To: Mayor and Members of Common Council

From: Mack Cook

Re: Status of the General Fund Fund Balance at December 31, 2013

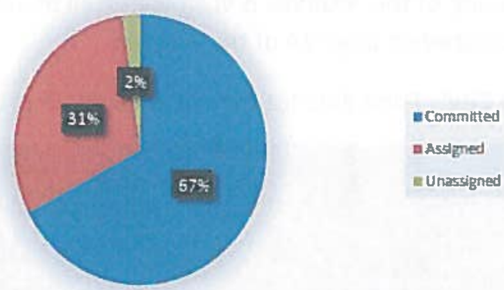
Date: October 28, 2014

SUMMARY

As of December 31, 2013, the General Fund Fund Balance is $3,698,406. Per the City's Fund Balance Policy this amount is allocated to three categories of reserves; Committed, Assigned, and Unassigned. The allocation is as follows:

• Committed:	$2,490,805
• Assigned:	$1,124,514
• Unassigned:	$ 83,088
Total	$3,698,406

ALLOCATION OF GENERAL FUND FUND BALANCE



The Fund Balance has significantly improved from a deficit at December 31, 2009 of $149,117. However, as of December 31, 2013 there exists a shortfall of $2,885,462 between the actual fund balance and the prescribed balance in the City's Fund Balance Policy.

BACKGROUND

In 2012 the City adopted the Financial and Budgetary Policies attached hereto. These policies included a General Fund Fund Balance Policy designed to ensure that there would be adequate liquid resources to serve as a financial cushion against the potential unanticipated circumstances and events and permit the orderly replacement of assets without resorting to debt financing. The City adopted Fund Balance Policy adhered to Generally Accepted Accounting Standards as set forth in GASB 54.

The City's General Fund Fund Balance ('Fund Balance' is segregated into three categories; committed, assigned, and unassigned. The Committed Fund Balance represents resources whose use is constrained by limitations that the City imposes upon itself by Ordinance and that remains binding unless removed in the same manner. The Assigned Fund Balance represents the City's intended use of resources. Such intent is reflected in a Council Resolution and remains such unless removed in the same manner. The Unassigned Fund Balance is the residual classification for the General Fund. This classification represents the fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the General Fund.

The Committed and Assigned Fund categories have been subdivided into reserve accounts for which the funding and use is explained in detail beginning on page 9 in the attached Financial and Budgetary Policies. ('Policies') The structure is outlined as follows:

Committed Funds:

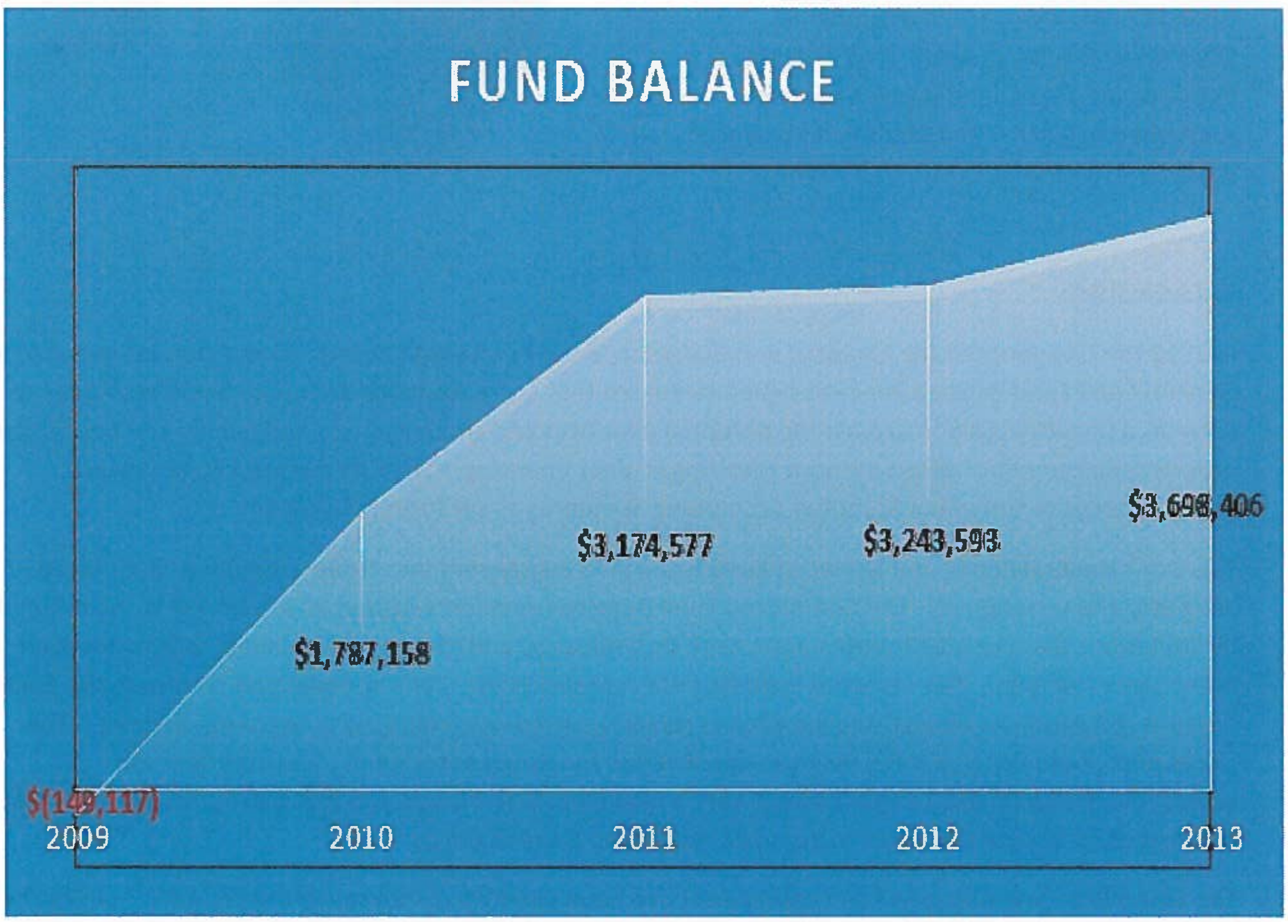
- Committed Stabilization Reserve
- Committed Reserves for Natural Disasters and Emergencies Reserve
- Committed Budgeted Operating Expenditures Reserve

Assigned Funds:

- Assigned Equipment Replacement Reserve
- Assigned Park Renovation Reserve
- Assigned Snow Removal Reserve
- Assigned Redevelopment Reserve
- Assigned Land Acquisition Reserve

Funding of the reserves is via a waterfall of annual surpluses from operations per the schematic illustrated on page 14 of the Policies.

The City's Fund Balance has significantly improved since being in a deficit position December 31, 2009.

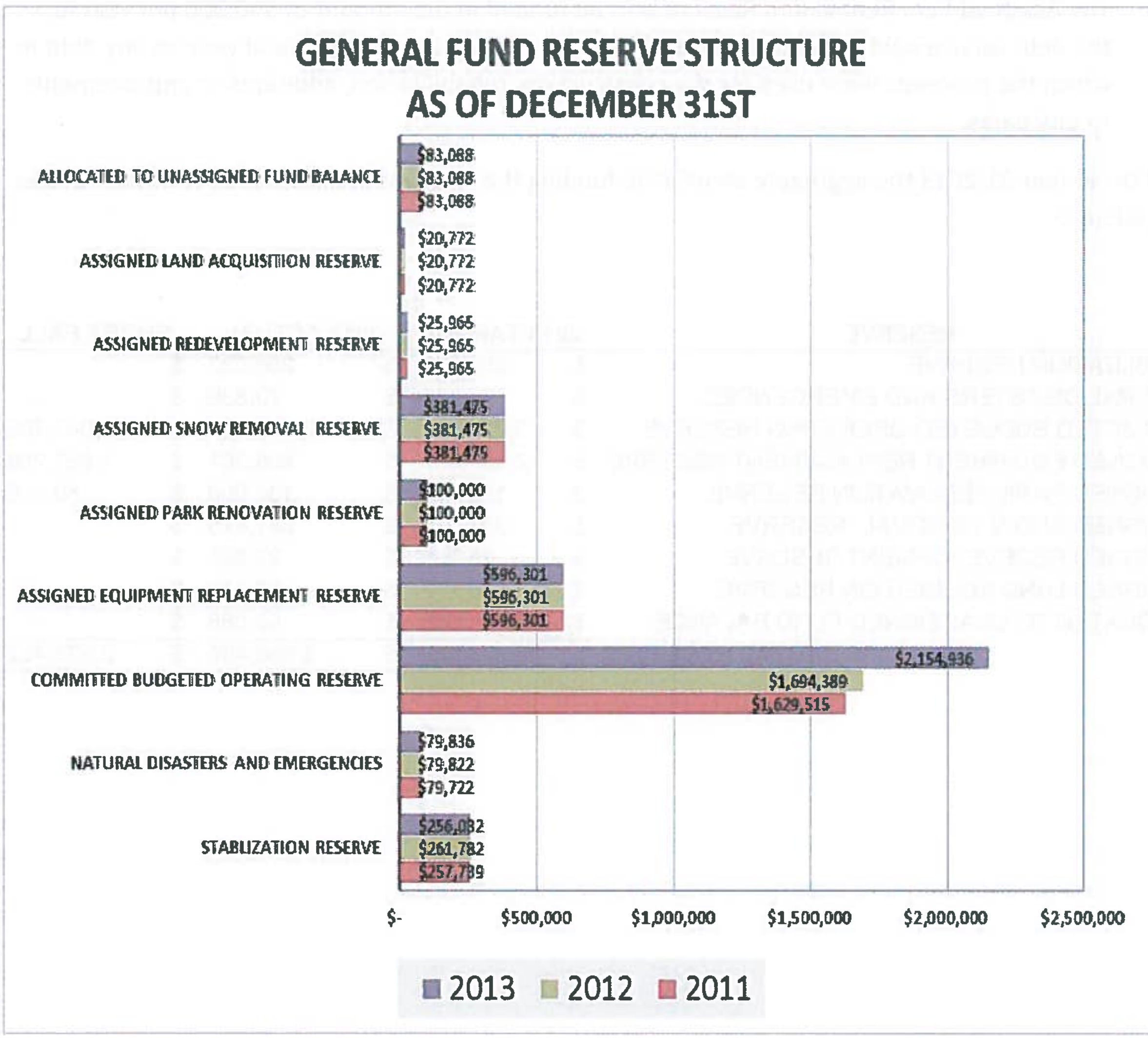


FUND BALANCE DECEMBER 31, 2013

The City's Fund Balance as of December 31, 2013 is $3,698,406 and is allocated among the reserves as follows

RESERVE		2011		2012		2013
STABLIZATION RESERVE	$	257,739	$	261,782	$	256,032
NATURAL DISASTERS AND EMERGENCIES	$	79,722	$	79,822	$	79,836
COMMITTED BUDGETED OPERATING RESERVE	$	1,629,515	$	1,694,389	$	2,154,936
ASSIGNED EQUIPMENT REPLACEMENT RESERVE	$	596,301	$	596,301	$	596,301
ASSIGNED PARK RENOVATION RESERVE	$	100,000	$	100,000	$	100,000
ASSIGNED SNOW REMOVAL RESERVE	$	381,475	$	381,475	$	381,475
ASSIGNED REDEVELOPMENT RESERVE	$	25,965	$	25,965	$	25,965
ASSIGNED LAND ACQUISITION RESERVE	$	20,772	$	20,772	$	20,772
ALLOCATED TO UNASSIGNED FUND BALANCE	$	83,088	$	83,088	$	83,088
TOTAL RESERVES	$	3,174,577	$	3,243,593	$	3,698,406

The three year fund level for each reserve and the monetary relationship between reserves is illustrated in the following chart:



The General Fund Polices prescribed the funding level of the three Committed Reserves.

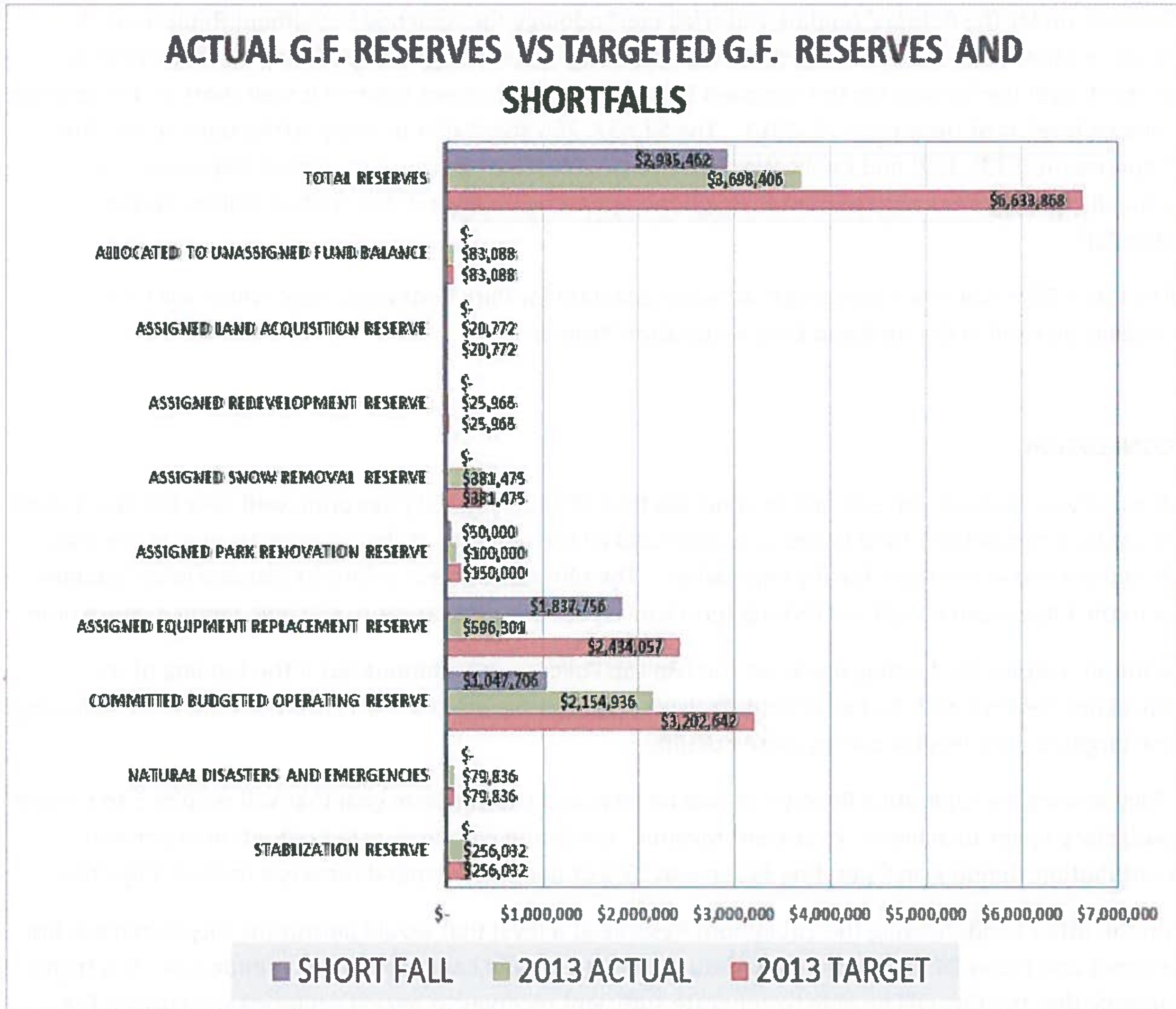
- Committed Stabilization Reserve is to be funded at 1.5% of the City's General Fund Budgeted Revenues for the succeeding years
- Committed Reserves for Natural Disaster and Emergencies is funded to equal one mil of the total assessed taxable assessed value of property located within the City
- Committed Budget Operating Expenditures is to be funded at 17 percent of the total General Fund's Budgeted Operating Expenditures from the succeeding fiscal year in accordance with the Government Finance Office Association Best Practice advisory of October 2009 entitled "Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund" which is attached hereto.

