established in Resolution No. 65 of 2004 which reads as follows:

- a. "The project is under construction and all other funding options and/or methods have been considered and it has been determined that additional funding is still required.
- b. Cost overrun funding will be approved based on the following formula:
 - i. 20% or below of the budget adopted by the City Council for project budgets of \$100,000 or less;
 - ii. 15% or below of the budget adopted by the City Council for project budgets between \$100,001 and \$250,000;
 - iii. 10% or below of the budget adopted by the City Council for project budgets over \$250,000 with a maximum overrun cost of \$100,000.
- c. The funds are not used to pay additional City Engineering fees.
- d. The Administration will submit a written notice to the City Council detailing the additional funding awarded to projects at the time of administrative approval.
- e. If a project does not meet the above mentioned criteria the request for additional funding will be submitted as part of the next scheduled budget opening. However, if due to timing constraints the cost overrun cannot be reasonably considered as part of a regularly scheduled budget opening, the Administration will prepare the necessary paperwork for review by the City Council at its next regularly scheduled meeting."

12. Recapture Funds from Completed Capital Projects - The Council requests that the Administration include in the first budget amendment each year those Capital Improvement Program Fund accounts where the project has been completed and a project balance remains. It is the Council's intent that all account balances from closed projects be recaptured and placed in the CIP Cost Overrun Contingency Account for the remainder of the fiscal year, at which point any remaining amounts will be transferred to augment the following fiscal year's General Fund ongoing allocation.

13. Recapture Funds from Unfinished Capital Projects – Except for situations in which significant progress is reported to the Council, it is the Council's intent that all account balances from unfinished projects older than three years be moved out of the specific project account to the CIP Fund Balance. Notwithstanding the foregoing, account balances for bond financed projects and outside restricted funds (which could include grants, SAA or other restricted funds) shall not be moved out of the specific project account.

14. Surplus Land Fund within CIP Fund Balance – Revenues received from the sale of real property will go to the unappropriated balance of the Capital Projects Fund and the revenue will be reserved to purchase real property unless extenuating circumstances warrant a different use. It is important to note that collateralized land cannot be sold.

15. Transparency of Ongoing Costs Created by Capital Projects – Any long-term fiscal impact to the General Fund from a capital project creating ongoing expenses such as maintenance, changes in electricity/utility usage, or additional personnel will be included in the CIP funding log and project funding request. Similarly, capital projects that decrease ongoing expenses will detail potential savings in the CIP funding log.
16. Balance Budget without Defunding or Delaying Capital Projects – Whenever possible, capital improvement projects should neither be delayed nor eliminated to balance the General Fund budget.
17. Identify Sources when Repurposing Old Capital Project Funds – Whenever the Administration proposes repurposing funds from completed capital projects the source(s) should be identified including the project name, balance of remaining funds, whether the project scope was reduced, and whether funding needs related to the original project exist.
18. Identify Capital Project Details – For each capital project, the capital improvement projects funding log should identify:
 - a. The Community Development and Capital Improvement Program Advisory Board's funding recommendations,
 - b. The Administration's funding recommendations,
 - c. The project name and a brief summary of the project,
 - d. Percentage of impact fee eligibility and type,
 - e. The project life expectancy,
 - f. Whether the project is located in an RDA project area,
 - g. Total project cost and an indication as to whether a project is one phase of a larger project,
 - h. Subtotals where the project contains multiple scope elements that could be funded separately,
 - i. Any savings derived from funding multiple projects together,
 - j. Timing for when a project will come on-line,
 - k. Whether the project implements a master plan,
 - l. Whether the project significantly advances the City's renewable energy or sustainability goals,
 - m. Ongoing annual operating impact to the General Fund,
 - n. Any community support for the project - such as community councils or petitions,
 - o. Communities served,
 - p. Legal requirements/mandates,
 - q. Whether public health and safety is affected,
 - r. Whether the project is included in the 10-Year Capital Facilities Plan,
 - s. Whether the project leverages external funding sources, and
 - t. Any partner organizations.

Debt Management Policies

1. Prioritize Debt Service for Projects in the 10-Year Capital Facilities Plan - The Council intends to utilize long-term borrowing only for capital improvement projects that are included in the City's 10-Year Capital Facilities Plan or in order to take advantage of

opportunities to restructure or refund current debt. Short-term borrowing might be utilized in anticipation of future tax collections to finance working capital needs.

2. Evaluate Existing Debt before Issuing a New Debt - The Council requests that the Administration provide an analysis of the City's debt capacity, and how each proposal meets the Council's debt policies, prior to proposing any projects for debt financing. This analysis should include the effect of the bond issue on the City's debt ratios, the City's ability to finance future projects of equal or higher priority, and the City's bond ratings.
3. Identify Repayment Source when Proposing New Debt - The Council requests that the Administration identify the source of funds to cover the anticipated debt service requirement whenever the Administration recommends borrowing additional funds.
4. Monitoring Debt Impact to the General Fund - The Council requests that the Administration analyze the impact of debt-financed capital projects on the City's operating budget and coordinate this analysis with the budget development process.
5. Disclosure of Bond Feasibility and Challenges - The Council requests that the Administration provide a statement from the City's financial advisor that each proposed bond issue appears feasible for bond financing as proposed. Such statement from the City's financial advisor should also include an indication of requirements or circumstances that the Council should be aware of when considering the proposed bond issue (such as any net negative fiscal impacts on the City's operating budget, debt capacity limits, or rating implications).
6. Avoid Use of Financial Derivative Instruments - The Council intends to avoid using interest rate derivatives or other financial derivatives when considering debt issuance.
7. Maintain Reasonable Debt Ratios - The Council does not intend to issue debt that would cause the City's debt ratio benchmarks to exceed moderate ranges as indicated by the municipal bond rating industry.
8. Maintain High Level Bond Ratings – The Council intends to maintain the highest credit rating feasible and to adhere to fiscally responsible practices when issuing debt.
9. Consistent Annual Debt Payments Preferred – The Council requests that the Administration structure debt service payments in level amounts over the useful life of the financed project(s) unless anticipated revenues dictate otherwise or the useful life of the financed project(s) suggests a different maturity schedule.
10. Sustainable Debt Burden – The Council intends to combine pay-as-you-go strategy with long-term financing to keep the debt burden sufficiently low to merit continued AAA general obligation bond ratings and to provide sufficient available debt capacity in case of emergency.
11. Lowest Cost Options – The City will seek the least costly financing available when evaluating debt financing options.

12. Avoid Creating Structural Deficits – The City will minimize the use of one-time revenue to fund programs/projects that require ongoing costs including debt repayments.
13. Aligning Debt and Project Timelines – Capital improvement projects financed through the issuance of bonded debt will have a debt service that is not longer than the useful life of the project.

Passed by the City Council of Salt Lake City, Utah, this 3rd day of October, 2017.



SALT LAKE CITY COUNCIL

By: _____

CHAIRPERSON

ATTEST:

By: [Signature]
City Recorder

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| Salt Lake City Approved As To Form By: <u>[Signature]</u> Jaysen Oldroyd Date: <u>10/2/17</u> |
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