The General Fund Polices are establishes funding levels for three of the Assigned Reserves.

- The Assigned Equipment Reserve is to be funded annually in an amount equal to the current year's depreciation expense attributable to machinery, equipment and vehicles less expenditures for the acquisition of such capital assets excluding capital leases entered into during the current fiscal year.
- The Assigned Park Renovation Reserve is to be funded in the amount of $50,000 per year less the debt service paid during the current fiscal year during the current fiscal year on any debt in which the proceeds were used for the construction, rehabilitation, additions or improvements to City parks.

As of December 31' 2013 the aggregate shortfall in funding the reserves in accordance with the Policies is $2,935,462:

RESERVE	2013 TARGET	2013 ACTUAL	SHORT FALL
STABLIZATION RESERVE	$ 256,032	$ 256,032	$ -
NATURAL DISASTERS AND EMERGENCIES	$ 79,836	$ 79,836	$ -
COMMITTED BUDGETED OPERATING RESERVE	$ 3,202,642	$ 2,154,936	$ 1,047,706
ASSIGNED EQUIPMENT REPLACEMENT RESERVE	$ 2,434,057	$ 596,301	$ 1,837,756
ASSIGNED PARK RENOVATION RESERVE	$ 150,000	$ 100,000	$ 50,000
ASSIGNED SNOW REMOVAL RESERVE	$ 381,475	$ 381,475	$ -
ASSIGNED REDEVELOPMENT RESERVE	$ 25,965	$ 25,965	$ -
ASSIGNED LAND ACQUISITION RESERVE	$ 20,772	$ 20,772	$ -
ALLOCATED TO UNASSIGNED FUND BALANCE	$ 83,088	$ 83,088	$ -
TOTAL RESERVES	$ 6,633,868	$ 3,698,406	$ 2,935,462



As illustrated above the shortfall is concentrated in the Committed Budget Operating Reserve, the Assigned Equipment Replacement Reserve and the Assigned Park Renovation Reserve.

As previously referenced the targeted funding level for the Committed Budgeted Operating Reserve is 17% of the succeeding fiscal year budgeted expenditures in the General Fund. Unlike school districts New York General Municipal Law does not regulate municipal funding levels. In establishing the 17 percent threshold the City is following the GFOA Best Practice guidance. The City is transitioning to the 17 percent fund balance over a 6 year period. As of December 31, 2013, the City has reached the 11.44 percent level at $2,154,938.

COMMITTED BUDGETED OPERATING RESERVE	2011		2012		2013	
GENERAL FUND BUDGETED EXPENDITUTRES	$ 17,182,600		$ 18,370,380		$ 18,839,071	
PERCENTAGE 5 YEAR TRANSITION TO 17%	9.48%	$ 1,629,515	9.22%	$ 1,694,389	11.44%	$ 2,154,936

Because under the Policies' funding waterfall methodology the Assigned Equipment Replacement Reserve cannot be funded until such time as the Budget Operating Reserve is fully funded at the 17 percent level the funding for the Assigned Equipment Replacement Reserve is well short of the targeted funding level as of December 31, 2013. The $1,837, 756 shortfall is primary attributable to the Fire Department ($735,102) and Public Works/Parks ($1,102,654). Because the Police Department is annually funding fleet replacement through the operating budgets it does not contribute to the shortfall.

The City's 2015 General Fund Budget allocates $50,000 for Park Redevelopment which will cure the existing shortfall in the Assigned Park Renovation Reserve.

CONCLUSION

The analysis above could lead one to conclude that although the City has done well over the last 4 years to create a respectable fund balance, to fully fund all the reserves at the targeted level in at the least ambitious and at the most fiscally impossible. The ultimate success is further clouded when coupled with the City's need to address its long term liability for accrued vacation, sick and compensatory time.

Without a doubt the funding levels set forth in the Polices are ambitious but if the funding of the Operating Reserve and the Equipment Replacement Reserve are place on different time lines, achieving the targeted fund level becomes more possible.

Fully funding the Operating Reserve should be view as a shorter term goal that will require 5 to 6 more budgetary cycles to achieve. At current revenue trends and with forecasted reduction in pension contributions funding an Operating Reserve at 17% of budgeted expenditures is a realistic objective.

On the other hand, funding the Equipment Reserve at a level that would permit the City to replace fire engines and heavy DPW equipment without resorting to debt could be a 30 year endeavor. It is highly unlikely that the City will be able to generate sufficient reserves to permit replacing the current fire engines and heavy DPW equipment without resorting to 100% financing. Therefore the goal of the Equipment Reserve has to be achieve a funding level that will enable the City to internally fund the succeeding generation of equipment. However the City's 2016 General Fund should adopt a model to begin the fund annually the light vehicles and equipment in the Fire. Codes, DPE and Parks under a program similar to that currently followed the Police Department.

Respectfully submitted,

Mack

GFOA Best Practice

Determining the Appropriate Level of Unrestricted Fund Balance in the General Fund

Background. Accountants employ the term *fund balance* to describe the net assets of governmental funds calculated in accordance with generally accepted accounting principles (GAAP). Budget professionals commonly use this same term to describe the net assets of governmental funds calculated on a government's budgetary basis.[1] In both cases, fund balance is intended to serve as a measure of the financial resources available in a governmental fund.

Accountants distinguish up to five separate categories of fund balance, based on the extent to which the government is bound to honor constraints on the specific purposes for which amounts can be spent: *nonspendable fund balance*, *restricted fund balance*, *committed fund balance*, *assigned fund balance*, and *unassigned fund balance*.[2] The total of the last three categories, which include only resources without a constraint on spending or for which the constraint on spending is imposed by the government itself, is termed *unrestricted fund balance*.

It is essential that governments maintain adequate levels of fund balance to mitigate current and future risks (e.g., revenue shortfalls and unanticipated expenditures) and to ensure stable tax rates. Fund balance levels are a crucial consideration, too, in long-term financial planning.

In most cases, discussions of fund balance will properly focus on a government's general fund. Nonetheless, financial resources available in other funds should also be considered in assessing the adequacy of unrestricted fund balance (i.e., the total of the amounts reported as committed, assigned, and unassigned fund balance) in the general fund.

Credit rating agencies monitor levels of fund balance and unrestricted fund balance in a government's general fund to evaluate a government's continued creditworthiness. Likewise, laws and regulations often govern appropriate levels of fund balance and unrestricted fund balance for state and local governments.

Those interested primarily in a government's creditworthiness or economic condition (e.g., rating agencies) are likely to favor increased levels of fund balance. Opposing pressures often come from unions, taxpayers and citizens' groups, which may view high levels of fund balance as "excessive."

Recommendation. GFOA recommends that governments establish a formal policy on the level of unrestricted fund balance that should be maintained in the general fund.[3] Such a guideline should be set by the appropriate policy body and should provide both a temporal framework and specific plans for increasing or decreasing the level of unrestricted fund balance, if it is inconsistent with that policy.[4]

The adequacy of unrestricted fund balance in the general fund should be assessed based upon a government's own specific circumstances. Nevertheless, GFOA recommends, at a minimum, that general-purpose governments, regardless of size, maintain unrestricted fund balance in their general fund of no less than two months of regular general fund operating revenues or regular general fund operating expenditures.[5] The choice of revenues or expenditures as a basis of comparison may be dictated by what is more predictable in a government's particular circumstances.[6] Furthermore, a government's particular situation often may require a level of unrestricted fund balance in the general fund significantly in excess of this recommended minimum level. In any case, such measures should be applied within the context of long-term forecasting, thereby avoiding the risk of placing too much emphasis upon the level of unrestricted fund balance in the general fund at any one time.

In establishing a policy governing the level of unrestricted fund balance in the general fund, a government should consider a variety of factors, including:

- The predictability of its revenues and the volatility of its expenditures (i.e., higher levels of unrestricted fund balance may be needed if significant revenue sources are subject to unpredictable fluctuations or if operating expenditures are highly volatile);
- Its perceived exposure to significant one-time outlays (e.g., disasters, immediate capital needs, state budget cuts);
- The potential drain upon general fund resources from other funds as well as the availability of resources in other funds (i.e., deficits in other funds may require that a higher level of unrestricted fund balance be maintained in the general fund, just as, the availability of resources in other funds may reduce the amount of unrestricted fund balance needed in the general fund);[7]
- Liquidity (i.e., a disparity between when financial resources actually become available to make payments and the average maturity of related liabilities may require that a higher level of resources be maintained); and
- Commitments and assignments (i.e., governments may wish to maintain higher levels of unrestricted fund balance to compensate for any portion of unrestricted fund balance already committed or assigned by the government for a specific purpose).

Furthermore, governments may deem it appropriate to exclude from consideration resources that have been committed or assigned to some other purpose and focus on unassigned fund balance rather than on unrestricted fund balance.

Naturally, any policy addressing desirable levels of unrestricted fund balance in the general fund should be in conformity with all applicable legal and regulatory constraints. In this case in particular, it is essential that differences between GAAP fund balance and budgetary fund balance be fully appreciated by all interested parties.

Notes:

1 For the sake of clarity, this recommended practice uses the terms GAAP fund balance and budgetary fund balance to distinguish these two different uses of the same term.

2 These categories are set forth in Governmental Accounting Standards Board (GASB) Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which must be implemented for financial statements for periods ended June 30, 2011 and later.

3 Sometimes restricted fund balance includes resources available to finance items that typically would require the use of unrestricted fund balance (e.g., a contingency reserve). In that case, such amounts should be included as part of unrestricted fund balance for purposes of analysis.

4 See Recommended Practice 4.1 of the National Advisory Council on State and Local Budgeting governments on the need to "maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredicted one-time expenditures" (Recommended Practice 4.1).

5 In practice, a level of unrestricted fund balance significantly lower than the recommended minimum may be appropriate for states and America's largest governments (e.g., cities, counties, and school districts) because they often are in a better position to predict contingencies (for the same reason that an insurance company can more readily predict the number of accidents for a pool of 500,000 drivers than for a pool of fifty), and because their revenues and expenditures often are more diversified and thus potentially less subject to volatility.

6 In either case, unusual items that would distort trends (e.g., one-time revenues and expenditures) should be excluded, whereas recurring transfers should be included. Once the decision has been made to compare unrestricted fund balance to either revenues or expenditures, that decision should be followed consistently from period to period.

7 However, except as discussed in footnote 4, not to a level below the recommended minimum.

Approved by the GFOA's Executive Board, October, 2009.

CITY OF CORTLAND, NY

FINANCIAL AND BUDGETARY POLICIES [1]

The City of Cortland has developed a comprehensive set of financial policies that are consistent with the City's goals and objectives. Specific attention has been given to make sure that these policies are both consistent and relationally sound. Financial policies are an integral part of the development of service, capital, and financial plans and the budget. They provide the basis for decision-making and continue Cortland's tradition of financial stability. Polices are grouped in the following categories:

POLICY OVERVIEW

1. Purpose.

   The purpose of this policy is to assign responsibility and define the procedures for planning and administration of the City of Cortland's Operating and Capital Budgets, as well as debt, investment and grant management, responsibility for which has been assigned to the Finance Department.

2. Operating Budget.

   The annual operating budget is the vehicle through which Common Council authorizes City government to fund operations during a specific fiscal year for specific purposes and which establishes the economic resources that are required to support these activities. The budget is a fiscal, planning, and policy document, reflecting the allocation of limited revenues among diverse uses.

3. Capital Budget.

   The capital budget includes major capital requirements, culminating in the adoption of a five-year Capital Improvement Program (ClP). These types of capital investments usually focus on the construction, development, and acquisition of major facilities and may rely on long-term debt instruments for financing. General Fund revenue, user fees, and other streams of revenue are typical sources of revenue allocated to the retirement of long-term debt.

4. Concurrent Preparation of the Annual Operating and Capital Budgets

   The annual Operating and Capital budgets shall be prepared as two separate documents, but both shall be prepared, presented and reviewed concurrently.

5. Responsiveness to Council's Areas of Focus.

   Projects, programs, and services included within the operating and capital budgets must be responsive to the areas of focus identified by the Common Council.

OVERVIEW OF THE OPERATING BUDGET

1. Joint Effort

Budgeting for the Operations of the City of Cortland is a joint effort between the people and groups affected by the budget, Common Council, and City staff responsible for providing the services. Citizens, civic organizations and interested parties are afforded the opportunity to become involved in the Budget development process so as to promote programs of interest and concern. City staff estimates projected revenues and proposes allocations of resources for services. Common Council reviews the proposed budgets making such recommendations and modifications as needed, and approves the final Budgets and subsequent amendments as may be required. It is the express policy of the City that the City's Budget process shall be fiscally responsible, transparent and community responsive.

2. Legal Authority

The City's annual operating budget, as adopted by Common Council, constitutes the legal authority for expenditures. The City's budget is adopted at the fund level. Therefore, expenditures may not legally exceed appropriations at that level of detail. Appropriated budgets are adopted for the General Fund, Sewer Fund and the Water Fund. These appropriations lapse at the end of the fiscal year.

COMPREHENSIVENESS

1. The Mayor, prior to October 15th of each year, shall submit to the Common Council the annual operating budget covering the next fiscal year. The budget shall contain the following information:

   a.) A letter from the Mayor discussing the proposed financial plan for the next fiscal year, a review of the previous year's activities and the current financial condition of the City.

   b.) Proposed capital, operations and maintenance, and debt service expenditures by Budgeted Fund, by Department, by Program, and by type of expenditure for the budget year, along with comparisons to estimated expenditures and actual expenditures for the three prior years.

   c.) Proposed receipts, by source, for the budget year, along with comparisons to estimated receipts for the current year and actual receipts for the three prior years.

d.) Debts service policies and a comparison of actual ratios to target ratios.

e.) A table of organization with proposed staffing levels by Departments, by Program, along with comparisons to staffing levels for the current year.

f.) A summary of designated balances for operations, capital acquisitions and replacement and debt service.

FUND STRUCTURE

1. The City's accounting, financial and reporting system is based upon three types of Funds: Governmental, Proprietary and Fiduciary. The type of Accounting and Budgetary basis used by the City is dependent upon the type of fund. Each fund is considered a separate accounting entity.

2. Governmental funds are generally used to account for tax-supported activities and are divided into five types:

   a.) The General Fund is the City's primary fund. It accounts for all financial resources except those required to be accounted for in other funds and is generally considered to represent the ordinary operations of the City. It derives the majority of its revenues from Property Taxes, Sales Tax and Fees

   b.) Special Revenues Funds account for proceeds of specific revenue sources that are restricted or committed for purposes other than debt service of capital projects. Other restricted resources are accounted for in debt service, trust, and capital project funds. The Sewer and Water funds are Special Revenue funds with an annual budget.

   c.) Debt Service Funds are used to account for the accumulation of resources for the payment of general obligation bond principal and interest from governmental resources. These funds are also used to account for the accumulation of resources for and payments of special assessment bond principal and interest from special assessment levies when the City is obligated in some manner for the payment.

   d.) Capital Projects Funds are used to account for the acquisition or construction of major capital facilities other than those financed by Proprietary and Trust funds. Capital Project Funds are not included in the City's Operating Budget, but are budgeted separately with construction fund ordinances which appropriate a budget for the duration of the project. A recap of the Capital Improvement Plan

(CIP) is included in the Capital Improvement Projects section of this document. Details of the CIP are contained in a separate document.

e.) Permanent Funds are used to account for the public-purpose trusts for which the earnings are expandable for a specific purpose, but the principal amount is not expendable. An annual budget is not prepared for this fund.

3. Proprietary Funds account for the business-like activities of the City. These types of funds focus on the determination of operating income, changes in net assets or cost recovery, financial position, and cash flows. There are two types of proprietary funds: enterprise funds and internal service funds.

a.) Enterprise fund accounts for business-like activities which are self supported by user charges.

b.) Internal Service Funds are established to finance and account for services and commodities furnished by a designated department or agency to other departments and agencies within a single government or to other governments.

4. Funds used to report assets held in a trustee or agency capacity for others and therefore, cannot be used to support the government's own program. The Fiduciary fund category includes pension trust funds, investment trust funds, private-purpose trust funds, and agency funds.

a.) Agency Funds consist of resources received and held by the City as an agency for others

FUND TYPES BUDGETED BY THE CITY

	Funds with Annual Appropriations *(Budget lapses at end of year)*	Funds without Annual Appropriations *(Budget does not lapse at end of year)*	Funds with no Annual Appropriations or Not Required
General Fund	ALL		
Special Revenue Funds			
Sewer	PW		
Water	PW		
Special Grant	ALL		
CDBG Grants		CP&D	
Capital Projects Fund	ADM		
Debt Service Fund	ADM		
Enterprise Fund:			
Agency Fund			
Public Safety Fund			FIRE, POLICE
Adm=Administrative Services and General Government CP&D=Community Planning & Development Fire= Fire Department PK=Parks Department Police=Police Department PW=Public Works			

BUDGET BASIS

1. The Governmental Fund types (General Fund and Special Revenues Funds) are budgeted on a modified accrual basis and can be directly compared to the statement of activities in the City annual Comprehensive Audited Financial Statement.

2. The modified accrual basis means that revenues are recognized when they are collectible within the current period or soon enough thereafter to pay liabilities in the current period. For this purpose, the City of Cortland considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred. However, debt service expenditures, as well as expenditures related compensated absences and claims and judgment are recorded only when payment is due.

ACCOUNTING BASIS

1. Accounting Basis refers to when revenues and expenditures or expenses are recorded in the accounts and reported in the financial statements. The Comprehensive Annual Financial Report (CAFR) shows only the status of the City's finances on the basis of Generally Accepted Accounting Principles (GAAP). The accrual basis of account is used for all funds, except the governmental fund types and expendable trust and agency funds, which use the modified accrual basis of accounting.

2. The modified accrual basis differs from the accrual basis in the following ways:

   a.) Purchases of capital assets are considered expenditures.

   b.) Redemptions of long-term debt are considered expenditures when due.

   c.) Revenues are recorded only when they become both measurable and available to finance expenditures of the current period.

   d.) Inventories and prepaid items are reported as expenditures when purchased.

   e.) Interest on long-term debt is recorded as an expenditures when due.

   f.) Accumulated unpaid vacation, sick pay, and other employee benefits are considered expenditures when paid.

   g.) Depreciation is recorded on an accrual basis only and is not budgeted.

BALANCED BUDGET DEFINITION AND REQUIREMENT

1. For all funds that the City prepares budgets, such budgets shall be in balance.

2. A budget is deemed to be in balance when operating revenues are equal to, or exceed, operating expenditures or expenses. Any increase in expenditures or expenses, decrease in revenues, or combination of the two that would result in a budget imbalance will require budget revision, rather than spending unappropriated surpluses or designated reserves to support ongoing operations. Any year-end operating surpluses will revert to unappropriated balances for use in maintaining reserve levels set by policy and the balance shall be added to the fund's Unassigned Fund Balance.

PERFORMANCE MEASURE INTEGRATION

1. Where possible, the City will integrate performance measurement service level and productivity indicators in the City's published budget document. Each city department will integrate operating efficiency, operating effectiveness, resident satisfaction, and human resource efficiency performance measures into its department's budget. Departments will be required to link service levels in terms of both quantity and quality to funding levels.

2. Citizen Surveys

   a.) The City is cognizant that citizens view City government holistically while those within City government may at times see the City as a series of separate entities, each with its own programs and activities competing for resources and public approval. Performance measures developed by departments often tend to reflect their own informational needs, particularly the inputs and outputs used to create the measurement matrix. But performance measures designed by and for City management may not have much meaning for citizens, whose assessment of the City's performance is based on their experiences with local government and those of others, including the media.

   b.) In order to establish performance objectives that are meaningful to Citizens the City shall conduct a biannual citizen survey to measure residents' satisfaction levels with City services and gather opinions on specific policy questions. From quality of life and neighborhood safety to this website and city services, we want to know what residents are thinking.

   c.) The City shall contract with an independent, external firm to create the survey and to promote scientific validity. The questions are designed to collect trend data on how City residents rate the quality of City services and the community as a whole, their awareness of the City's communication mediums, and to ask for their opinions on certain policies or proposed policy changes.

d.) The survey results, in conjunction with the City's performance measurement outcomes, shall be used by Common Council and City staff to analyze the effectiveness, responsiveness and value of City services

GENERAL FUND FUND BALANCE POLICY

PURPOSE

1. The purpose of the City's General Fund fund balance policy is to ensure that there will be adequate liquid resources to serve as a financial cushion against the potential shock of unanticipated circumstances and events. The City's policy reaches beyond those reserves governed by externally enforceable restrictions such as Debt Restrictions, Grantor, Other Governments, or limitations imposed by law. The policy also does not address reserves consisting of non-spendable resources such as Reserves for Inventory. Instead the City's Fund Policy focuses on Unrestricted Fund Balance in the General Fund which can be defined as:

	Total fund balance
Less:	Non-spendable fund balance
Less:	Restricted fund balance
	Unrestricted Fund Balance

FOCUS OF CITY'S FUND BALANCE POLICY

Component of Fund Balance	Relevant to Fund Balance Policy
Non-spendable	No
Restricted	No
Committed	Yes
Assigned	Yes
Unassigned	Yes

(Tinted area is unrestricted fund balance)

COMMITTED FUND BALANCE

1. Committed Fund Balance represents resources whose use is constrained by limitations that the City imposes upon itself by Ordinance and that remains binding unless removed in the same manner.

ASSIGNED FUND BALANCE

1. The Assigned Fund Balance is that portion of the Unrestricted Fund Balance that reflects the City's intended use of resources. Such intent is reflected in a Council Resolution and remains such unless removed in the same manner.

UNASSIGNED FUND BALANCE

1. The Unassigned Fund Balance is the residual classification for the general fund. This classification represents the fund balance that has not been assigned to other funds and that has not been restricted, committed, or assigned to specific purposes within the general fund.

GENERAL FUND RESERVES

1. Committed Stabilization Reserve:

   a.) The City of Cortland seeks to maintain a prudent level of financial resources to protect against reducing service levels or raising taxes and fees because of temporary revenue shortfalls or unpredictable one-time expenditures. This Reserve is established by Ordinance and its use, modification, or dissolution is governed by Ordinance for express purposes set forth below.

   b.) The Stabilization Reserve should be used judiciously and responsibly to sustain critical state services and programs in the face of changing economic conditions and fluctuating tax revenues. It is in the long-term financial interest of the City to preserve and build a healthy Stabilization Reserve balance in years of strong revenue growth to assist the City in weathering future economic storms.

   The City's revenue process projects the underlying revenues that support approximately 2/3 of the budget. The accuracy of the revenue estimate upon which the budget is based is a key factor influencing whether there will be a contribution to the balance of the Stabilization Reserve or a need to draw on the Reserve. Although the estimate is based on economic models that follow sound budgetary practices, projected revenues are analyzed 6 to 12 months before the related fiscal year and, consequently have inherent risks.

   The primary purpose of the Stabilization Reserve is to preserve the fiscal stability of the City. In the context of less than certain revenue estimates, the City's believes that the use of the Stabilization Reserve as a resource to support the budget can be justified as a means of providing overall budgetary stability.

However, the amount of any such budgeted transfer from the Stabilization Reserve is to be based upon specific shortfalls in key revenue components.

c.) The City shall transfer annually to the Committed Stabilization Reserve from the General Fund's Net Change in Fund Balance before Other Financing Sources (Uses) an amount equal to one and one-half percent (1.50%) of the budgeted General Fund revenues for that year.

d.) Council may assess the use of the Stabilization Reserve to maintain General Fund current service level programs if the following condition exists:

- At the end of the City's tenth fiscal month, October 31st, basic revenue collections for the fiscal year have fallen to below six percent (6%) of the budgeted basic revenues for the year. Basic Revenue is defined as the sum of General Fund property taxes, sales taxes, and fees,

e.) Council should begin to restore Stabilization funds used with 24 months after their first use.

2. Committed Reserves for Natural Disasters and Emergencies:

a.) The City of Cortland seeks to maintain a prudent level of financial resources readily available to counter the effects of natural disasters and emergencies. This reserve is established by Ordinance, and its use, modification, or dissolution is governed by Ordinance for expressed purposes set forth below.

b.) Council may assess the use of the Emergency Reserve only after natural disasters and emergencies as so declared by the Governor of New York and /or the President of the United States. The Emergency Reserve should be used to protect the health, safety, welfare and property of the residents during and immediately after such natural disasters and emergencies. The Reserves must be expended in such manner as to ensure that vital City services remain functional and at service levels necessary to meet requirements of residents, businesses, visitors and organizations.

c.) The City shall transfer annually to the Emergency Reserve from General Fund's Net Change in Fund Balance before Other Financing Sources (Uses) after the transfer to the Committed Stabilization Reserve an amount equal to one mil of the total assessed value of property located within the City.

3. Committed Budgeted Operating Expenditures Reserve:

a.) The City of Cortland shall maintain a Budgeted Operating Expenditure Reserve equal to seventeen percent (17%) of the total General Fund's Budgeted Operating Expenditures for the succeeding fiscal year for the purpose of providing the City with a source of last resort for working capital in the face of epic natural catastrophes and unprecedented economic upheaval beyond the capacity of either the Stabilization Reserve or the Reserves for Natural Disasters and Emergencies, whether alone or in unison, to address. This reserve is established by Ordinance and its use, modification, or dissolution is governed by Ordinance for expressed purposes set forth above.

b.) The City shall annually transfer to the Budget Operating Expenditure Reserve from the General Fund's Net Change in Fund Balance before Other Financing Sources (Uses) after transfers to the:

- Committed Stabilization Reserve
- Committed Reserves for Natural Disasters and Emergencies,

such funds as necessary so that the total balance of the reserve equals seventeen percent (17%) of the total General Fund's Budgeted Operating Expenditures for the succeeding fiscal year.

c.) Should the balance of the Budget Operating Expenditure Reserve before any transfer be greater than seventeen percent (17%) of the total General Fund's Budgeted Operating Expenditures for the succeeding fiscal year, the excess shall be transferred to the Assigned Equipment Replacement Reserve.

4. Assigned Equipment Replacement Reserve:

a.) The City shall maintain an Equipment Replacement Reserve for the purpose of replacing and/or acquiring capital equipment directly used in rendering City services. This reserve is established by Council Resolution and its use, modification, or dissolution is governed by Resolution.

b.) The City shall transfer annually to the Equipment Replacement Reserve the General Fund's Net Change in Fund Balance before Other Financing Sources (Uses) after the transfer to the:

- Committed Stabilization Reserve
- Committed Reserves for Natural Disasters and Emergencies Reserve
- Committed Budgeted Operating Expenditures Reserve,

an amount equal to the current's year depreciation expense attributable to machinery, equipment and vehicles less expenditures for the acquisition of such capital assets excluding capital leases entered into during the current fiscal year.

5. Assigned Park Renovation Reserve:

a.) The City shall maintain a Park Reserve for the purpose of financing, in whole or in part, future construction, rehabilitation, rehabilitation, additions or improvement to City Parks. This reserve is established by Council Resolution and its use, modification, or dissolution is governed by Resolution.

b.) The City shall transfer annually to the Park Reserve the sum of $50,000, less the debt service paid during the current fiscal year on any debt in which the proceeds were used to for the construction, rehabilitation, rehabilitation, additions or improvement to City Parks from the General Fund's Net Change in Fund Balance before Other Financing Sources (Uses) after the transfer to the

- Committed Stabilization Reserve,
- Committed Reserves for Natural Disasters and Emergencies Reserve
- Committed Budgeted Operating Expenditures Reserve
- Assigned Equipment Replacement Reserve.

Should debt service exceed $50,000 in any fiscal year, no transfer shall occur.

6. Assigned Snow Removal Reserve

a.) The City shall maintain a Snow Removal Reserve for the purpose of providing supplemental funding in those years where above average snowfall results in funding requirements in excess of that budgeted.

b.) The City shall transfer annually to the Snow Removal Reserve an Snow Removal Reserve that amount necessary to equal the average expenditures for snow and ice removal for the five previous calendar years after the transfers to the

- Committed Stabilization Reserve,
- Committed Reserves for Natural Disasters and Emergencies Reserve
- Committed Budgeted Operating Expenditures Reserve
- Assigned Equipment Replacement Reserve
- Assigned Park Renovation Reserve

c.) In event that the average expenditures for snow and ice removal for the five previous years is less than the balance of the Snow Remove Reserve no additional funds will be transferred into this reserve.

7. Assigned Redevelopment Reserve:

a.) The City shall maintain a Redevelopment Reserve for the purpose of funding the implementation of programs which will diversify both the City's workforce and its economic base so as to promote viable and sustainable growth. This reserve is established by Council Resolution and its use, modification, or dissolution is governed by Resolution.

b.) The City shall transfer annually to the Redevelopment Commission Reserve and amount equal to 20% of any funds remaining from the General Fund's Net Change in Fund Balance before Other Financing Sources (Uses) after distributions to the:

- Committed Stabilization Reserve
- Committed Reserves for Natural Disasters and Emergencies Reserve
- Committed Budgeted Operating Expenditures Reserve
- Assigned Equipment Replacement Reserve
- Assigned Park Renovation Reserve
- Assigned Snow Removal Reserve

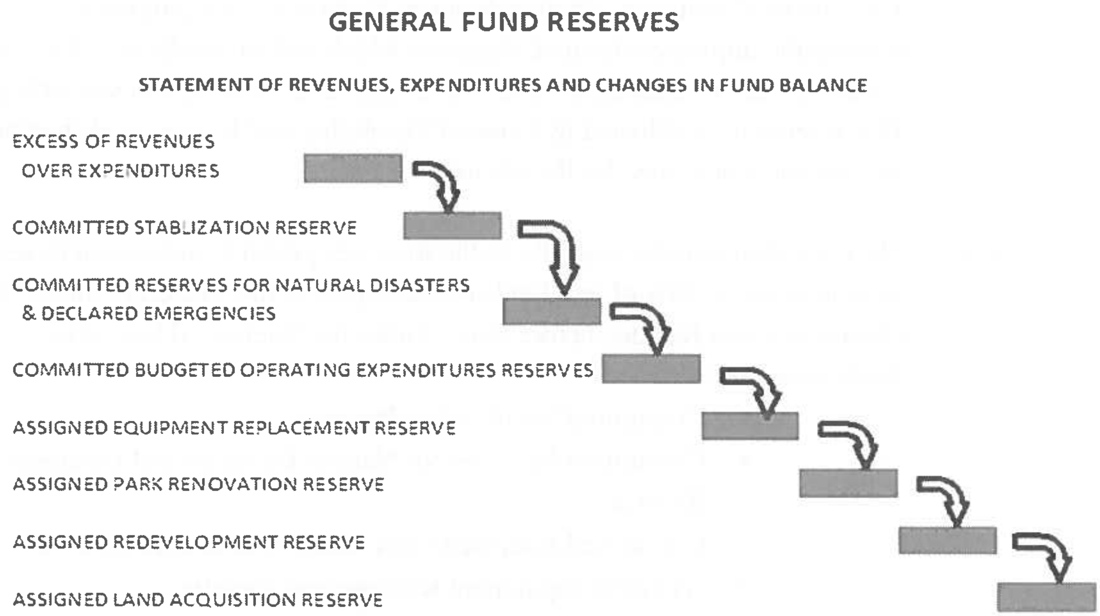
7. Assigned Land Acquisition Reserve:

a.) The City shall maintain a Land Acquisition Reserve for the purpose of acquiring or participating in the acquisition of land that safeguards quality of life, provides recreational and educational opportunities, enables public access to water, increases mobility, protects natural resources, mitigates pollution, and enhances or preserves the beauty of the City.

b.) The City shall transfer annually to the Land Acquisition Reserve and amount equal to 20% of any funds remaining from the General Fund's Net Change in Fund Balance before Other Financing Sources (Uses) after distributions to the:

- Committed Stabilization Reserve
- Committed Reserves for Natural Disasters and Emergencies Reserve
- Committed Budgeted Operating Expenditures Reserve

- Assigned Equipment Replacement Reserve
- Assigned Park Renovation Reserve
- Assigned Snow Removal Reserve
- Assigned Redevelopment Commission Reserve



8. Annual Report on Status and Use of Fund Balances

a.) Within sixty days of the close of a given fiscal year, the Director shall produce a report for the Common Council displaying the status of the budgetary fund balances of the City's operating funds, by fiscal year. Said report will include a graphical display of reserve fund balances, in nominal dollars, and a separate graphical display expressing these balances as a percentage of the annual revenue collected by the operating fund group each respective year, as compared to the desired level indicated in the City's adopted budgetary policy. Said graphical displays shall be published in the local newspaper, along with a summary explanation of any significant factors which resulted in negative variances from corresponding fund balance ratios for the preceding fiscal year.

GENERAL FUND REVENUE POLICIES

1 Purpose

To design, maintain and administer a revenue system that will assure a reliable, equitable, diversified and sufficient revenue stream to support desired City services.

2 Balance and Diversification in Revenue Sources

The City shall strive to maintain a balanced and diversified revenue system to protect the City from fluctuations in any one source due to changes in local economic conditions which adversely impact that source.

a.) For any proposed additional revenue source, the City shall consider the following criteria:

- Community acceptability
- Competitiveness-the revenue or tax burden of the City of Cortland relative to neighboring communities
- Diversity-the balance of revenue sources that can withstand changes in the business cycle
- Efficiency-the cost of administering a tax or fee should bear a reasonable relationship to revenues collected, and any new tax or fee should have a minimal effect on private economic decisions
- Fairness-the distribution of the City's revenue burden as measured by ability to pay, the benefits received, or the community's definition of the resident's fair share of the revenue burden.

3. User Fees

For services that benefit specific users, the City shall establish and collect fees to recover the costs of those services. The Common Council shall determine the appropriate cost recovery level and establish the fees. Where feasible and desirable, the City shall seek to recover full direct and indirect costs. User fees shall be reviewed on a regular basis to calculate their full cost recovery levels, to compare them to the current fee structure, and to recommend adjustments where necessary.

4. Property Tax Revenues/Tax Burden

The City shall endeavor to reduce its reliance on property tax revenues by revenue diversification, implementation of user fees, and economic development. The City shall also strive to minimize the property tax burden on City of Cortland citizens.

5. Administrative Service Charges

The City shall establish a method to determine annually the administrative service charges due the General Fund from enterprise funds for overhead and staff support. Where appropriate, the enterprise funds shall pay the General Fund for direct services rendered.

6. Revenue Estimates for Budgeting

In order to maintain a stable level of services, the City shall use a conservative, objective, and analytical approach when preparing revenue estimates. The process shall include analysis of probable economic changes and their impacts on revenues, historical collection rates, and trends in revenues. This approach should reduce the likelihood of actual revenues falling short of budget estimates during the year and should avoid mid-year service reductions.

7. Revenue Collection and Administration

The City shall maintain high collection rates for all revenues by keeping the revenue system as simple as possible in order to facilitate payment. In addition, since revenue should exceed the cost of producing it, the City shall strive to control and reduce administrative costs. The City shall pursue to the full extent allowed by state law all delinquent taxpayers and others overdue in payments to the City.

8. One Time Revenues

The City of Cortland will use one-time or special purpose revenue for capital expenditures or for expenditures required by the revenue; and not to subsidize recurring personnel, operation and maintenance costs.

GENERAL FUND EXPENDITURE POLICY

1. Current Funding Basis

The City shall operate on a current funding basis. Expenditures shall be budgeted and controlled so as not to exceed current revenues plus the permitted use of accumulated fund reserves.

2. Avoidance of Operating Deficits

The City shall take immediate corrective actions if at any time during the fiscal year expenditure and revenue re-estimates are such that an operating deficit (i.e., projected expenditures in excess of projected revenues) is projected at year-end. Corrective actions can include a hiring freeze, expenditure reductions, fee increases, or use of fund reserves within the permitted uses set forth above. Expenditure deferrals into the following fiscal year, short-term loans, or use of one-time revenue sources shall be avoided to balance the budget.

3. Maintenance of Capital Assets

Within the resources available each fiscal year, the City shall maintain capital assets and infrastructure at a sufficient level to protect the City's investment, to minimize future replacement and maintenance costs, and to continue service levels.

4. Periodic Program Reviews

The Director shall undertake periodic staff and third-party reviews of City programs for both efficiency and effectiveness.

5. Privatization

The City will encourage delivery of services by other public and private organizations whenever and wherever greater efficiency and effectiveness can be expected as well as develop and internally use technology and productivity advancements that will help reduce or avoid increasing personnel costs. The intent is to control personnel costs as a proportion of the total budget, to more productively and creatively use available resources, and to avoid duplication of effort and resources.

6. Risk Management

The City will develop and implement an effective risk management program to minimize losses and reduce costs. The Common Council will ensure that adequate insurance programs are in place. This shall include unemployment and Worker's compensation costs.

7. Reporting Requirements

a.) The City recognizes the important roles that Civic Organizations, Commissions, Foundations, Museums, Trade and Tourism Groups, Business and Cultural Organizations have in the economic sustainability and development of the City, preservation of its historic characteristics, and the quality of life of its residents. It is the policy of the City to financially support such entities wherever it facilitates fulfilling the City's goals and objectives.

b.) The City also recognizes that it is a custodian of public funds and as such must conduct itself in all matters in accordance with fiduciary standards. It is the duty of the City to ensure that funds distributed to Agencies, Organizations and Associations are expended in accordance with the goals of the City and in the best interest of the Residents. Accordingly, recipients of funds from the City in non-exchange transactions, as so defined by GASBS 33[2], must adhere to the following reporting requirements:

1.) Recipients of $250,000 dollars of more in one fiscal year must:

- Within 90 days of its financial year end file with the City an entity-wide Audited Financial Statements prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted government auditing standards. Said report shall include a report on the entity's internal control tested as part of the financial statements audit, a listing of any reportable conditions that came to light as a result of internal control testing and description of those reported conditions that are deemed to be material weaknesses.

- For each program that recipient has received funding from the City to facilitate the program's accomplishment the recipient shall file with the City within 90 days of its financial year end a report detailing expenditures per program and an assessment of the objectives achieved.

2.) Recipients of between $50,000 and $250,000 dollars in one fiscal year:

- Within 90 days of its financial year end file with the City an entity-wide Audited Financial Statements prepared in accordance with generally accepted accounting principles and audited in accordance with generally accepted auditing standards.

- For each program that recipient has received funding from the City to facilitate the program's accomplishment, the recipient shall file with the City within 90 days of its financial year end a report detailing expenditures per program and an assessment of the objectives achieved.

3.) Recipients of between $25,000 and $49,000 dollars in one fiscal year:

- Within 90 days of its financial year end file with the City an entity-wide Reviewed Financial Statements prepared in accordance with generally accepted accounting principles.

- For each program that recipient has received funding from the City to facilitate the program's accomplishment, the recipient shall file with the City within 90 days of its financial year end a report detailing expenditures per program and an assessment of the objectives achieved.

4.) Recipients of between $5,000 and $24,999 dollars in one fiscal year:

- For each program that recipient has received funding from the City to facilitate the program's accomplishment the recipient shall file with the City within 90 days of its financial year end a report detailing expenditures per program and an assessment of the objectives achieved.

INVESTMENT POLICY

1. Policy Statement

a.) The investment goal of the City of Cortland is to maintain adequate cash to meet current obligations and to invest in those legal securities that maximize earnings and protect principal. Monies that are not required on a short-term basis are invested in compliance with the guidelines of the New York Law.

b.) Since tax status is not a direct factor, the City seeks safe securities that provide the greatest pretax return with maturities that coincide with the need for funds. Short term needs can be satisfied with Treasury bills, carefully handled repurchase agreements, and certificates of deposit. Treasury notes, Treasury bonds, and U.S. Agency securities can be used for intermediate near term requirements. Some City funds may be invested in longer term Treasury and agency securities in accordance with State law. Since it is difficult to gauge long-term interest rates, the City generally does not invest in long-term securities.

c.) The Director is charged with minimizing the risk of default on all investments. Investments shall be made with judgment and care, under circumstances then prevailing, with 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.

d.) The standard of prudence to be used by investment officials shall be the "prudent person" standard and shall be applied in the context of managing an overall portfolio. The Director acting in accordance with written procedures and this investment policy and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided deviations from expectations are reported in a timely fashion and the liquidity and the sale of securities are carried out in accordance with the terms of this policy.

2. Scope

This investment policy applies to activities of the City with regard to investing the financial assets of all funds, including the following:

- General Fund
- Special Revenue Funds
- Capital Projects Funds
- Enterprise Funds
- Debt Service Funds
- Special Assessment Funds
- Bond Funds
- Component Units

These funds are accounted for in the City's Comprehensive Annual Financial Report

3. Overall Risk Profile

a.) The City's available funds are invested in accordance with all applicable state statutes and this investment policy, in short-term and intermediate-term fixed income instruments. Except for cash in certain restricted and special funds, the City will consolidate cash balances from all funds to maximize investment earnings. Investment income will be allocated to the various funds based on their respective participation and in accordance with generally accepted accounting principles. The objectives of these investments shall be:

1.) <u>Safety</u>: Safety of principal is the foremost objective of the investment program. Investments shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective will be to mitigate credit risk and interest rate risk.

2.) <u>Credit Risk</u>: The City will minimize credit risk, the risk of loss due to the failure of the security issuer or backer by:

- Limiting investments to the safest types of securities
- Pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business

- Diversifying the investment portfolio so that potential losses on individual securities will be minimized.

3.) Interest Rate Risk: The City will minimize the risk that the market value of securities in the portfolio will fall due to changes in general interest rates by:
   - Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity
   - Investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools.

4.) Liquidity: The investment portfolio shall remain sufficiently liquid to meet all operating requirements that may be reasonably anticipated. This is accomplished by structuring the portfolio so that securities mature concurrent with cash needs to meet anticipated demands. Furthermore, since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in local government investment pools which offer same-day liquidity for short-term funds. All investments must meet the requirements of the New York Law.

5.) Yield: The investment portfolio shall be designed with the objective of attaining a market rate of return throughout budgetary and economic cycles, taking into account the investment risk, constraints and liquidity needs. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to Relatively low risk options in anticipation of earning a fair return relative to the risk being assumed. Investments shall not be sold prior to maturity with the following exceptions:
   - An investment with declining credit may be sold early to minimize loss of principal.
   - An investment swap would improve the quality, yield, or target duration in the portfolio.
   - Liquidity needs of the portfolio require that the security be sold.

This policy specifically prohibits trading securities for the sole purpose of speculating on the future direction of interest rates. Specifically, load open-end or dosed-end portfolio restructuring transactions are prohibited

4. Delegation of Authority

a.) The City of Cortland's investment official is the Director. Authority to manage the investment program is granted to the Director and derived from the City's Code of Ordinances. Responsibility for the operation of the investment program is hereby delegated to the Director or his designee, who shall act in accordance with established written procedures and internal controls for the operation of the investment program consistent with this investment policy.

b.) Procedures should include references to: safekeeping, delivery vs. payment, investment accounting, repurchase agreements, wire transfer agreements, and collateral depository agreements. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

c.) The Director's responsibilities include the authority to open accounts with banks, brokers and dealers, to arrange for the custody of securities, and to execute such documents as may be necessary to carry out this responsibility. The Director may further delegate investment responsibilities to Finance Department staff members.

d.) The Director or designee will 1) furnish timely instructions to depositories concerning settlement of investment transactions, 2) verify the accuracy of completed transactions, and 3) employ internal controls designed to prevent losses of public funds arising from fraud, employee error, misrepresentation by third parties, or imprudent actions by employees and officers of the City of Cortland. No person may engage in an investment transaction except as provided under the terms of this policy and the procedures established by the Director. The Director shall be responsible for all transactions undertaken and shall establish a system of controls to regulate the activities of subordinate officials.

5. Ethics and Conflict of Interest

a.) Officers 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. Employees and investment officials shall 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. Employees and officers shall refrain from undertaking personal investment transactions with the same individual with whom business is conducted on behalf of the City.

6. Safekeeping and Custody

a.) Authorized Financial Dealers and Institutions

1.) A list will be maintained of financial institutions authorized to provide investment services. In addition, a list also will be maintained of approved security broker/dealers selected by creditworthiness (e.g., a minimum capital requirement of $10,000,000 and at least five years of operation). These may include "primary" dealers or regional dealers that qualify under Securities and Exchange Commission (SEC) Rule 15C3-1 (uniform net capital rule).
All financial institutions and broker/dealers who desire to become qualified for investment transactions must supply the following as appropriate:

- Audited financial statements
- Proof of National Association of Securities Dealers (NASD) certification
- Proof of state registration
- Completed broker/dealer questionnaire
- Certification of having read and understood and agreeing to comply with the City's investment policy.

b.) An annual review of the financial condition and registration of qualified financial institutions and broker/dealers will be conducted by the Director.

c.) Internal Controls

1.) The Director is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse. The internal control structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived and (2) the valuation of costs and benefits requires estimates and judgments by management.

2.) Accordingly, the Director shall establish a process for an annual independent review by an external auditor to assure compliance with policies and procedures. The internal controls shall address the following points:

- Control of collusion
- Separation of transaction authority from accounting and recordkeeping
- Custodial safekeeping
- Avoidance of physical delivery securities
- Clear delegation of authority to subordinate staff members

- Written confirmation of transactions for investments and wire transfers
- Development of a wire transfer agreement with the lead bank and third-party custodian

d.) Delivery vs. Payment

1.) All trades where applicable will be executed by delivery vs. payment (DVP) to ensure that securities are deposited in an eligible financial institution prior to the release of funds. Securities will be held by a third-party custodian as evidenced by safekeeping receipts.

7.) Cash Budgeting

a.) A cash budget is used to determine planned cash needs over the near future. The Director assesses the possibility of unexpected cash needs: as occasioned by slow revenue receipts, unexpected appropriations, or emergency expenditures. Based on these evaluations, the Director ascertains a probability of distribution of possible cash shortages.

b.) The Director receives a cash budget at the beginning of each calendar year. The cash budget differs from the operating budget in that it is much less detailed. It only contains aggregates of forecasted cash expenditures and inflows for the period. A carefully prepared operating budget, controlled expenditures, and relatively stable and predictable revenues lend to a quite accurate cash budget.

c.) The Director or his designee will prepare this document, taking into account expected cash disbursements and receipts throughout the year. The combination of receipts and disbursements determine the net effect on the cash position. This cash budget determines the timing and magnitude of projected cash needs and cash surpluses.

8.) Authorized and Suitable Marketable Securities

a.) The Director manages these investments subject to oversight by the Mayor and Common Council. The Director may purchase, sell, and exchange investments on behalf of the City. The investment program is to be managed so that investments and deposits can be converted into cash when needed. Money may be invested at interest in any bank, savings and loan association, trust company, or any other investment firm in the form of certificates of deposit or other forms of time deposit that Common Council approves. At no time should the term of any investment exceed 18 months.

b.) The City's investment officials are empowered by statute to invest in the following for and on behalf of the City of Cortland:

1.) U.S. Treasury Obligations

- This is the largest segment of the fixed-income securities market. Treasury securities are the safest and most marketable investments, but they yield the lowest return for a given maturity of all investment instruments. Treasury securities are classified as bills, notes, and bonds.

- The Director is authorized to invest in bills, notes, bonds and debentures (bond backed by the general credit of the issuer rather than a specific lien on particular assets) of the United States Treasury, the maturities of which are not more than 1 year from the date of purchase.

- All United States Treasury issue transactions will be conducted only with primary dealers from the list of Government Security dealers reporting to the Markets Reports Division of the Federal Reserve Bank of New York.

2.) Agency Securities

- These obligations of various agencies and corporations chartered by the federal government are guaranteed by the issuer. Principal issuers include federal land banks, federal home loan banks, federal intermediate credit banks, the Federal National Mortgage Association ("Fannie Mae"), the Governmental National Mortgage Association ("Ginnie Mae"), and the banks for cooperatives.

- Notes or bonds secured by mortgages insured by the Federal Housing Administrator, securities of national mortgage associations, and debentures issued by the Federal Housing Administrator (FNMA, GNMA, and FHMLC) are acceptable investments so long as the maturity dates do not extend more than 1 year from the date of purchase.

3.) Repurchase Agreements

- The repurchase agreement (repos) provides for the sale of short-term securities by the bank to the investor with the provision that the bank will repurchase the securities at a specified price at a specified future date.

- Repos are an acceptable investment as long as the security is negotiable, has a viable trading market, and can be easily marked-to-market daily by the City's trust banks; and further provided that limitations as to exposure to any one issuer of the repurchase agreements and any one issuer of the underlying securities are not exceeded as described in this policy. The underlying security for any repurchase agreement must be at least the principal amount plus expected interest income on the security.

- The City may, at times, require a specific type of collateral to complete the repurchase transaction. Moreover, the Repo counterparty must be either a U.S. bank with a solid financial record, no long-term weaknesses and a sound credit rating, or be a current "Primary Dealer" in U.S. Government securities. Market value of the collateral must equal or exceed 102 percent of the amount of the repurchase price of the Repo. Collateral must be delivered to the City's custodian for safekeeping and the collateral must be marked-to-market daily to ensure adequate collateral coverage. Repo transactions shall be limited to maturities of not more than 60 days per transaction.

- The Director shall maintain a list of firms which are approved as counterparties. Such counterparties shall execute the City's Master Repurchase Agreement prior to being included on the list of approved Repo counterparties. The City may enter into Repo's only with firms which have been included on the list of Approved Repurchase Agreement Counterparties.

4.) Negotiable Certificates of Deposit

- A CD is the deposit of funds at a commercial bank for a specified period of time and at a specified rate of interest. Rates on CD's are quoted by money-market banks. Certificates of deposit and other evidences of deposit at financial institutions, bankers' acceptances, and commercial paper, must be rated in the highest tier (e.g., A-1, P-1, F-1, or D-1 or higher) by a nationally recognized rating agency and must be fully collateralized at 102%.

- The City may make a practice of investing only in the CDs of local banks located within the City. It shall be perfectly acceptable to support the local banks that benefit the City.

5.) Non-Negotiable Certificates of Deposit

- Non-Negotiable Certificates of Deposit shall not be permitted.

6.) Reverse Repurchase Agreements

- Reverse repurchase agreements and securities lending from the City's portfolio shall not be permitted

7.) Mutual Funds

- The City is not authorized to invest surplus funds in mutual funds - regardless of whether or not the mutual fund has invested in government securities.

8.) Banker's Acceptances

- Banker's Acceptances shall not be permitted.

9.) Commercial Paper/Corporate Securities

- The City is not authorized to invest in commercial paper or corporate securities.

9.) Investment Procedures

a.) Selection of Depository and Security of Deposits

1.) City funds deposited in excess of the amount of federal insurance must be secured by collateral pledged by the bank or savings and loan in accordance with prevailing state statutes. The Common Council designates one or more official depositories from time to time as needed. The funds on deposit in this official depository are to be secured by deposit insurance, surety bonds, or other investment securities in an amount sufficient to protect the City.

2.) In doing so, the Common Council, Director, and the City's employees are relieved of responsibility for any losses sustained by the City because of the default or insolvency of the depository. No security is required for the protection of funds remitted to and received by a depository acting as a fiscal agent for the payment of principal and interest on bonds or notes, when the funds are remitted no more than 60 days prior to the maturity date.

b.) Commercial Bank Interest and Fees

1.) Because banks differ in their interest rates and charges, the City investigates all banks in the City to find the bank offering the best net return for the given level of activity

2.) Major investments are normally made with a single institution whenever possible since dispersal and decentralization of balances can result in a large number of accounts with individually small balances. Fractionalizing overall cash flows in this manner inhibits pooling of cash for investment purposes and restricts the range of investment possibilities to the individual characteristics of the separate funds and accounts.

3.) Before the City of Cortland invests any funds, a competitive bid is conducted, if market conditions and time permit. If a special maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, an analysis is conducted to determine which maturities and instruments would be required from financial institutions for various options with regard to term and instrument. The Deputy Director accepts the bid that provides the highest rate of return within the maturity required and within the parameters of this policy. If a financial institution consistently proves non-responsive, the institution may be dropped from the list of approved firms. Records are to be kept of the bids offered, the bid accepted, and a brief explanation of the decision which was made regarding the investment. These records are to be maintained over the life of the maturity.

10.) Banking Policy

The City's contract for banking services is awarded for a five-year period after local banks submit proposals. The Director and Deputy Director will evaluate the proposals and present to Common Council a summary of the proposals. Common Council then selects a bank and awards the bid.

11.) Safekeeping and Custody

a.) Delivery versus Payment

Securities purchased by the City of Cortland shall be delivered against payment and held in a custodial safekeeping account with the trust department of a bank insured by the Federal Deposit Insurance Corporation designated by the Director. Securities will be held by a third party custodian designated by the City and evidenced by safekeeping records.

b.) Repurchase Agreements

Securities purchased from and subject to resale to a bank, broker, or dealer under the terms and conditions of a master repurchase agreement shall be delivered to and held in a custodial safekeeping account with the trust department of a bank insured by the Federal Deposit Insurance Corporation designated for this purpose by the Director.

12.) Diversification

a.) In no case shall more than 10 percent of the portfolio, or $2 million (whichever is greater) be invested in obligations of any one issuer except direct obligations of the U.S. Government or its agencies. Also, at appropriate times, the City may sell certain securities to meet cash flow needs or to obtain capital gains.

b.) The City's investments shall be diversified by:

- limiting investments to avoid overconcentration in securities from a specific issuer or business sector (excluding U.S. Treasury securities),
- limiting investment in securities that have higher credit risks,
- investing in securities with varying maturities, and continuously investing a portion of the portfolio in readily available funds such as local government investment pools (LGIPs), money market funds or overnight repurchase agreements to ensure that appropriate liquidity is maintained in order to meet ongoing obligations. The City shall adopt weighted average maturity limitations (which often range from 90 days to 18 months), consistent with the investment objectives.

13.) Maximum Maturities

a.) To the extent possible, the City will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the maximum maturity of any instrument in the City's portfolio may not exceed 18 months from the date of acquisition by the City. In order to preserve liquidity and to lessen market risk, not more than 25 percent of the total portfolio may mature more than one year beyond the date of calculation. The maturity of non-negotiable time deposits may not exceed one year.

b.) Reserve funds and other funds with longer-term investment horizons may be invested in securities not exceeding 18 months if the maturities of such investments are made to coincide as nearly as practicable with the expected use of funds. The intent to invest in securities with longer maturities shall be disclosed in writing to the legislative body.

c.) Because of inherent difficulties in accurately forecasting cash flow requirements, a portion of the portfolio should be continuously invested in readily available funds such as LGIPs, money market funds, or overnight repurchase agreements to ensure that appropriate liquidity is maintained to meet ongoing obligations.

14.) Reporting

a.) Methods

1.) The Director shall prepare an investment report at least quarterly, including a management summary that provides an analysis of the status of the current investment portfolio and transactions made over the last quarter. This management summary will be prepared in a manner which will allow the City to ascertain whether investment activities during the reporting period have conformed to the investment policy. The report should be provided to the Mayor and Common Council. The report will include the following:

- Listing of individual securities held at the end of the reporting period.
- Realized and unrealized gains or losses resulting from appreciation or depreciation by listing the cost and market value of securities over one-year duration that are not intended to be held until maturity (in accordance with Governmental Accounting Standards Board (GASB) requirements).
- Average weighted yield to maturity of portfolio on investments as compared to applicable benchmarks.
- Listing of investment by maturity date.
- Percentage of the total portfolio which each type of investment represents.

b.) Performance Standards

1.) The investment portfolio will be managed in accordance with the parameters specified within this policy. The portfolio should obtain a market average rate of return during a market/economic environment of stable interest rates. A series of appropriate benchmarks shall be established against which portfolio performance shall be compared on a regular basis.

c.) Marking to Market

1.) The market value of the portfolio shall be calculated at least quarterly and a statement of the market value of the portfolio shall be issued at least quarterly. This will ensure that review of the investment portfolio, in terms of value and price volatility, has been performed consistent with the City's expectations. In defining market value, considerations should be given to the GASB Statement 31 pronouncement.

15.) Notice to Financial Institutions

The Director shall send annually the current edition of this investment policy to all institutions which are approved to handle City investments. The institution shall confirm in writing that the policy has been received, reviewed, and accepted by appropriate personnel. In the absence of such acceptance, business transactions will not be considered with the institution. Financial institutions are also required to send a copy of their Annual Financial Report to the Director on a timely basis after the institution's fiscal year has concluded.

16.) Collateralization

a.) Although not dictated by state statute, the City requires all money deposited with a bank, savings and loan, savings bank, or credit union including checking accounts, NOW accounts, non-negotiable certificates of deposit, time deposits or similar type accounts provided by the financial institution in excess of the amount of federal insurance to be fully collateralized in accordance with the following:

1.) All deposits shall be secured by collateral pledged by the depository institution and maintained in the possession of a custodial agent

2.) The market value of the collateral pledged to secure City deposits shall equal at least 102 percent of the amount of the deposit plus accrued interest, minus the amount insured by the Federal Deposit Insurance Corporation, the Federal Savings and Loan Insurance Corporation, or the National Credit Union Administration.

b.) The depository institution is required to furnish monthly, or upon demand by the Director, a detailed statement of all securities pledged as collateral showing par and market values of each. If at any time the market value of the collateral is less than 102 percent of the aggregate of all City deposits (including accrued interest), the depository institution shall immediately add sufficient securities to the pledged collateral to increase the market value of the collateral to at least 102 percent of the aggregate of all City deposits.

c.) The Director shall select a bank or trust company, whose deposits are insured by the Federal Deposit Insurance Corporation, as a trustee to act as an independent holder of collateral pledged by depository institutions holding deposits of City funds, and shall enter into a written trust or safekeeping agreement with the trustee.

d.) Alternatively, collateral pledged by the depository institution to secure City deposits may, with approval of the Director, be held by the same depository institution in trust for the City. Such arrangement shall be subject to execution of a trust agreement satisfactory to the Director. Failure by the depository institution to abide by any of these provisions governing the pledge and adequacy of collateral shall be cause for disqualification of the depository institution to receive and hold City funds.

e.) The Director is responsible for analyzing and evaluating creditworthiness, capability and reputation of any depository for City funds or trustee holding collateral to secure City deposits.

1.) Time and demand deposits of City funds shall be secured by the same types of collateral as allowed for securing deposits under New York law.

2.) If any depository institution holding time deposits of the City fails to pay any deposit for deposits of any depositor, or any part thereof when due, then the Director shall have the option to demand delivery to the Director of any collateral pledges by the depository to secure City deposits.

f.) Upon making such demand for delivery of pledged collateral, the Director may sell all or any part of the collateral in the manner determined to be reasonable. If there is an excess of proceeds after deducting expenses of the sale, or of collateral after satisfaction o the deposit and accrued interest, the excess must be returned to the depository institution or its successor in interest.

17.) Investment Policy

The City's investment policy shall be determined to be a management tool used by the Finance Department in all investment activities, and to that extent, represents the official policy for investment of City funds. The policy shall be reviewed on an annual basis by the Director and any modifications made thereto must be approved by Common Council.

OPERATING GRANTS

1. Policy Statement

It is the policy of the City of Cortland to seek grants for funding purposes. It is the responsibility of all departments to seek and evaluate supplemental grant funding consistent with the priorities of departmental business plans and service priorities of the City. Grant funding requires internal procedures to ensure effective and efficient use of grants. Adherence to this policy is required for all grants.

2. Procedure

a.) The grant procedure for the City of Cortland includes five (5) major processes:

- Grant Research
- Departmental Decision-making
- Internal Review and Grant Submission
- Post-award and Grant Administration
- Grant Close-out

3. Grant Research

a.) Departments shall research outside sources for funding opportunities through the use of multiple resources available through the City. Sources for researching grant opportunities include, but are not limited to the following:

- Internet Research
- Notification from state or federal agencies
- Classes and/or workshops
- Discussions with other agencies or jurisdictions
- Foundation

b.) Staff should use these resources to research and identify potential grants that match planned projects or programs in their department. Through thorough research departments should begin to plan for grant applications and in collaboration with the Finance Department, begin incorporating anticipated grant funding for planned projects or programs into their budgets during the annual budget process.

4. Departmental Decision-making

a.) When a potential grant has been identified the department should carefully review the Notice of Funding Availability (NOFA) to determine if the grant is applicable to planned projects or programs. Other considerations while reviewing the NOFA include:

- Eligibility – Is the City and/or department eligible to apply?
- Scope – Do the objectives/purpose/scope of the grant match objectives established by Common Council.
- Deadline – Is there enough time to sufficiently complete the application prior to the deadline?
- Staff availability – Are staff resources available to administer the grant project/program?
- Continuation of Services – How will the program be funded if/when the grant expires?
- Grant match requirements – If a match is required, a source must be determined and initial approval must be granted by Common Council in order to complete the application.

b.) After reviewing the NOFA for these and any other considerations if the grant is applicable to a planned project or program the Department Head should request a meeting with the Director to discuss how the grant will integrate with the City's business plan. All pertinent information including the Grant and Project Summary information must be provided to the Director. Adequate time must be provided for review to meet deadlines for application. Applications will not be submitted prior to final review and approval by the Director.

5. Internal Review and Grant Submission

a.) The Director shall review the Grant and Project Summary Form and provide input to the Department Head and department designee. This input shall be used to provide feedback including:

- Whether another department has applied for the same grant
- Whether the opportunity to collaborate with other departments or community stakeholders exists.
- Whether a department may have information or specific knowledge that may assist the applying department.

b.) The applying department shall begin collecting the information required to apply for the grant while the internal review is being completed. The applicant may complete the grant application and if, applicable, address the feedback received from the Director. If needed, the Director shall be available to assist the applying department with the application. Upon completion of the application, the document and supporting materials shall be forwarded to the Department Head for their review and to the Director for final discussion and review.

c.) After final review by the Director, the Department Head must sign all grant applications attesting to his/her approval of the grant application. The completed grant application will then be forwarded to the City Clerk who will, in turn, obtain other signatures, based upon the requirements by the grantor. Other signatures may include the Mayor, the Common Council, Director and other authorized parties.

d.) A copy of the completed and signed grant application, along with all supporting materials, shall also be maintained in the City Clerk's office. All files relating to the grant will be copied including the NOFA, Grant and Project Summary Form, application and supporting material and any documentation that follows.

6. Post-award and Grant Administration

a.) If the department receives the grant, a grant award letter should be received. The department shall inform the Director of the award and send copies of the letter and all grant related documents that follow. A grant agreement should also be received instructing the Department Head of the requirements and process to accept the grant funds and execute the agreement. Prior to completing the requirements, the Department Head will confer with the Director to coordinate the process.

b.) Budget amendments will be processed by the Director once all award paperwork has been received.

c.) The budget amendment shall then be brought to Common Council for their review and approval. If any funds are received prior to the budget amendment process, the Finance Department shall deposit the funds in the appropriate deferred revenue account.

d.) Once the Common Council has approved the grant agreement, or if, Common Council approval is not required, the signature of the Director is required.

e.) Once the grant agreement is approved and signed the Department Head is responsible for administration of the grant in accordance with the requirements of the agreement including any reporting or documentation that is required. All financial reporting will be completed by the Finance Department. The Finance Department will be the primary reporting source. All notifications must go directly to the Finance Department – not to the operational department. The Department Head shall continue to copy the Director with all reports and documentation relating to the grant.

f.) Budget compliance is the responsibility of the Department Head. If a budget adjustment is needed it should be submitted by the Department Head to the Director. Expenditures shall be approved by the Director. The Department Head, in coordination with the Director, is responsible for determining if the expenditure is an eligible expense under the grant agreement.

g.) At a minimum, the Director and Department Head shall examine its grant accounts on a monthly basis. This examination shall consist of the following:

- A review of financial activities within the specific budgetary accounts of the grant. This examination will involve a review of expenditure documentation such as invoices, procurement card receipts, etc. to ensure these amounts match expenditure activities within the appropriate accounts.
- If applicable, a review of program income earned to determine that it has been recorded and expended per grant regulatory requirements.

h.) If the project is completed prior to the agreement deadline the Department Head in coordination with the Director may move to close the grant. Otherwise as the expiration of the grant approaches, the department should consider the following:

- Have the project goals been attained and/or the grant requirements been met?
- Is the project ready for final inspection and audit if appropriate?
- Have all of the grant funds been spent?

i.) If the answer to any of these questions is "no", then the department may need to request an extension/amendment from the Grantor. It is the responsibility of the Department Head to ensure that all requirements of the grant are met, including time frames. The Director must be used as a resource in determining if an extension/amendment is needed and shall be the consultant if the situation arises.

7. Grant Close-Out

a.) Grant close-out will involve coordination between the Department Head and the Director to follow the process for completing the financial reporting as required by the grant agreement. At times, the Grantor will send a "Close-out Package" specifying the reporting requirements. The grant agreement may also include additional close-out requirements that shall be reviewed. All requirements shall be followed in order to close-out the grant.

b.) In order to close a grant (except an entitlement grant) the following conditions shall be met:

- All reimbursements have been received
- Unused grant funds are returned to the granting agency. Unused matched funds are returned to the appropriate account.
- The final report is filed with the granting agency.
- All expenses must equal revenue at prior year-end.

c.) Once the established conditions have been met, the Department Head in conjunction with the Director shall close the grant.

8. Grant Review

Annually the Finance Department will compile a list of all grants received by the City in the previous fiscal year including expenditures and reimbursements received. This information shall be provided to the Director for reference.

DEBT POLICY

1. Policy Statement

Issuing debt commits the City's revenues several years into the future, and may limit the City's flexibility to respond to changing service priorities, revenue inflows, or cost structures. 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 City plans long- and short-term debt issuance to finance its capital program based on its cash flow needs, sources of revenue, capital construction periods, available financing instruments and market conditions. The Director oversees and coordinates the timing, issuance process and marketing of the City's borrowing and capital funding activities required in support of the capital improvement plan.

This 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 a debt policy helps to ensure that the City maintains a sound debt position and that credit quality is protected. Components of the debt policy are as follows:

The City will confine its long-term borrowing to capital improvements and follow a policy of full disclosure on every financial report and bond prospectus. In no case will General obligation debt be used for self- supporting enterprise activity. The City will use voter-approved general obligation debt to fund general-purpose public improvements that cannot be financed from current revenues.

2. Capital Planning

The City will have an annual capital planning process that outlines major projected capital expenditures over the next ten years. The capital budget identifies revenue sources and capital expenditures and projects this information for each of the ten years. This information is updated annually.

3. Financing Team

The City often employs outside financial specialists to assist it in developing a bond issuance strategy, preparing bond documents and marketing bonds to investors. The key players in the City's financing transactions include its bond counsel, the underwriter and underwriters counsel (on a negotiated sale), the Corporate Counsel and City representatives (the Director and other City representatives as may be appointed by the Mayor). Other outside firms, such as those providing paying agent/registrar, trustee, credit enhancement, auditing, or printing services, are retained as required. The financing team will meet at least annually to review the overall financing strategy of the City and make recommendations to the Mayor.

4. Term of Debt

Borrowings by the City shall mature over a term that does not exceed the repayment economic life of the improvements that they finance. General Obligation Bonds shall be issued with a term not to exceed 25 years; Revenue Bonds with a term not to exceed 30 years; and tax increment bonds with a term not to exceed 25 years. The City does not finance improvements with a probable useful life less than five years, using pay-as-you-go funding for such needs.

5. Call provisions

The City seeks to minimize the protection from optional redemption given to bondholders, consistent with its desire to obtain the lowest possible interest rates on its bonds. The City's bonds are generally subject to optional redemption. The City seeks early calls at low or no premiums because such features tend to refinance debt more easily for debt service savings when interest rates fall. The City will annually evaluate optional redemption provisions for each issue to assure that the City does not pay unacceptably higher interest rates to obtain such advantageous calls.

6. Interest rates

In most cases, the city will use fixed-rate debt to finance its capital needs; however, the City may issue up to 25% of its total debt portfolio in variable rate debt.

7. Method of Sale

The City will select a method of sale that is the most appropriate in light of financial, market, transaction-specific and issuer-related conditions.

8. Competitive Sales

General obligation debt obligations are issued through a competitive sale, according to state law. For these bonds and any other bonds that the City may deem necessary the City will set the terms of the sale to encourage as many bidders as possible. By maximizing bidding, the City seeks to obtain the lowest possible interest rates on its bonds. The following conditions may favor the use of a competitive sale:

a) The market is familiar with the issuer;
b) The issuer is a stable and regular borrower in the public market;
c) There is an active secondary market with a broad investor base for the City's bonds;
d) The issue has a non-enhanced credit rating of A or above or can obtain a credit enhancement prior to the competitive sale;
e) The debt structure is backed by the issuer's full faith and credit or a strong, known or historically performing revenue stream;
f) The issue is neither too large to be easily absorbed by the market nor too small to attract investors without a concerted sale effort;
g) The issue does not include complex or innovative features or require explanation as to the bonds' security;
h) The issue can be sold and closed on a schedule that does not need to be accelerated or shortened for market or policy reasons; and
i) Interest rates are stable, market demand is strong, and the market is able to absorb a reasonable amount of buying or selling at reasonable price change.

9. Negotiated Sales

When certain conditions favorable for a competitive sale do not exist and when a negotiated sale will provide significant benefits to the City that would not be achieved through a competitive sale, the City may elect to sell its debt obligations through a private or negotiated sale. Such determination may be made on an issue-by-issue basis, for a series of issues, or for part or all of a specific financing program. The following conditions may favor the use of a negotiated sale:

a.) Insure fairness by using a competitive underwriter selection process through a request for proposals where multiple proposals are considered;
b.) Remain actively involved in each step of the negotiation and sale processes to uphold the public trust;
c.) Insure that either an employee of the issuer, or an outside professional other than the issue underwriter, who is familiar with and abreast of the condition of the municipal market, is available to assist in structuring the issue, pricing, and monitoring sales activities;
d.) Require that the financial advisor used for a particular bond issue not act as underwriter of the same bond issue;

e.) Require that financial professionals disclose the name or names of any person or firm, including attorneys, lobbyists and public relations professionals compensated in connection with a specific bond issue;

f.) Request all financial professionals submitting joint proposals or intending to enter into joint accounts or any fee-splitting arrangements in connection with a bond issue to fully disclose to the issuer any plan or arrangements to share tasks, responsibilities and fees earned, and disclose the financial professionals with whom the sharing is proposed, the method used to calculate the fees to be earned, and any changes thereto;

g.) Review the "Agreement among Underwriters" and insure that it is filed with the issuer and that it governs all transactions during the underwriting period.

10. Refinancing

The City may undertake refinancing of outstanding debt under the following circumstances:

a.) Debt Service Savings**:** The City may refinance outstanding long-term debt when such refinancing allows the City to realize significant debt service savings without lengthening the term of refinanced debt and without increasing debt service in any subsequent fiscal year.

b.) Defeasance: The City may refinance outstanding debt, either by advance refunding to the first call or by defeasance to maturity, when the public policy benefits of replacing such debt outweigh the costs associated with new issuance as well as any increase in annual debt service.

11. Conduit Financings

Conduit financings are securities issued by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities (e.g., economic development, neighborhood revitalization) that have a general public purpose and are consistent with the City's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the City's faith and credit.

12. Credit Ratings

a.) Rating Agency Relationships: The Deputy Director is responsible for maintaining relationships with the rating agencies that assign ratings to the City's various debt obligations. This effort includes providing periodic updates on the City's general financial condition along with coordinating meetings and presentations in conjunction with a new debt issuance.

b.) Quality of Ratings: The City requests ratings prior to the sale of securities from each of the two major rating agencies for municipal bond issues: Moody's Investors Service and Standard & Poor's Corporation. The City may provide a written and/or oral presentation to the rating agencies to help each credit analyst make an informed evaluation. The City will make every reasonable effort to maintain its high quality credit ratings.

13. Rebate Reporting/Covenant Compliance/Reporting Practices.

The Director is responsible for maintaining a system of record keeping and reporting to meet the arbitrage rebate compliance requirements of the federal tax code. Additionally, general financial reporting and certification requirements embodied in bond covenants are monitored to ensure that all covenants are complied with. The City will comply with the standards of the Government Finance Officers Association for financial reporting and budget presentation and the disclosure requirements of the Securities and Exchange Commission.

14. Checklist of Debt Policy Considerations.

The City will observe the following GFOA checklist in determining the appropriateness of debt issuance:

a.) How long is the capital planning period?
b.) Have all non-debt sources of funds been considered?
c.) How are borrowing plans reviewed internally?
d.) What level of debt is manageable in order to maintain or improve the government's credit quality?
e.) How much "pay-as-you-go" financing should be included in the capital plan?

f.) How much short-term borrowing will be undertaken, including both operating and capital borrowings?
g.) How much debt will be issued in the form of variable-rate securities?
h.) How does the redemption schedule for each proposed issue affect the overall debt service requirements of the government?
i.) What types of affordability guidelines will be established to help monitor and preserve credit quality?
j.) What provisions have been made to periodically review the capital plan and borrowing practices?
h.) What is the overlapping debt burden on the taxpayer?
i.) How will the formal debt policies be integrated into the capital planning and funding process?

15. Debt Limit

a.) The city will establish thresholds for the maximum amount of debt and debt service that should be outstanding at any one time.

b.) Policies guiding the amount of debt that may be issued by a government help ensure that outstanding and planned debt levels do not exceed an amount that can be supported by the existing and projected tax and revenue base. Because of this, the City has developed distinct policies for general obligation debt, debt supported by revenues of government enterprises, and other types of debt such as special assessment bonds, tax increment financing bonds, short-term debt, variable-rate debt, and leases.

c.) General Obligation Debt Affordability Measures:

The City examines four statistical measures to determine debt capacity and compares these ratios to other cities, rating agency standards and Cortland's historical ratios to determine debt affordability:

1. This is the only measure that is prescribed by state law, which provides that the City's general obligation debt cannot exceed 8% of the City's total assessed value (excluding tax anticipation notes and other indebtedness with a maturity of one year or less; bonds or other indebtedness of the City payable from taxes levied from special taxing areas; and self-supporting bonds or other debt.)

2. Total general obligation debt as measured against the population on a per-capita basis cannot exceed $1,400.

3. Total annual general obligation debt service as measured as a percent of current General Funds budgeted expenditures cannot exceed 12%.

4. Total general obligation debt per capital as a percentage of per capita income cannot exceed 5.50%

d.) Enterprise Debt Affordability Measures:

The City's Revenue debt level shall not exceed a debt service coverage ratio of 1.20 times of the annual net pledged revenues to annual debt service. Additional bonds should not have a negative impact on the City's overall credit ratings.

e.) Tax Increment Debt Affordability Measures:

The City's Tax Increment debt level shall not exceed the current available revenues or revenues projected within the district from projects that have obtained a building permit.

ECONOMIC CONDITION ASSESSMENT

1. Policy Statement

Prudent fiscal management requires the creation of a system to assess the City's economic condition and be capable of detecting deterioration of that condition. Financial condition may be defined in a variety of ways. For purposes of this document, financial condition refers to the City's ability to provide services at the level and quality that are required for the health, safety, and welfare of the community, and that its citizens desire. The procedures set forth below are intended to supplement other methods of monitoring financial condition, such as cash flow analysis and forecasting of revenues and expenditures.

2. Coinciding with the annual release of the City's CAFR the Director shall access the City's economic condition based upon the following indicators and report thereon. Said report shall include such trend analysis and projections as necessary to illustrate the directional path of the City's economic condition.

3. Financial indicators:

TITLE	RATIO	INDICATION	BENCHMARK
Short-run financial position	Unreserved general fund balance ÷ general fund revenues	A high ratio suggests larger reserves for dealing with unexpected resource needs in the near term.	Minimum of .35

Liquidity	General fund cash and investments - (general fund liabilities – general fund deferred revenues)	A high ratio suggests a greater capacity for paying off short-run obligations,	Minimum of 4.0
Financial performance	Change in governmental activities net assets ÷ total governmental activities net assets	A high ratio suggests that annual costs are being adequately financed and financial position is improving.	Minimum of .04
Solvency	Primary government liabilities – deferred revenues ÷ primary government revenues	A low ratio suggests that outstanding obligations can more easily be met with annual revenues.	Maximum of 1.3
Revenues (A)	(Primary government operating grants and contributions + unrestricted aid) ÷ total primary government revenues	A low ratio suggests a government is not heavily reliant on intergovernmental aid.	Maximum of 1.13
Revenues (B)	(Net (expense) revenue for governmental activities - total governmental activities expenses) x –1	A low ratio suggests basic government services are more self-sufficient through charges, fees, and categorical grants, and less reliant on general tax support.	Maximum of .425
Debt Burden	Total outstanding debt for the primary government ÷ population	A low ratio suggests less burden on taxpayers and greater capacity for additional borrowing.	Maximum of $1,950
Coverage (A)	Debt service ÷ noncapital governmental funds expenditures	A low ratio suggests general governmental long-term debt can be more easily repaid when it comes due	Maximum of 1.70
Coverage (B)	(Enterprise funds operating revenue + interest expense) / interest expense	A high ratio suggests greater resource availability for repaying the debts of enterprise	Minimum of 50.00

		activities as they come due.	
Capital Assets	(Ending net value of primary government capital assets – beginning net value) ÷ beginning net value	A high ratio suggests a government is keeping pace, on average, with the aging of its capital assets and replenishing them.	Minimum of .049

CONTINGENCY PLANNING

1. Policy Statement

When emergencies or unexpected events occur, having a policy that can be applied, or at least serve as a starting point, for financial decisions and actions improves the ability of a government to take timely action and aids in the overall management of such situations. Policies on contingency planning are used as a general guide when an emergency or unexpected event occurs. A set of actions and strategies are identified for each type of situation. Examples of financial emergencies that require contingency plans are sudden and severe decreases in locally collected revenues or intergovernmental aid, and unexpected major capital maintenance requirements. Development of a contingency plan in advance of such situations may be viewed positively by the rating agencies when evaluating a government's credit quality. This can also help expedite relief efforts when an emergency does occur and allow the government to recover funds more quickly or more effectively in the event of a natural disaster

2. The following is a summary of the phase classifications and the corresponding actions to be taken.

   a.) Alert. An anticipated net reduction in available reserves or reduction in major revenue source(s) from 1% up to 9%. The actions associated with this phase would best be described as delaying expenditures where reasonably possible, while maintaining the "Same Level" of service. Each department will be responsible for monitoring its individual budgets to ensure that only essential expenditures are made.

   b.) Minor. A reduction in reserves in excess of 9%, but less than 23%. The objective at this level is still to maintain "Same Level" of service where possible. Actions associated with this level would be:

      1.) Implementing the previously determined "Same Level" Budget.

2.) Intensifying the review process for large items such as contract services, consulting services, and capital expenditures including capital improvements.

3.) Closely scrutinizing hiring for vacant positions, delaying the recruitment process, and using temporary help to fill in where possible.

c.) Moderate. A reduction in reserves in excess of 23%, but less than 50%. Initiating cuts of service levels by:

1.) Requiring greater justification for large expenditures.
2.) Deferring capital expenditures.
3.) Reducing CIP appropriations from the affected fund.
4.) Hiring to fill vacant positions only with special justification and authorization.
5.) Closely monitoring and reducing expenditures for travel, seminars, retreats and bonuses.

d.) Major. A reduction in reserves of 50% to 100%. Implementation of major service cuts.
1.) Instituting a hiring freeze.
2.) Reducing the temporary work force.
3.) Deferring merit wage increases.
4.) Further reducing capital expenditures.
5.) Preparing a strategy for reduction in force.

e.) Crisis. Reserves have been 100% depleted and potential for having a deficit is present.
1.) Implementing reduction in force or other personnel cost-reduction strategies.
2.) Eliminating programs.
3.) Eliminating capital improvements.

3. In the event that an economic uncertainty is expected to last for consecutive years, the cumulative effect of the projected reduction in reserves will be used for determining the appropriate phase and corresponding actions.

OPERATING BUDGET PREPARATION

1. Budget Calendar

a.) To ensure adequate time is provided near the end of a given fiscal year to permit thorough review by the Common Council of the following year's budget proposal, a formal budget calendar containing intermediate milestones or deadlines will be adopted as follows:

- Monthly meetings of the Finance Department and Department Heads to Address Long-Term Capital Plan and Proposals for New or Changed Services – January-December
- Issuance of Budget Request Instructions and Forms by Director – June 1st
- Return of Completed Budget Request Forms by Department Heads to Director – August 15th
- Development of Initial Revenue Estimates by Director – August 1st
- Submission of First Draft of Budget Proposal by Director to Mayor September 15th
- Working Sessions with Common Council – October
- Presentation of Mayor's Proposed Budget to Common Council– November 1st)
- Public Hearing on Proposed Budget - November
- Final Adoption of Approved Budget-December

2. Roles and Responsibilities

a.) It is the responsibility of the Mayor to prepare and present to the Common Council the City's annual budget to the Common Council. The proposed budget shall be aligned with the goals and objectives as stated by Common Council. The Common Council shall review, and if necessary revise, the proposed budget. Common Council shall also determine whether the proposed budget adequately addresses the priorities set forth in the City's Comprehensive Plan. The Common Council has the final responsibility for adopting the budget and making the necessary appropriations.

OPERATING BUDGET IMPLEMENTATION

1. Department Head Authority

a.) The underlying concept of the City's management system is that departments are given maximum authority to manage their areas of responsibility. Departments are given broad authority to control their budgets and to make changes indicated to meet program objectives and to meet performance goals.

b.) The City encourages departments to strive for excellence through use of the tools of quality, through creativity, and appropriate risk taking and productivity efforts. The City recognizes cost savings attributable to actions by departments by providing "incentive reallocations" of a share of year end savings to the departments. The incentive reallocations may be used at the discretion of the department for any purpose consistent with their mission and the City's Code of Ordinances. If unused, the balance in the incentive reallocation account for the department may be carried forward to succeeding budget years. Use of the incentive reallocation may not increase the base budget going forward.

2. Budgetary Control

a.) The Director will be responsible for maintaining a budgetary control system to ensure adherence to the adopted budget. On a monthly basis, the Deputy Director will prepare summary reports that compare actual revenues and expenditures to budgeted amounts. The report will also compare targeted performance level and actual results. These reports will be sent to the Mayor and the Common Council and made available to the public to keep all informed of the City's operating performance. These same reports will be provided to all Department Heads to assist them in managing the day-to-day operations of the City.

b.) Budgetary transfers

- Transfer of Funds in wages and salary accounts including taxes and benefits thereon within the same Department requires the approval of the Department Head, the Director and the Deputy Director.
- Appropriations in non-wages and salary accounts including taxes and benefits thereon may be transferred within a Department with Department Head approval.
- Appropriations may be transferred between one Department to another Department within the same fund with the approval of the Director
- Appropriations may be transfer between one Fund to another Fund with the approval of Common Council. After transfers each fund affected must remain in balance as previously defined.

3. Appropriation Authority

a.) For the operating budget the appropriations authority shall end at the end of the fiscal year. Any unspent or encumbered balances remaining at the end of the fiscal year shall lapse into the fund balance and become available for re-appropriation for the next fiscal year.

4. Budget Amendments

a.) In certain circumstances, budget appropriation may be adopted after budget adoption. All budget amendments require Common Council approval.

CAPITAL BUDGET AND CAPITAL IMPROVEMENT PROGRAM

1. Policy Statement

a.) It is the explicit policy of the City to provide necessary and required services to the citizens to Cortland in a fiscally responsible manner. In order to provide these services, the City must furnish and maintain capital facilities and equipment such as buildings, parks, heavy equipment, trucks, police patrol cars, and fire engines. The City, as part of its budget process, prepares and submits to the Common Council a Five-Year Capital Improvement Plan (CIP) beginning with the next fiscal year. The Five-Year Plan is a planning document and the Common Council is under no covenant to adopt this plan. This plan does not appropriate or fund these capital projects. However, the City's policy is to include as year one cost, those capital projects and purchases in the plan that will be appropriated through the next fiscal year's budget.

b.) The purpose of this policy is to establish guidelines and requirements for the submission of an annual capital budget and the development and maintenance of a five-year CIP that will be City-wide in scope and administer the implementation framework for an adequate capital projects foundation to serve the citizens of the City of Cortland. The CIP is designed to balance the need for public facilities and infrastructure with the fiscal capability of the City to meet those needs. The CIP serves as a general planning guide for the construction of general purposes facilities and the acquisition of rolling stock and major equipment. The CIP process provides a framework for careful development of reliable capital expenditure and revenue estimates and the timely scheduling of short and long term debt issues.

c.) It is the responsibility of the Director under the direction of the Mayor to prepare and submit to the Common Council, concurrently with the annual operating budget, the following for its approval and adoption:

- Annual Capital Improvement Budget
- CIP for the City of Cortland.

2. Purpose of the Capital Improvement Program

- It establishes a system of examining and prioritizing the needs of the City and assures that the most essential improvements are provided first.
- Provides a mechanism for coordinating and consolidating the City's departmental request, thereby preventing duplication of projects and equipment.
- Provides an important implementation device for growth management.
- Coordinates physical with financial planning, allowing maximum benefits from available funding sources.

3 Relationship between the Operating Budget and the Capital Improvement Plan

a.) There are many features that distinguish the City's operating budget from the capital plan. The operating budget includes expenses that are generally of a recurring nature and are appropriated for one year only. It provides for the funding of all City services, but does not result in the procurement of physical assets of the City. Year to year changes in the operating budget are expected to be fairly stable, and represent incremental changes in the cost of doing business in providing services. Resources for the operating budget are taxes, licenses, fees, charges for services and grants.

b.) The capital plan, on the other hand, includes one-time costs for capital projects that may last several years. The projects result in procurement or construction of major physical assets for the City. Resources for the capital plan can come from the same resources as the operating budget, but the more costly projects are mainly funded from bond proceeds. In addition, the capital plan is a forecasting device intended to assist management and is not intended to appropriate funds.

c.) In spite of the differences, the operating and capital plans are closely linked. The most obvious connection is the fact that the operating budget assumes the cost of maintaining and operating new facilities or equipment that are built or procured under the capital plan.

d.) Operational needs drive the capital budget. For example, police patrol cars and fire trucks have definite useful lives and are in constant use providing safety services. Streets and storm water systems require maintenance to ensure operational capabilities. Computers are the key component in the City's integrated information system.

4. Capital Budget and Capital Improvement Program (CIP)

a.) Common Council, City management, City departments, neighborhood associations, civic and community organizations and organized citizen groups will have the opportunity to provide input to the CIP process.

b.) Capital project financing will be derived from various funding sources including, but not limited to, bonds, short term loans, federal and state grants, impact fees, permitted revenues streams and enterprise and special tax assessments.

c.) The CIP will comply with the laws of the State of New York and Generally Accepted Accounting Principles to ensure the legality of funds, procurement and proper accounting and fiscal management techniques.

d.) A list of priority categories for the CIP will be established by Common Council from information furnished by the Director. This list will determine initial consideration of proposed projects from the CIP and provide a basis for evaluation and subsequent funding. Conformance with broad priority categories will aid in ensuring the worthiness of a capital improvement project in relation to factors such as public health, safety, welfare, impact on the operational cost of government services and correlation with the City's long-term plan.

e.) Additions or deletions of projects in the adopted CIP shall be by resolution of Common Council.

f.) Changes in the cost of a current year project of more than 10% or $100,000 – whichever is less, advancing projects into the current year, or delaying them from the current year to a future year in the adopted CIP shall be handled pursuant to the budget amendment procedures set forth the City's Code of Ordinances.

h.) Change in the cost of a current year project that is less than 10% or less than $100,000-whichever is less- of the project's all-year's budget can be adjusted with the approval of the Director. Common Council will be provided a quarterly report of all such administrative adjustments.

i.) In addition to the capital budget and the CIP, an annual update will be prepared and incorporated into the City's long-term plan. Specifically, the annual update will be provided for:

- Public facilities related to standards for storm water management, parks and recreation facilities and arterial and collector roads
- Revenue forecasts and analysis of financial capacity as related to the above-listed public facilities.

5. Definitions

a.) For the purpose of the City of Cortland's CIP:

1.) A ***capital project*** is a set of activities, with related expenditures and schedule that includes one or more of the following:

a. Delivery of a distinct asset or improvements to an existing asset, which will become an asset owned by the City of Cortland and be recorded in the financial records as a capital asset under GAAP

b. Any contribution by the City to other governments or not-for-profit entities for the purpose of delivering a capital improvement. In situations where the improvement is not, nor will it be included in the CIP as a contribution.

c. Any engineering study or master plan necessary for the delivery of a capital project

d. Major repair, renovation, or replacement of existing facilities.

The cost and timing or each of the above capital improvements are to be identified in the CIP. The project scope, schedule, and costs are approved by Common Council. A Project Administrator is identified for managing each capital project.

2.) A ***major repair, renovation, or replacement capital project*** is a project that is primarily intended to preserve or enhance the operational condition of the existing facility and may increase the capacity of the facility. Facilities undergoing major repair and replacement may include existing buildings, roads for resurfacing purposes, and storm water infrastructure. A project will be consider a major repair project, renovation, or replacement capital project category if it has an estimated cost of $100,000 or greater or extends the useful life of an asset by at least 5 years, or adds capacity or square footage to an existing facility, or will require more than a twelve month period to accomplish. A project that does not extend the useful life of the asset by at least 5 years, or does not add capacity or square footage to an existing facility and will be accomplished in less than twelve months will be included in the City's routine repair and replacement program.

3.) ***The Capital Improvement Program*** is the Council approved financial plan of capital projects. The CIP will include "new" capital projects and major repair, renovation, or replacement capital project. "New" capital projects include the acquisition of new capital facilities through either purchase or construction, or assets acquired through private/public partnerships. The CIP should include any new facility or any existing facility that is being changed to either extend the useful life by at least five years, increase the level of services to the community, or change the function of the facility.

4.) ***Project costs*** represent the purchase price or construction costs of a project, including other capitalizable costs incurred such as feasibility studies, cost-benefit analysis, site acquisition, legal and title costs, appraisal and surveying fees, architect and accounting fees, design and engineering services, initial fixtures and equipment, and transportation charges necessary to place the completed asset in its intended locations and condition for use.

6. City of Cortland Priority Categories for the Capital Improvement Program

a.) The following criteria, which are not presented in any sequence, will be used to establish priority for making decisions related to capital projects to be funded in the CIP.

- Projects that are necessary to conform to state or federal laws or court rulings
- Projects that are eligible for restricted revenues such as state and federal grants
- Projects that are necessary in carrying out the City's long-term objectives
- Major repair and replacement capital projects
- Projects that reduce future operating costs or improve effectiveness of operation of City services
- Projects that are essential to the health, safety, and welfare of the community

- Projects that stimulate private investment or otherwise affect measurable neighborhood and economic improvement
- Projects that involve interagency cooperation
- Projects that will improve the cultural and recreational activities of the community
- Projects that provide measureable environmental benefit
- Projects that improve accessibility to City facilities to all citizens.

b.) It is the policy of the City that capital projects be prioritized based upon standard established for each program. Within the prioritization process, capital maintenance of existing infrastructure will be given a higher priority than new construction. New constructions projects will be prioritized based upon standards established for each program, including such standards consistent with the City's long-range plan.

7. Pay-As-You-Go Funding of Capital Improvement Projects

It is the policy of long-term policy of the City to annually fund an Equipment Replacement Reserve to provide pay-as-you-go funding in order to provide adequate funding for minor equipment and vehicle replacement, minor projections, rehabilitation and renovation of existing assets and front-end funding of other projects for which total project cost has not calculated.

8. Minimizing the Expense of Financing Capital Projects

a.) It is the policy of the City that short and long term financing for capital projects be based on anticipated cash requirements so as to borrow only when funds are needed and to fully comply with federal tax code in regards to arbitrage rebates. That is, funds shall not be borrowed for future phases of a project if these funds will not be needed within the next 24 months and the City will incur additional and unreasonable interest expenses or operating impacts as a result of such action.

b.) As necessary, the county will employ the use of bond anticipation notes, pay-as-you-go financing until an accurate project cost can be determined, and/or breaking a bond issue into phases.

9. Operating Impact of Capital Projects

It is the policies of the City that all capital projects considered for funding by the City include information on the potential impact on maintenance, as well as any costs of operating the project. Such information will include any savings resulting from the project, as well as any new costs. The operating impact information shall be provided for the period covered in the City's 5-Year CIP. No capital project shall be funded unless operating impacts have been assessed and the necessary funds can be reasonably assumed to be available, when needed and without resorting to financing.

10. Use of Capital Project Appropriations

a.) Appropriations for a capital project deemed not needed to complete that project should be appropriated in the following order.

1.) In accordance with bond covenants, grant contracts, statutory provisions, or other legal requirements, maintain a contingency balance within each sub fund sufficient to allow completion of currently approved capital projects. This contingency balance being the sum of allocated funds for future capital projects, allocated funds for future land acquisition, and reserve for future capital outlay, shall be computed as follows:

- On an all-years basis, the contingency balance for capital projects within any sub fund shall equal at least 10% of the sub fund's total all-years appropriation less sum of actual all-years expenditures, all reserves, and all-years appropriations for allocated funds for future land acquisition and future capital projects.

2.) Once contingency balance requirements have been met, remaining capital project capital appropriations may be used to reduce outstanding debt within the applicable program if permitted by bond covenants and if doing so does not create an economic or financial loss

3.) If the two requirements above have been met remaining funds may be used to initiate new projects

4.) Depending on the original funding sources, if no unfunded needs currently exist, [and] if no other requirements are specified under bond covenants, grant contracts, statutory provisions or other legal requirements, excess funds shall be added to the Assigned Equipment Replacement Reserve.

b.) Note that any time a project's budget is amended, either administratively or by action of Common Council, is submitted to reduce the total funding for a given project, the amount of the proposed reduction will be deemed to be "remaining" appropriations subject to this policy.

c.) Appropriations associated with projects from allocations of a specific reserve (e.g. the Assigned Redevelopment Commission Reserve, the Assigned Land Acquisition Reserve), will be returned to the allocated funds account established for that purpose and will not be subject to these requirements.

11. Method of Funding Citizen-Initiated Localized Capital Project or Services

a.) It is the policy of the City that it will use non-ad volorem assessments to fund the full cost of citizen-initiated capital projects or services that will benefit areas within the City that exceed current general services provided City-wide. These non-ad volorem will be imposed through a Municipal Service District (MSD) established by the City in accordance with New York State laws.

1.) The area to be included with a MSD will be compact and amenable to the efficient and effective delivery of services.

2.) A fair and reasonable methodology can be developed to apportion the full cost of the capital project or service to those properties benefiting.

3.) The citizen-initiated project or service is not the remediation of a tangible action of the City.

b.) This policy does not apply to the City's existing storm water fees or Tax Increment Financing Districts.

12. All submissions of proposed capital projects shall be submitted in a manner prescribed by the Director.

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[1] The positional title "Director of Administration and Finance" is designated "Director". The title "Deputy Director and Administration and Finance" is designated "Deputy Director".

[2] A "*Nonexchange Transaction*" is defined as transaction in which the government either gives value (benefit) to another party without directly receiving equal value in exchange or received value (benefit) from another party without directly giving equal value in exchange.